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CHINA AIRLINES

2019 ANNUAL REPORT

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(Summary Translation)

This document is prepared in accordance with the Chinese version and is for reference only. In the event of any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

Letter to Shareholders

1.1 Operating Performance in 2019

1.2 Business Plan for 2020

1.3 Development Strategies

I. Letter to Shareholders

China Airlines develops its sustainable business strategies in six major directions: “safety, governance, fleet and flight network, products and services, group cooperation, and brand perception,” and adopts a quality policy of “discipline and safety, customer-orientation, green energy and environmental protection, and pursuit of excellence” to implement its strategic objectives. China Airlines is committed to providing a gratifying flight experience for every passenger. It is also devoted to making China Airlines a sustainable, eco-friendly enterprise that promotes the economic development of society.

Looking back on air transportation business promotion in 2019, we note that passenger flights have been increased on the existing Taoyuan-Nagoya, Taoyuan-Takamatsu, Taoyuan-Fukuoka, Taoyuan-Palau, and other routes in regional markets; On long-haul routes, next-generation fleets have been used to continually increase flights on routes such as Taoyuan-Los Angeles, Taoyuan-Honolulu, and Taoyuan-Melbourne, and inter-airline cooperation has been strengthened to deepen market layout. As for cargo transport, potential markets have been thoroughly developed, as in the multi-leg route for US west coast return flights to Nagoya, which was launched at the end of March, and the Mumbai-Amsterdam route, which was launched in November, to increase revenue; at the end of October, a second cargo flight to Chongqing was added to work with the shipping schedules of major customers; the loading performance was quite good; and to respond to the needs of postal customers, Zhengzhou customized charter service was implemented in Q4 to maximize the utilization efficiency of cargo aircraft.

In 2019, China Airlines’ sustainable operations continued to win important domestic and foreign awards: we were selected for the “Global Corporate Sustainability Awards” for the first time; selected for the “Top 5% in Corporate Governance Evaluation” and the “TW ESG Index” for the second time; selected for the “TWSE RAFI® Taiwan High Compensation 100 Index” and the “TWSE RA Taiwan Employment Creation 99 Index” for the third time; selected for the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index Series for the fourth time; winning the Taiwan Corporate Sustainability Awards (TCSA) for the sixth consecutive year. Other important awards include winning the 2020 APEX

Five Star Global Airline and the Top Service Awards held by *Next Magazine* for three consecutive years.

In recent years, to actively respond to global warming and to reduce the impact of climate change on the industry, China Airlines continues to formulate sound extreme climate response mechanisms and operating procedures, and implements greenhouse gas reduction through the establishment of short, medium and long-term carbon reduction targets for air and ground operations. In 2019, China Airlines was again ranked by the Carbon Disclosure Project (CDP) with an A-/Leadership level, a grade above that of global airlines.

With the concerted efforts of the management team and all of its employees, China Airlines continues to be recognized by the public for the results of its overall operations and various policies. In the future, China Airlines will continue to move towards sustainable development with proactive, stable, prudent, and flexible strategies.

1.1 Operating Performance in 2019

Operating revenue in NT dollars (same hereafter) was NT\$146.372 billion, a 2.59% decrease over the past year, and after-tax net loss was NT\$1.20 billion, for a basic after-tax net loss of NT\$0.22 per share.

1.1.1 Results of the business strategy

A. Fleet:

China Airlines completed the selection of cargo aircraft 777F and regional narrow-body passenger aircraft A321neo in 2019, which are expected to be introduced successively starting from 2020 and 2021, respectively. China Airlines actively optimized its fleet structure, completed the A330-300 sale-leaseback operation to reduce book losses and residual value risk, and was successful in leasing the 747-400F sealed cargo aircraft to activate asset utilization. As of the end of December, our fleet size was 91 vessels, including 70 passenger aircraft (including leased aircraft) and 21 cargo aircraft. China Airlines is committed to improving our fleet’s operating fitness. In the future, with the introduction of new aircraft and phasing out of old aircraft, our operating efficiency will more comprehensive and more fully improved.

B. Passenger flights:

Revenue from passenger business was NT\$96.177 billion, a 2.05% increase over the past year and accounting for 65.71% of total operating revenue. As of the end of 2019, the China Airlines Group flew to 23 countries and 72 passenger destinations, spanning Asia, Europe, the Americas, and Oceania. On average, there are 712 round-trip flights per week.

C. Cargo flights:

Revenue from cargo business was NT\$43.406 billion, a 12.17% decrease over the past year and accounting for 29.65% of total operating revenue. As of the end of 2019, the China Airlines Group flew 18 cargo planes in cargo operations to 15 countries and 37 destinations. On average, there were an average of 90 cargo flights per week.

D. Other operating income:

Other operating revenue included in-flight duty-free sales revenue, the total from which was NT\$6.789 billion, a 2.96% increase over the past year and accounting for 4.64% of total operating revenue.

E. Investments and earnings:

As of the end of 2019, the Company had investment in a total of 32 companies, in areas of business such as air business, ground services, logistics, aircraft maintenance, air cargo station business, etc., which contributed NT\$1.812 billion in revenue over the year.

1.1.2 Business cash-flow budget and profitability analysis

A. Cash flow:

Operating revenue was NT\$146.372 billion, which is a reduction of 3.892 billion from last year.

Operating costs and expenses were NT\$146.292 billion, which is a reduction of NT\$2.125 billion from last year.

Pre-tax net loss was NT\$1.187 billion, which is a reduction of NT\$3.502 billion from the past year. After-tax net profit was NT\$1.20 billion, which is a reduction of NT\$2.990 billion from last year.

B. Budget execution:

Projected operating revenue was NT\$154.121 billion, and actual operating revenue was NT\$146.372 billion, for a 94.97% attainment; projected operating costs and fees were NT\$151.887 billion, and actual operating costs were NT\$146.292 billion, for a spend

rate of 96.32%. Projected losses from non-operating activities totalled NT\$1.384 billion, with actual losses from non-operating activities at NT\$1.267 billion. Projected annual pre-tax net profit was NT\$0.85 billion, and actual pre-tax net loss was NT\$1.187 billion.

C. Profitability:

Return on assets	0.51%
Return on equity	-2.11%
After-tax profit margin	-0.82%
After-tax earnings per share	-NT\$0.22

1.1.3 Research and development

In 2019, China Airlines' information strategy development focused on enhancing the operational competitiveness and industrial technology of the Company and the airlines group. Following the seven main themes of artificial intelligence, smart technology/vehicles, big data, mobile applications, cloud computing/edge computing, virtual reality/augmented reality, and information security, China Airlines continued to perceive the pulse of the industry, utilize technology to understand customer value, understand profit-earning trends, find opportunities for innovation, strengthen information security risk management, and enhance the company's operational competitiveness.

In addition, China Airlines is committed to improving its website experience quality; expanding the development of website functions to optimize the ticket purchasing process; introducing 3D verification functions for credit card transactions to ensure the security of customer transactions and prevent credit card fraud; and building multiple payment tools and supporting multi-currency payments. To better service our passengers, new fare products were launched in September 2019. Passengers can choose additional products according to their travel needs, such as baggage allowance, preferred seats, and mileage accumulation standards, for them to select a la carte or package fares.

1.2 Business Plan for 2020

Benefiting from the government's continued promotion of tourism policy in Taiwan and the relatively stable price of oil, the passenger load factor in 2019 was slightly higher by about 1% than that in 2018. However, the overall operation performance has been affected by the anti-China extradition movement in Hong Kong, restriction on Chinese tourists, and the rise of low-cost carriers, which have caused fierce industrial competition and a drop in rate of return. Cargo transport has been

affected by international trade protectionism and the US-China tariff dispute, and market growth has slowed down.

In order to respond to changes in the external business environment, China Airlines has been optimizing the aviation network for passenger transport through aircraft model adjustment and flexible capacity allocation, based on market conditions and to meet travel and transportation needs. For cargo transport, shifts were flexibly adjusted, and the shipping space allocation of each zone was flexibly used to increase revenue. For the delivery of special cargoes, such as precision machinery, cold chain products, and aviation materials, continuous development and shipping price segmentation were carried out to enhance the overall revenue.

1.2.1 Passenger Service

China Airlines actively cooperates with the government's new southbound and foreign policies, and continuously evaluates the development of potential markets and increase of flights for Southeast Asian routes. At the same time, we concentrate our layout in Japanese and Korean markets in response to market demand. For the long-haul route markets of New Zealand, Australia, Europe, and America, we have adjusted the structure of the aviation network and strengthened the transit hub position of Taoyuan Airport; as for cross-strait routes, China Airlines will closely follow market dynamics and adjust transport capacity in a timely manner.

A. Northeast Asian Routes:

In response to the high demand of the Taiwanese people for travel in Japan and South Korea, China Airlines continues to expand routes in Japan and South Korea every year. Since the end of March 2019, Taoyuan-Nagoya flights were increased from 12 per week to 14 per week, Taoyuan-Takamatsu flights were increased from 4 per week to 5 per week, and Taoyuan-Fukuoka flights were increased from 17 per week to 18 per week. In addition, in order to meet the demand for people in central and southern Taiwan wanting to travel to Japan, Taichung-Okinawa flights were increased from 5 per week to 6 per week since the end of March 2019. To take the initiative in securing the increasing market demand, we further plan to increase Taoyuan-Takamatsu flights to 7 flights per week beginning March 2020, and increase Taoyuan-Fukuoka flights to 19 flights per week beginning April 2020. Seasonal, holiday/festival, and thematic charter flights have been continuously

arranged to meet seasonal demand, which strengthen China Airlines' leading position in the market.

B. Southeast Asian Routes:

In line with the government's new southbound and foreign policy, China Airlines continued its increase of flights to Bangkok, Penang, Hanoi, Phnom Penh, and other routes in 2018, and increased the Taoyuan-Palau flights from 2 to 3 per week since February 2019, and further increased such number to 4 flights per week since June 2019. In addition, in order to actively expand the Southeast Asian aviation network layout and to strengthen the aviation network transfer market, we have announced plans in 2020 to launch the Taoyuan-Cebu and Taoyuan-Chiang Mai routes.

C. Cross-Strait Routes:

Due to the impact of China's policy of restricting Chinese tourists coming to Taiwan and the anti-China extradition movement in Hong Kong, cross-strait travel demand is not as robust as in previous years; China Airlines takes the initiative to respond to market movements according to market demand and passenger composition through aircraft model adjustment and flexible regulation of transportation capacity, which maintains profit margins for the routes. In the future, China Airlines will continue to flexibly adjust transportation capacity depending on the cross-strait policy development and market conditions.

D. Long-Haul Routes:

In order to actively increase the benefits of China Airlines' Californian (North America) destinations and aviation network and to expand customer sources, beginning at the end of October 2019, we resumed having three CI006/CI005 Taoyuan-Los Angeles flights per week, increasing Taoyuan-Los Angeles flights to 10 per week, with the addition of 7 flights on the Taoyuan-Ontario route per week, totaling to 17 flights per week to and from the Greater Los Angeles area, making it easier for travelers to reach major inland cities in the United States. In addition, the aircraft model on the Taoyuan-Ontario route was adjusted from Airbus A350-900 to Boeing 777-300ER, providing more Premium Economy Class seats for passengers. Also, in order to continue to stimulate the North American tourism market, flights on the Taoyuan-Honolulu route were increased from 2 flights per week to 3 flights per week in the summer schedule, providing a variety of choices for visitors to the United States.

E. European Routes:

To stabilize China Airlines' leading position in Taiwan's Continental Europe flight market, beginning in 2018, flights on the Taoyuan-Vienna route have been increased from 3 flights per week to 5 flights per week, and we have maintained 5 flights per week throughout the year of 2019; meanwhile, during peak season from September to October, flights were increased to 6 per week. In addition, the enlarged aircraft model on Taoyuan-Amsterdam was changed to 777-300ER during the summer schedule in 2019 to increase the supply of seats. In the future, a more dense and convenient European aviation network will be provided to enhance the efficiency of China Airlines' extension of the European aviation network.

F. Australia and New Zealand Routes:

In order to continuously improve the New Zealand and Australian aviation networks, China Airlines has increased the flights on the Taoyuan-Melbourne route to 4 flights per week from the end of October 2019. During the winter season, in addition to increasing flights to New Zealand and Australia to 22 flights per week, it has also expanded its seat supply to meet market demand. In addition to securing its market share, China Airlines will also actively expand bidirectional connections market among New Zealand, Australia, Europe and Northeast Asia, strengthening China Airlines' travel services.

1.2.2 Cargo Service

In 2019, due to the disturbance of US-China trade war and the slowdown in the growth of global trade, the overall air cargo transport market was full of challenges. The Company continues to cultivate potential cargo transport markets, and launched the Nagoya, Japan route at the end of March to provide direct import and export services for the manufacturing industries in Nagoya and Central Japan; also, taking advantage of the rapid growth of India's emerging markets, the Mumbai-Amsterdam route was launched in mid-November and achieved impressive results. Fighting for cross-strait cargo aircraft traffic rights, the second cargo aircraft flight to Chongqing has been added since the end of October, and the flight loading performance was quite good.

To meet the needs of postal business clients, China Airlines plans to implement 15 customized charter flights to Zhengzhou in Q4, and continue the regular charter flights on Taoyuan-Columbus, Hong Kong-Chicago, and other routes from Asian cities to major U.S. cities.

Recently, in response to the impact of the pandemic situation and the uncertainty of US-China trade on cargo aircraft operations, short-term flight reduction measures have been adopted for cross-strait and Hong Kong routes; also, European and American flights were combined accordingly. The overall business plan is described as follows:

A. Long-Haul Routes

China Airlines plans 34 flights per week and strives for regular annual cargo charter flights to Columbus, USA. Through inter-airline cooperation, expanding the import and export sources of goods in Central and South America, extending aviation network services, and increasing loading capacity. After the introduction of the new 777F cargo aircraft at the end of 2020, China Airlines will prioritize flights to US West Coast destinations to improve flight payload and optimize economic efficiency.

B. European Routes:

China Airlines will maintain the operation of 6 flights per week in cooperation with the Indian market development plan, and continue to promote the potential markets of Delhi and Mumbai in India, so as to achieve two-stage revenue benefits.

C. Regional routes:

China Airlines will optimize the transportation capacity of Singapore, Penang, Ho Chi Minh City, Hanoi, and other Southeast Asian routes. Weekly flights will be gradually increased to 55 flights in the summer schedule of 2020. Through the increase in the proportion of regional cargo sources, we look to improve the profitability of Southeast Asian cargo aircraft.

China Airlines will continue to evaluate the flight increase plan for potential destinations on the cross-strait cargo aircraft route (including Guangzhou, Chongqing, and Zhengzhou) to strengthen the cross-strait profitable route layout. For Hong Kong and Northeast Asia, in addition to maintaining the operation of 16 and 5 flights per week, respectively, China Airlines will strive to secure non-regular charter flight business and develop high-priced sources of goods.

D. Improving revenue management and extending chartered flight business and high-growth source of goods:

(1) Improving revenue management:

In order to meet the demand for machine driven by the emerging 5G industry, China Airlines will

take advantage of using Boeing 747-400F cargo-only aircraft to load large cargoes for the transport of large machinery, which will increase revenue by providing differentiated services.

(2) Customized charter flights business:

China Airlines will deeply cultivate emerging markets such as Southeast Asia, and promote customized charter flight business on a regular/irregular basis.

(3) Deepening cooperation with inter-airline express delivery companies:

Maintaining cooperation with UPS, DHL, FedEx, SF Express, and other international express delivery companies to strengthen partnerships with Japanese and American airlines in the Asian region.

(4) Promoting cold chain cargoes:

China Airlines obtained CEIV Pharma certification from the International Air Transport Association (IATA CEIV Pharma) in April 2019. It is the first airline in Taiwan to receive this honor, and the certification can effectively increase the growth rate of the high-value cargo market.

1.3 Development Strategies

As the aviation industry provides international passenger and cargo transportation services, its operations are susceptible to global economic growth and political and economic conditions. According to the economic forecast published by IHS Markit in February 2020, the estimated global economic growth rate is 2.5%, slightly lower than the 2.6% of 2019; the growth rate in Taiwan is 2.1%.

The International Air Transport Association (IATA) originally estimated in December 2019 that in 2020, the growth rate of demand for the air passenger transport market would be 4.1% globally, 4.8% in the Asia-Pacific region, and that air cargo transport volume would increase by 2.0%. However, as the COVID-19 pandemic has increased in severity, the IATA estimates that the growth rate of demand for the air passenger transport market in 2020 will become negative, and the passenger transport revenue will be reduced by about 63 billion to 113 billion USD due to the implementation of tourism restrictions on the grounds of epidemic prevention in various countries.

Faced with such a highly competitive external environment, political and economic ripple effects, climate change and environmental protection issues, geopolitical risks, changes in exchange rates and oil prices, various uncertainties with the added uncertainty of the epidemic that is currently affecting the air transport market, this year (2020) will be a very difficult year for airlines.

The Company will take a proactive and rigorous attitude to carry out risk management and control, and establish corresponding response strategies. For pandemic prevention operations, we will follow the guidance of the World Health Organization (WHO) and other public health authorities and implement disease prevention work to ensure passenger safety. For passenger transport, we will continue to flexibly adjust transport capacity to respond to changes in the market. Through the solid establishment of the aviation network and the deepening of inter-airline cooperation, we aim to expand benefits, increase revenue, optimize cabin products, and strengthen brand marketing, so as to optimize passenger experience and enhance customer loyalty. For cargo transport, we aim to increase the overall revenue through introducing next-generation aircraft, strengthening operational efficiency, implementing revenue management improvement, and promoting customized charter business and cold chain transportation services. In addition, to accommodate to digital technology trends, we will expand online sales to improve the efficiency of mobile business applications, and promote electronic services to improve the convenience of passenger and cargo transport.

Through professional operation and management, we will focus on businesses with niche and development potential, integrate group resources to strengthen our overall competitiveness, and expand economic scale and scope, so as to effect business synergy and thus reach business sustainability.

Chairman: Hsieh, Su-Chien

President: Hsieh, Su-Chien

Vice President, Finance Div.:

Chen, I-Chieh

Company Profile

2.1 Date of Incorporation

2.2 Company History

II. Company Profile

2.1 Date of Incorporation

September 7, 1959

2.2 Company History

1959: China Airlines (CAL) was founded by 26 retired members of the Air Force with TWD 400,000 in capital. The Company flew charter flights using two rented PBY seaplanes.

1961: Provided military supply transport to Laos.

1962: Flew special cargo missions for the Vietnamese government and USARV. Inaugurated the first domestic route from Taipei to Hualien.

1966: Inaugurated the first international route from Taipei to Saigon (now Ho Chi Minh City), marking our official start in international aviation.

1967: Inaugurated Northeast Asia routes.

1970: Developed trans-Pacific routes to explore the US market.

1976: Inaugurated Middle East and Saudi Arabia Routes.

1978: Invested in Taoyuan International Airport Services Co., Ltd.

1980: Invested in Dynasty Holidays, Inc.

1983: Expanded European routes.

1986: Divided the Operations Division into Passenger Division and Cargo Division to expand operations.

1988: Twenty-seven shareholders donated shares to establish the China Aviation Development Foundation, transferring the rights of supervision and management to society.

1989: Invested in Hwa Hsia Co., Ltd. and Tai Kong Ju Investment Co., Ltd.

1990: Added Phuket and Bali destinations. Invested in Abacus Distribution Systems (Taiwan) Ltd.

1991: Established Hua Mei Investment Company and Mandarin Airlines. The Ministry of Finance approved the public offering of China Airlines shares.

1992: Resumed flights to Ho Chi Minh City. The Taiwan Stock Exchange approved the listing of China Airlines shares. The Company gained 100% equity interest in Mandarin Airlines.

1993: First flight to Frankfurt, Germany. Established German Branch Office. Officially listed on the Taiwan Stock Exchange.

1994: New engine repair plant became operational and Songshan Training Minquan Building opened. Set up China Pacific Catering Services as a joint venture with the Swire Group.

1995: First flights to Switzerland and Italy. Entered into a joint venture with Pratt & Whitney and SIA Engineering Company Limited to establish Asian Compressor Technology Services Co. in Taiwan. Invested in CAL-Asia Investments Inc. Launched our "plum blossom" logo.

1996: Inaugurated the Taoyuan-Penang cargo route.

1997: Inaugurated the Kaohsiung-Hong Kong-Jakarta route. Established the first cargo-only flights between Asia and Miami. Established code share flights with Continental Airlines and American Airlines. Invested in Huasheng Investment Company and China Pacific Laundry Services Ltd.

1998: Set up our Penang Branch Office and Hanoi Branch. Began using the Third Maintenance Hangar.

1999: Inaugurated cargo flight routes to Sydney, Delhi, and Colombo. Set up Kaohsiung Airport Catering Services as a joint venture with TransAsia Airlines and Far Eastern Air Transport. Established Chung Hwa Express Corp. as a joint venture with Chunghwa Post. Established TACT Logistics through investment transfer.

2000: Launched Canada, Australia, and New Zealand routes; Taoyuan-Guam, Taoyuan-Manila, Kaohsiung-Manila, Hakodate charter, and Taoyuan-Penang passenger flights; Frankfurt cargo flights. Established Shanghai office in Mainland China and new branch offices in Canada, Australia, New Zealand and Guam. Established YesTrip Travel Internet Technology Co.

2001: Inaugurated cargo flight routes to Seattle and Nashville. Made indirect investment in Xiamen International Airport Co., Ltd. Set up code-share flights with Delta Airlines. Introduced A340-300 passenger jets.

2002: Inaugurated passenger flight routes to Delhi and cargo routes to Manchester. Received approval to invest in China Cargo Airlines. Ordered 18 Airbus A330 passenger aircraft and 10 Boeing 747-400 cargo and passenger aircraft. Rejoined the International Air Transport Association (IATA).

2003: Inaugurated the first cross-strait Spring Festival charter flight. Inaugurated charter flights to Seoul and passenger routes to Brisbane and Hanoi and non-stop flights to Hawaii. Inaugurated cargo flight routes to Ho Chi Minh City and Delhi. Created the Paragon Card, the highest Dynasty Flyer membership tier. Received the Outstanding Service Award from the R.O.C. President.

- 2004: Launched sea-air transport charter flights. Inaugurated Hiroshima passenger flights and cargo routes to Milan and Prague. Introduced three A330-300 passenger jets, two Boeing 747-400 passenger jets and two Boeing 747-400 freighters.
- 2005: Flew the first direct charter flights to Beijing, and Spring Festival charters to Guangzhou and Shanghai. Inaugurated Vienna passenger flight route and Nagoya and Vienna cargo flight routes. Invested in China Aircraft Services Limited.
- 2006: Inaugurated cargo flight routes to Osaka, Hanoi, Houston and Stockholm. Flew the first cargo charter flight to Shanghai. Invested in Yangtze River Express Airlines Company. Began construction on the Taoyuan International Airport Airline Business Operation Center.
- 2007: Signed a letter of intent to purchase with Airbus. Announced contract with AccorHotels for a new airport hotel. Inaugurated regularly-scheduled passenger flights between Kaohsiung and Chiang Mai.
- 2008: Launched cross-strait humanitarian charter flights direct to Chengdu to deliver disaster relief supplies at no charge. Inaugurated cross - strait holiday charter flights, weekend charter flights to Shanghai, Beijing, Xiamen, and Guangzhou, and cross - strait direct cargo charter flights.
- 2009: Inaugurated the Taoyuan-Osaka-Los Angeles cargo flight route. Inaugurated scheduled cross-strait flights to Zhengzhou, Xiamen, Xi'an, Ningbo, Shenyang, and Changsha. Became an official member of IATA's e-Freight program. Inaugurated Taiwan's largest 120,000-pound power plant testing platform.
- 2010: New routes: Passenger routes between Taoyuan and the cities of Miyazaki, London, and Qingdao, Songshan Airport to Hongqiao and Haneda, and Kaohsiung to Xiamen and Narita, direct cargo flights to Xiamen, Nanjing and Fuzhou as well as the special cargo charter flight direct to Xi'an. Established Company headquarters in China Airlines Park and won the National Building Golden Award and National First Award.
- 2011: New routes: Taoyuan - Brisbane - Auckland; Taoyuan - Osaka - New York; flights to and from Taoyuan and Wuhan, Sanya, Yancheng, Haikou, Nanchang and Dalian; Taicheng to Chongqing and Nanchang; Kaohsiung to Changsha, Chongqing, Beijing, and Kuala Lumpur. Officially joined SkyTeam, becoming the first Taiwanese airline member of an international airline alliance.
- 2012: New routes: Songshan to Wenzhou and Gimpo Airport, Taoyuan to Kagoshima, Shizuoka and Toyama, added Auckland leg to the Taoyuan-Sydney route, and Taoyuan to Seoul and Yangon. Joined SkyTeam Cargo, becoming the first Taiwanese airline to join an international air cargo alliance. Renovated the cabins of nine Boeing 747-400 passenger jets to install new cabin seats and video systems. Signed a Memorandum of Strategic Cooperation with Chunghwa Telecom. Signed an OnPoint Fuel & Carbon Solutions Agreement with GE Aviation. Awarded *Business Next* magazine's Super Green Jury Award and First Place in the Green Brand Awards 2012 Transportation Category, Gold Award in *Reader's Digest* Trusted Brands 2012, the Sports Activists Award from Sports Affairs Council, First Place in *Management* magazine's Consumer Brand Survey, and the 2012 Energy Conservation and Carbon Reduction Action Label Excellence Award. The China Airlines Maintenance Facility received ISO 14001 Environment Management System Certification. Launched the world's first trans-Pacific climate observation aircraft. Became the world's first airline to display our carbon footprint and calories for in-flight meals.
- 2013: Formed Greater China Connection Partnership with China Southern, China Eastern and Xiamen Airlines. Launched code-sharing services with Russia's Transaero Airlines and Hawaiian Airlines and expanded code-sharing services with China Southern Airlines. Launched Taoyuan-Takamatsu route, Chiayi-Shizuoka charter flights, Taoyuan-Hawaii direct flights, Taoyuan-Urumqi and Lijiang routes. Launched Taoyuan-Ishigaki, Tainan-Hong Kong, and Taoyuan-Busan routes as well as Songshan-Matsuyama charter flights. Launched the Taoyuan-Nanjing-Zhengzhou cargo route and Taoyuan-Weihai flights. Launched temperature-controlled product cargo services. Once again awarded *Business Next* magazine's Super Green Jury Award and First Place in the Green Brand Awards 2013 Transportation Category. Awarded Top Aviation Brand in *Manager Today's* Power Brands Survey 2013 and *Reader's Digest* Trusted Brands Gold Award. Won the National Standardization Awards' Corporate Standardization Award, 3rd Taiwan Green Classics Award, Global Views Service Excellence Award 2013, and EPA's 22nd Business Environmental Award.
- 2014: Awarded the EPA's 23rd Business Environmental Award and the International Green Classics Award 2014; earned ISO 14001 Environment Management System Expansion Certification and ISO 50001 Energy Management System Setup Certification. Once again awarded *Business Next* magazine's Super Green Jury Award and earned First Place in the Green Brand Awards Transportation Category for the third time. Inaugurated the Songshan-Fuzhou and Taoyuan to Changchun, Hefei, Yantai, and Xuzhou routes. Won the Annual Best of Design Awards in the 2014 Golden Pin Design Award for our NextGen 777 aircraft cabin design and named the Best Airline in North Asia by Global Traveler.
- 2015: Launched Taoyuan-Wuxi; Kaohsiung to Changzhou, Kumamoto, and Fukuoka; Taoyuan-Melbourne with

an extension to Christchurch; and Tainan-Osaka flights. Launched social media customer services, a first for Taiwan. Established an airplane maintenance training center. Received the following awards:

- **Brand Service:**
CAA 2014 Golden Wing Awards, second place in TheDesignAir Global Passenger Choice Top 10 Airlines Awards 2015, *Reader's Digest* Trusted Brands Gold Award, three top awards in the Global Traveler reader survey.
- **Corporate Social Responsibility:**
TCSA Taiwan Corporate Sustainability Award, EPA's Business Environmental Awards.
- **Product Design:**
The NextGen 777-300ER passenger cabin design was awarded the Red Dot Design Award 2015, Family Couch design received the Global Traveler Leisure Travel Innovation Excellence Award, won National Industry Innovation Award for NexGen Aesthetics.
- **Other:**
Centers for Disease Control Epidemic Prevention Award 2015.

2016: Launched Taoyuan-Yangzhou route and Taoyuan-Shenzhen cargo route. Inaugurated Chinese passenger transit through Taiwan for outbound China Airlines flights. Increased free baggage allowance by 10 kg and reduced regional excess baggage charges. Took delivery of the first A350 airliner for any Taiwanese carrier. Completed the Air Passenger Transport Service-Product Carbon Footprint Category Regulations together with the Civil Aeronautics Administration. Received the following awards:

- **Brand Service:**
PAX International magazine reader survey's 2016 Outstanding Food Service by a Carrier, Best Premium Economy and Best Airline by Global Traveler; China Airlines *Dynasty* In-flight Magazine won the APEX Award of Excellence; the CAL website was named 2016 Best Airline Website by WebAward.
- **Corporate Social Responsibility:**
Passed third-party audits for ISO 14001 and ISO 50001 Environmental Management Systems. Received IOSA flight safety certification and the TCSA Taiwan Corporate Sustainability Award. Selected as a Dow Jones Sustainability Indices constituent stock, the first such honor for a Taiwanese company and emerging market airline.
- **Product Design:**
Received 5 iF Design Awards for the Boeing 777-300ER passenger cabin, software user interface, tableware design, Sky Lounge design packaging, and Taiwan Taoyuan Airport Terminal 1 Lounge. A double win in TheDesignAir Awards 2016.

2017: Inaugurated the Taoyuan-London route, becoming the only airline in Taiwan to offer nonstop service to London. Partnered with Air France on a codeshare nonstop flight from Taoyuan to Paris. Added codeshares on Taiwan-Japan routes with Air Japan. Signed a memorandum of cooperation with KLM. Signed an agreement to enhance cooperation with American Airlines. Signed a letter of intent with Airbus, comprehensively strengthening cooperation on maintenance. Established a joint venture in Taoyuan with NORDAM Aerospace (USA) as "NORDAM Asia Ltd." with both parties cooperating to drive business investment and training of aerospace maintenance personnel. Signed a memorandum of cooperation with Changgeng Hospital of Linkou for air medical treatment. Obtained AS 9110 Airbus certification for maintenance facility. Transported Taiwanese satellites to the US on four occasions. Hosted the 2017 AAPA annual conference to empower development in the Asia-Pacific airline industry. Provided the second A330-300 to work on plans for greenhouse gas observation and testing in the Pacific. Signed the Buckingham Palace Declaration against illegal wildlife shipments. Used sustainable alternative fuels and setting a milestone in carbon reduction among Taiwanese airlines. Received many awards:

- **Brand Service:**
Excellence in Global Airline Cargo Service award. *Cheers* magazine's 2017 TOP 20 Most Influential Enterprises of the New Era. Awarded a Gold Medal for reputation by *Reader's Digest* for the 19th consecutive year. Awarded a 2017 *Global Vision* magazine five-star service rating. Remained on top as *Global Traveler's* Best Airline in Northeast Asia.
- **Corporate Social Responsibility:**
Won the Taiwan Top 50 Enterprises Sustainability Report Gold Medal for Cargo Division, Climate Leader Award, and Harmony with Society award. Selected for the Dow Jones Sustainability Index for the second consecutive year.

2018: The new US destination Taoyuan-Ontario, California, route formally went into operation. Served as one of the ten major members in the IATA Nominating Committee in 2018. Launched Kaohsiung-Hong Kong-Jakarta and Taoyuan-Chongqing passenger transportation routes. Developed the cargo transport destination in Columbus, Ohio, United States. Joined hands with Japan Airlines in developing the new destinations of Japan inland routes, including Sapporo-Niigata, Sapporo- Hanamaki, Fukuoka-Miyazaki, Fukuoka-Hanamaki, Fukuoka-Amami, Kagoshima-Amami and Kagoshima-Tokunoshima.

- **Brand Service:**
Selected as *Cheers* magazine's "2018 Top 20 Employers of the New Generation." China Airlines'

in-flight magazine *Dynasty* received the 2018 APEX Awards for Publication Excellence in the US.

- **Corporate Governance:**
Ranked among top 5% in the 4th Corporate Governance Review.
- **Corporate Social Responsibility:**
China Airlines Group donated NT\$10 million in disaster relief for the Hualien earthquake. The second airline worldwide to be certified by dual systems, ISO 14001 and ISO 50001, maintaining the highest standards for environmental risk management. AL Park was awarded the Diamond Level of Green Building Label, with an annual electricity savings of 23,000 kWh. Cooperated with ClimateCare, a British professional environmental facility, to launch the “ECO Travel” carbon exchange program. Selected as a constituent stock in the Dow Jones Sustainability Index (DJSI). Awarded the Taiwan Corporate Sustainability Award.
- **Product Design:**
Awarded the “Best Premium Economy Class Amenities Kit” of the Onboard Hospitality Award by *OBH* Magazine.

2019: Flight addition to Taoyuan-Palau route. Developed cargo transport destination in Nagoya, Japan. Signed a letter of intent with Chung Yuan Christian University to jointly cultivate aviation talent. Approved by the US Transportation Security Administration to join the precheck program. More evolution in digital services: non-stop, 24-hour automated customer service.

- **Brand Service:**
Won the APEX 5-Star Award. The first cold chain transportation of pharmaceuticals in Taiwan to achieve international certification.
- **Corporate Governance:**
Placed in Top 5% of the Corporate Governance Ranking once again.
- **Corporate Social Responsibility:**
Evaluated as role-model company for the global airlines by the International Carbon Disclosure Project. Selected as a constituent stock in the “TW ESG Index” for the first time. Selected as a constituent stock in the DJSI for the fourth consecutive year. Selected for the Global Corporate Sustainability Awards for the first time and presented with TCSA for the sixth consecutive year.

Corporate Governance Report

3.1 Organization

3.2 Directors and Management Team

3.3 Implementation of Corporate Governance

**3.4 Information Regarding the Company's Audit Fee and
Independence**

3.5 Replacement of CPA

3.6 Audit Independence

**3.7 Changes in Shareholding of Directors, Managers, and
Major Shareholders**

3.8 Relationships among the Top Ten Shareholders

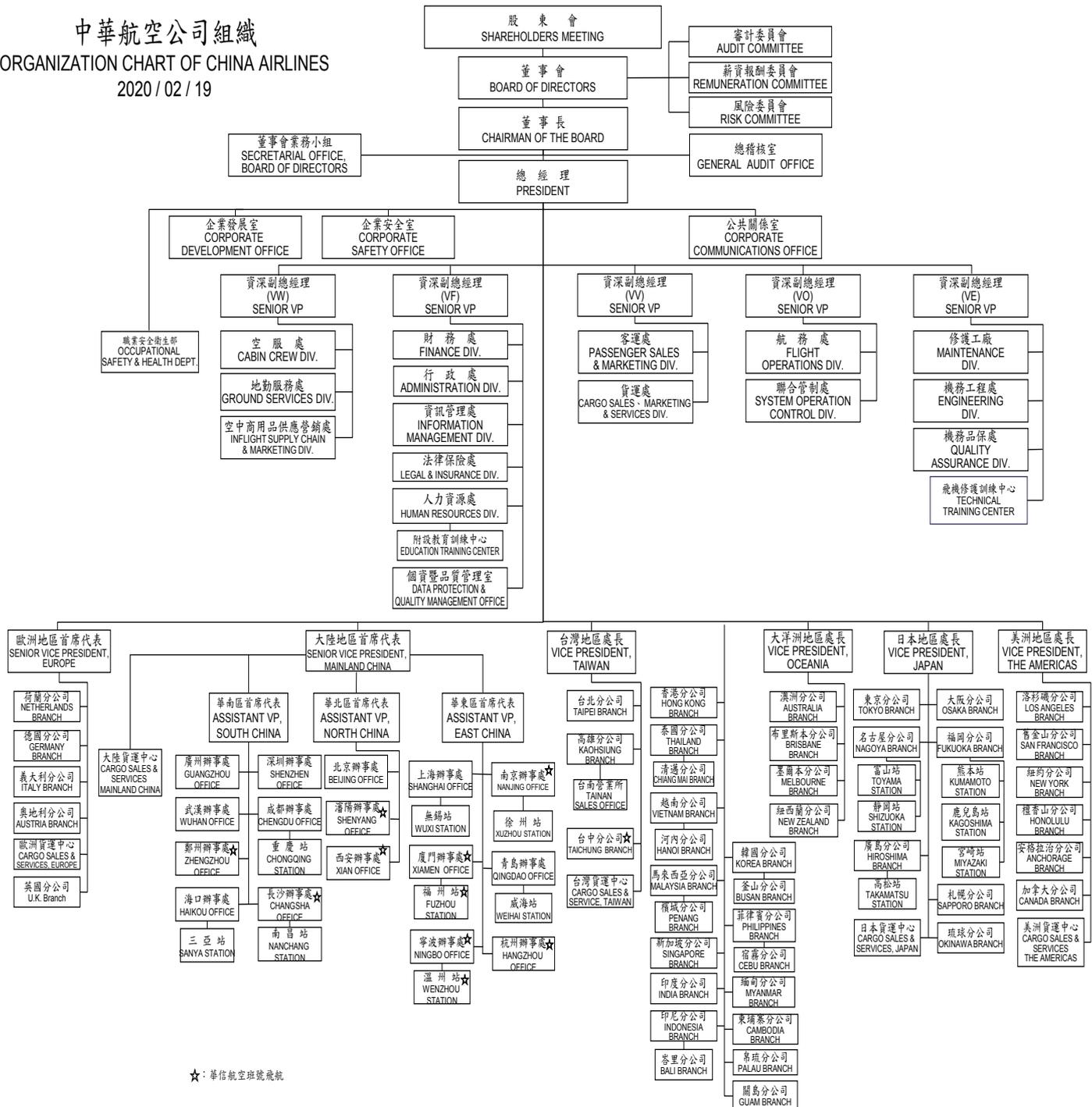
3.9 Ownership of Shares in Affiliated Enterprises

III. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart (APR 25, 2020)

中華航空公司組織
ORGANIZATION CHART OF CHINA AIRLINES
2020 / 02 / 19



3.1.2 Major Corporate Functions

Department	Functions
General Audit Office	Responsible for auditing the internal control system, results of implementation of the annual business plan.
Secretarial Office, Board of Directors	Responsible for holding Board of Directors meetings, collating and sending meeting proceedings and overseeing matters relating to resolutions, coordination channels with general public stockholders, matters relating to juridical person shareholder representatives, director communications and services, and budgeting and controls for the Board and all functional committees.
Corporate Development Office	Responsible for drafting the Company's medium- and long-term strategic operating plan, fleet plan, and annual business plan; seeking flying rights and building relationships between the Company and civil aviation authorities in various countries; establishing brand position and development strategies; planning medium- and long-term design and development of passenger cabins and entertainment systems; purchasing, selling, and leasing of aircraft.
Corporate Safety Office	Drafts Company safety, security, quality assurance, environmental, and emergency response policies and systems; establishes related management systems and carries out educational training; implements related investigations, analysis, and examinations; coordinates with government agencies and civil aviation authorities, manufacturers, and groups to deal with Company safety, security, quality assurance, environmental, and emergency response-related issues.
Corporate Communications Office	Responsible for external Company communications, communication links with the legislature and the media, planning social welfare activities, sponsoring charitable activities, organizing inaugural flights and other holiday or celebratory activities, publishing <i>CAL Park</i> Magazine, supervising and coordinating publication of <i>Dynasty</i> magazine, organizing employee recreational activities, and setting the Company's brand image and advertising strategy.
Legal & Insurance Div.	Responsible for reviewing all outside agreements and contracts, handling litigation, and management of insurance matters for Company assets, such as the fleet and aeronautical parts, personnel, and passenger and cargo transportation.
Finance Div.	Responsible for planning financing sources, managing use of funds, controlling the budget, auditing accounts receivable and payable items, preparing financial statements, managing tax-related issues, fuel purchasing, and providing accounting and cost analysis information. Supervising the operational performance and management of invested enterprises.
Administration Div.	Responsible for procurement of general goods, managing renovation projects and land/real estate, land transport management and vehicle maintenance, handling company licenses, monitoring and safekeeping of Company seals, sending and receipt of prospectuses and official documents, and document management.
Cabin Crew Div.	Responsible for establishing cabin crew operating standards, managing training of cabin crew, planning for cabin crew manpower needs, and implementing assignment of cabin crew personnel.

Department	Functions
Ground Services Div.	Responsible for establishing ground services operating standards, development of the ground services operating system, planning and implementation of a full range of ground services training, supervising ground services operations at each station, providing ground services at Taiwan Taoyuan and Songshan Airports, and overall management of ground service provider contracts.
In-Flight Service Supply Chain & Marketing Div.	Responsible for the research and development, marketing and planning of various in-flight service supplies and products for sale; planning and supply management of meals and beverages in all flights of the entire route; supervising and controlling the logistics and supply management such as the purchasing, warehousing, preparation and loading of various in-flight service supplies; working on improving the quality of in-flight service products based on customer feedbacks and market trends.
Data Protection & Quality Management Office	Implements personal information and quality management system, and reports the implementation results and improvement measures to the top management; masters the content of laws and regulations related to the protection of personal information in various countries to ensure compliance with the laws and the regulation enforcement process in each country; establishes and implements the Company's ISO 9001 quality management system, and implements service quality education, internal quality auditor training and encourages further understanding of measures regarding quality-related issues.
Passenger Sales & Marketing Div.	Responsible for supervising the passenger transport network planning and route management of the entire route, seat control, business promotion, digital marketing, customer relationship maintenance, membership marketing and inter-airline cooperation, cross-industry collaboration, determination of passenger transport rates and various quotas, performance evaluation, and developing and maintaining revenue management systems and passenger transport business training at all levels.
Information Management Div.	Combines information technology with business knowledge to promote computerization within the Company to upgrade operational competitiveness.
Human Resources Div.	Responsible for planning the Company organization and human resources, establishment of a personnel management system, and setting pay standards. Provides recruitment services, supervises personnel management, established the employee training system and oversees future updates, provides employee health management, and manages personnel assignments to affiliated enterprises.
Occupational Safety & Health Dept.	Writes the Company's Occupational Health and Safety Manual and regulations; drafts, plans, supervises, and promotes health and safety matters and guides implementation in relevant departments in order to prevent occupational hazards and ensure employee health and safety. Received ISO45001:2018 and TOSHMS occupational health and safety certification following SGS audit to effectively control occupational incident risk and improve occupational health and safety performance.

Department	Functions
Cargo Sales, Marketing & Services Div.	Establishes the cargo development strategy, supervises cargo operations on all routes, plans the cargo flight timetable and controls allocation of hold space, sets cargo shipping rates and sales quotas, evaluates operating performance, drafts and oversees cargo services and operating standards, and is responsible for passenger and cargo plane loading control operations, cargo equipment controls and replenishment, Taipei cargo terminal operations, and accounting for the Cargo Sales, Marketing & Services Division and Taiwan Cargo Center.
Flight Operations Div.	Responsible for cabin crew manpower requirement planning, training and management of cabin crew, developing flight operating standards, controlling fuel consumption, planning and implementation of crew and flight assignments, and maintaining airplane flight manuals and flight simulators.
System Operation Control Div.	Manages coordination of all airports in the system, oversees flight status, coordinates and manages adjustment of flights in response to anomalies, guarantees on-time performance rates, provides real-time information to aircraft in flight, ensures flight safety, investigates reasons for major delays to flights, establishes comprehensive aircraft and statistical analysis data; operates and guides crew allocation, plans and manages flight permits; responsible for safety management and liability related to business.
Maintenance Div.	Responsible for implementation of airplane maintenance, client aircraft maintenance services, support and supervision of station maintenance, and development of maintenance capabilities.
Engineering Div.	Responsible for the planning and control of airplane maintenance, materials supply management, controlling maintenance costs, and planning the information system development strategy.
Quality Assurance Div.	Responsible for coordination and communication with other countries' civil aviation authorities; maintaining the validity of operating standards, repair facility licenses, and aircraft airworthiness certificates; authorization and management of maintenance personnel training and task assignments; formulation and implementation of the quality audit system. Established and implements the aircraft quality management and on-site inspection systems, implements introduction of new aircraft and sale or return of aircraft as stipulated in the fleet plan, and assists in aircraft incident investigations.
Technical Training Center	Develops type training and license conversion training that comply with CAA 05-02A requirements. Compose training plan and execute training in accordance with EMO (Engineering & Maintenance Organization) demands and customer requests.
Branch offices	Responsible for each branch's development and promotion of passenger and freight-related operations.

3.2 Directors and Management Team

3.2.1 Directors

APR 25, 2020

Title	Name	Nationality/ Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are Spouses or within Two Degrees of Kinship			Remark
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
							Chairman	China Aviation Development Foundation	R.O.C.	-	07/07/1988	06/27/2018	3	1,867,341,935			34.13%	1,867,341,935	34.45%	
Representative: Hsieh, Su-Chien	R.O.C.	Male	07/06/2016	06/27/2018	3	48,517		0.00%	48,517	0.00%	0	0.00%	0	0.00%	Chairman, Taiwan Air Cargo Terminal Ltd. Senior Vice President of Marketing, China Airlines Ltd. Director, Taiwan Region and General Manager of Taipei Branch Office, China Airlines Ltd. General Manager, Australia Branch Office, China Airlines Ltd. General Manager, Indonesia Branch Office, China Airlines Ltd. General Manager, Kaohsiung Branch Office, China Airlines Ltd. Vice President, Passenger Sales Div. Chairman, Abacus Distribution Systems Taiwan Ltd. Bachelor's Degree, Department of Economics, Soochow University	President, China Airlines Ltd. Chairman, Mandarin Airlines, Ltd. Chairman, CAL Park Co., Ltd. Chairman, CAL Hotel Co., Ltd. Chairman, CAL-Asia Investment Inc. Chairman, CAL-Dynasty International, Inc. Director, Dynasty Properties Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd.	None	None	None	Note 1
Director	China Aviation Development Foundation	R.O.C.	-	07/07/1988	06/27/2018	3	1,867,341,935	34.13%	1,867,341,935	34.45%	-	-	-	-	-	-	-	-	-	-
	Representative: Chen, Charles C.Y.	R.O.C.	Male	07/01/2000	06/27/2018	3	190,166	0.00%	190,166	0.00%	155,849	0.00%	0	0.00%	Director, Wan Hai Lines Ltd. Chairman, UTAC Group, Singapore Chairman, Epistar Corp. Director, Formosa International Hotels Ltd. Director, Ascendas Pte. Ltd. Director, Ichia Technologies, Inc. Adjunct Associate Professor, National Tsing Hua University MBA, New York University, U.S.A.	Chairman, Eyon Holding Group Vice Chairman, Taiwan Air Cargo Terminal Ltd. Vice Chairman, Taian Insurance Co., Ltd. Chairman, Wan Hai International Pte. Ltd. President, Chen-Yung Foundation Vice Chairman, Wan Hai Lines (Singapore) Pte. Ltd. Director, Epistar Corp. Director, Shihlin Paper Co., Ltd.	None	None	None	None
	Representative: Ting, Kwang-Hung	R.O.C.	Male	01/28/2008	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Chairman, Central Trading & Development Corp. BA in Finance, Boston University, U.S.A.	Member, Risk Committee, China Airlines Ltd. Group Chairman, Phu My Hung Holdings Group Chairman, Phu Yung An Corp. Chairman, Hiep Phuoc Power Co., Ltd. Chairman, Macro Technologies Inc. (Vietnam) Ltd. Chairman, Phu My Hung Asia Holdings Corp. Vice Chairman, TVBS Media Inc. Director, Phu My Hung Development Corp.	None	None	None	None

Title	Name	Nationality/ Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are Spouses or within Two Degrees of Kinship			Remark
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Director	Representative: Chen, Han-Ming	R.O.C.	Male	07/26/2016	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Director, Yuan-Chin Development Co., Ltd. Member, Rotary Club of Taipei Tunhua BA (Hons) Architecture, University of Plymouth, UK MSc, Birmingham City University, UK	Chairman, Tigerair Taiwan Co., Ltd. Chairman, Prime Development Co., Ltd. Director, Chyn-Tay Bearing Co., Ltd.	None	None	None	None
	Representative: Ko, Sun-Ta	R.O.C.	Male	06/27/2018	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	PT Lecturer, National Open University PT Lecturer, National Open College President, Keelung Fund for Children & Families MBA, Keio University, Japan	Chairman, K Hotels Group Chairman, The Tango Group Chairman, Kodak Trading Co., Ltd. Chairman, Kota Enterprise Co., Ltd.	None	None	None	None
	Representative: Wei, Yung-Yeh	R.O.C.	Male	06/27/2018	06/27/2018	3	3,737	0.00%	3,737	0.00%	0	0.00%	0	0.00%	Jet Airplane Maintenance Group, Air Force Technical School	Member of Council, China Airlines Employees Union Foreman, Line Maintenance Department, Engineering & Maintenance Division, China Airlines Ltd.	None	None	None	None
Director	National Development Fund-Executive Yuan	R.O.C.	-	06/15/2012	06/27/2018	3	519,750,519	9.50%	519,750,519	9.59%	-	-	-	-	-	-	-	-	-	-
	Representative: Lin, Su-Ming	R.O.C.	Male	06/15/2012	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Member, Tax Reform Commission, Executive Yuan Member, Administration Appeals Commission, Taipei City Government Deputy Dean, College of Management, National Taiwan University Chairman, Department and Graduate Institute of Accounting, National Taiwan University Ph.D. in Accounting, Arizona State University, U.S.A.	Member, Risk Committee, China Airlines Ltd. Public Director, Taipei Exchange, R.O.C. Independent Director, Nan Shan Life Insurance Co., Ltd. Director, iPASS Corp. Professor, Department & Graduate Institute of Accounting, National Taiwan University	None	None	None	None
	Representative: Wang, Shih-Stu	R.O.C.	Female	06/27/2018	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Director General, Tourism Bureau of Tainan City Government Chairperson, Research, Development and Evaluation Commission of Tainan City Government Director General, Ketagalan Foundation Director General, Information Department of Kaohsiung City Government Director General, Judicial Reform Foundation Director General, Taiwan Association for Human Rights Master's Degree, International Development Policy, Duke University, U.S.A.	Deputy Mayor, Tainan City Government	None	None	None	None

Title	Name	Nationality/ Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are Spouses or within Two Degrees of Kinship			Remark
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Independent Director	Chung, Lo-Min	R.O.C.	Male	06/15/2012	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Chairman, China Steel Chemical Corp. Chairman, Universal exchange Inc. Executive Vice President, China Steel Corp. Vice President of Finance, China Steel Corp. MBA, Arizona State University, U.S.A.	Chairman, Risk Committee, China Airlines Ltd. Member, Audit Committee, China Airlines Ltd.	None	None	None	None
Independent Director	Chang, Hsieh Gen-Sen	R.O.C.	Female	06/27/2018	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Consultant, Legislative Council Office Director, Shian CPA Firm Adjunct Associate Professor, Chinese Culture University Controller, Amagic Holographics, Inc. Senior Associated CPA, Wu, Liang, and Huang CPAs Staff Accountant, AAA (Auto Club of S. California) MBA, University of California, Irvine, U.S.A.	Chairman, Audit Committee, China Airlines Ltd. Member, Remuneration Committee, China Airlines Ltd. Member, Risk Committee, China Airlines Ltd. Member, Foundation Management Committee, Environmental Protection Administration Independent Director, K Laser Technology Inc.	None	None	None	None
Independent Director	Shen, Hui-Ya	R.O.C.	Female	06/27/2018	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Independent Director of First Financial Holding Co., Ltd. Independent Director of Taiwan Fertilizer Co., Ltd. Committee of Securities and Futures Investors Protection Center Master of Laws, National Chung Hsing University	Chairman, Remuneration Committee, China Airlines Ltd. Member, Audit Committee, China Airlines Ltd. Member, Risk Committee, China Airlines Ltd. Consultant of Public Service Pension Fund Management Board, Ministry of Civil Service, Examination Yuan Lawyer, Lian Yung Law Office Independent Director, Formosa Advanced Technologies Co., Ltd. Independent Director, Hua Nan Securities Co., Ltd.	None	None	None	None

Note 1: In recent years, the industry competition in the aviation industry is fierce. In order to increase the operating efficiency and streamline the decision-making and implementation, Chairman Hsieh, Su-Chien is temporarily appointed as the President of the Company. However, the manager remains responsible for the implementation of all important proposals after the approval of the Board of Directors. In order to prevent the concurrent appointment from influencing the objectivity and supervision of the Board of Directors, except for Chairman Hsieh, Su-Chien and Director Wei, Yung-Yeh, who are concurrently Directors and employees, none of the other members of the 21st Board of Directors are concurrently employees of the Company.

Note 2: The average term of the members of the 21st Board of Directors as Directors of the Company was 6 years.

Note 3: The three Independent Directors of the 21st Board of Directors have not been appointed for more than 3 terms.

Major shareholders among institutional shareholders

Name of Institutional Shareholders	Major Shareholders
China Aviation Development Foundation	A non-corporate organization. In February 1988, all 27 shareholders of the Company (Note) donated the shares held and 100% of the shareholders' equity to set up the foundation, which was reported to the Ministry of Transportation and Communications on March 2 of the same year. Its establishment was approved on July 6 of the same year.
National Development Fund, Executive Yuan	Government

Note: The source is "Charter for Donations to the China Aviation Development Foundation".

Professional qualifications and independence analysis of directors

Name	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)												Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Has Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
Hsieh, Su-Chien	-	-	✓	✓	-	✓	✓	-	✓	✓	-	✓	✓	✓	✓	-	-
Chen, Charles C.Y.	✓	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Ting, Kwang-Hung	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Chen, Han-Ming	-	-	✓	✓	-	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	-	-
Ko, Sun-Ta	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Wei, Yung-Yeh	-	✓	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Lin, Su-Ming	✓	✓	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	1
Wang, Shih-Szu	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Chung, Lo-Min	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Chang, Hsieh Gen-Sen	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Shen, Hui-Ya	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during their term in office.

- Not an employee of the Company or any of its affiliates.
- Not a director or supervisor of the Company or its affiliated enterprise (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary, or a subsidiary of the same parent).
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the managers listed in (1) or the personnel listed in (2) or (3).
- Not a director, supervisor, or employee of a corporate shareholder who directly holds more than 5% of the total shares issued by the Company, is within the top five shareholders, or appointed a representative to be a director or supervisor of the Company in accordance with Article 27, Paragraph 1 or 2 of the Company Act (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary, or a subsidiary of the same parent).
- Not a director, supervisor, or employee of another company controlled by the same person who holds more than half of the Company's director seats or voting shares (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary, or a subsidiary of the same parent).

7. Not a director, supervisor or employee of another company or institution with the same person or spouse as the chairman, general manager or equivalent of the company (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary or a subsidiary of the same parent).
8. Not a director, supervisor, manager or shareholder holding more than 5% of shares of a specific company or institution that has financial or business dealings with the Company (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary or a subsidiary of the same parent and if the specific company or institution holds more than 20% but less than 50% of the total issued shares of the Company).
9. Not a professional who provides auditing related services to the Company or its affiliates and who does not provide commercial, legal, financial, or accounting related services to the Company or its affiliates with a cumulative amount of remuneration obtained in the last two years exceeding NT\$500,000; and is not an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliates. However, this does not apply to the members of the Remuneration Committee, the Special Committee for Merger/consolidation and Acquisition who perform their functions and powers in accordance with the relevant laws and regulations of the Securities and Exchange Act or the Business Mergers and Acquisitions Act.
10. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
11. Not been a person of any conditions defined in Article 30 of the Company Act.
12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

3.2.2 Management Team

APR 25, 2020

Title	Name	Nationality/ Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses or Within Two Degrees of Kinship			Remark
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman & President	Hsieh, Su-Chien	R.O.C.	Male	06/24/2016	48,517	0.00%	0	0.00%	0	0.00%	Senior Vice President of Marketing, China Airlines Ltd. General Manager, Australia Branch Office, China Airlines Ltd. Chairman, Taiwan Air Cargo Terminal Ltd. Bachelor's Degree, Department of Economics, Soochow University	Chairman, Mandarin Airlines, Ltd. Chairman, CAL Park Co., Ltd. Chairman, CAL Hotel Co., Ltd. Chairman, CAL-Asia Investment Inc. Chairman, CAL-Dynasty International, Inc. Director, Dynasty Properties Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd.	None	None	None	Note 1
Auditor General, General Audit Office	Fang, Juo-Ling	R.O.C.	Female	05/11/2018	8,000	0.00%	0	0.00%	0	0.00%	Vice President, Administration Div. Deputy Auditor General, General Audit Office Master's Degree, Georgia State University, U.S.A.	Supervisor, Taiwan Airport Service Co., Ltd. Supervisor, China Pacific Catering Services Ltd. Supervisor, CAL Park Co., Ltd. Supervisor, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Supervisor, CAL Hotel Co., Ltd.	Assistant Vice President, Cabin Crew Div.	Fang, Yuan-Hua	Siblings	None
Deputy Auditor General, General Audit Office	Ho, Hui-Fen	R.O.C.	Female	02/01/2018	0	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Finance Div. General Manager, General Accounting Department, Finance Div. Master's Degree, Soochow University	Supervisor, Sabre Travel Network (Taiwan) Ltd. Supervisor, Taiwan Air Cargo Terminal Ltd.	None	None	None	None
Senior Vice President (VF)	Chang, Young	R.O.C.	Male	06/24/2016	0	0.00%	0	0.00%	0	0.00%	Chairman & President, Taiwan Airport Services Co., Ltd. President, Taoyuan International Airport Services Co., Ltd. Bachelor's Degree, Fu Jen University	Chairman, Kaohsiung Airport Catering Services Ltd. Chairman, Taiwan Airport Service Co., Ltd. Chairman, Taiwan Airport Service (Samoa) Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd. Director, Tigerair Taiwan Co., Ltd. Director, Mandarin Airlines, Ltd. Vice Chairman, Arport Air Terminal (Xiamen) Co., Ltd. Vice Chairman, Arport Air Cargo Service (Xiamen) Co., Ltd. Director, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Director & President, CAL Park Co., Ltd. Director, CAL-Asia Investment Inc.	None	None	None	None
Senior Vice President (VV)	Wang, Chen-Min	R.O.C.	Male	01/01/2019	35,621	0.00%	0	0.00%	0	0.00%	Vice President, Passenger Sales Div. & Passenger Marketing Div. General Manager, Korea Branch Bachelor's Degree, Feng Chia University	Director, CAL Hotel Co., Ltd. Director, Mandarin Airlines, Ltd. Chairman, Taiwan Air Cargo Terminal Ltd. Director, Tigerair Taiwan Co., Ltd. Director, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Director, CAL-Dynasty International, Inc. Director & President, CAL-Asia Investment Inc.	None	None	None	None

Title	Name	Nationality/ Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses or Within Two Degrees of Kinship			Remark
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Senior Vice President (VO)	Kao, Shing-Hwang	R.O.C.	Male	05/01/2012	62,809	0.00%	0	0.00%	0	0.00%	Vice President, Flight Operations Div. Assistant Vice President, Flight Operations Div. Bachelor's Degree, National Cheng Kung University	Director, Mandarin Airlines, Ltd. Director, CAL Hotel Co., Ltd..	None	None	None	None
Senior Vice President (VE)	Wang, Houng	R.O.C.	Male	08/16/2017	12,069	0.00%	0	0.00%	0	0.00%	Vice President, Maintenance Div. Vice President, Engineering Div. Bachelor's Degree, Feng Chia University	Chairman, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Director, Mandarin Airlines, Ltd. Director, Taoyuan International Airport Services Co., Ltd. Vice Chairman, NORDAM Asia Ltd. Director, CAL Hotel Co., Ltd..	None	None	None	None
Data Protection Officer, Data Protection & Quality Management Office	Wu, Hsiao-Sui	R.O.C.	Male	07/21/2018	0	0.00%	52	0.00%	0	0.00%	General Manager, Korea Branch General Manager, Honolulu Branch Master's Degree, Cranfield University, UK	None	None	None	None	None
Vice President, Human Resources Div.	Yeah, Shao-Ting	R.O.C.	Male	04/01/2019	868	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Human Resources Div. General Manager, Human Resources & Administration Department, Maintenance Div. Bachelor's Degree, Chinese Culture University	None	None	None	None	None
Assistant Vice President, Human Resources Div.	Lee, Pei-Chen	R.O.C.	Female	04/01/2019	58,430	0.00%	7,144	0.00%	0	0.00%	General Manager, Human Resources Development Dept., Human Resources Div. General Manager, Administration Dept., Ground Services Div. Master's Degree, National Taiwan Normal University	None	None	None	None	None
Vice President, Flight Operations Div.	Lai, Ming-Hui	R.O.C.	Male	03/01/2016	19,127	0.00%	0	0.00%	0	0.00%	Vice President, Corporate Safety Office Assistant Vice President, Flight Operations Div. Bachelor's Degree, National Cheng Kung University	None	None	None	None	None
Assistant Vice President, Flight Operations Div.	Tung, Hsing-Hua	R.O.C.	Male	03/16/2018	587	0.00%	0	0.00%	0	0.00%	General Manager, Legal Affairs Department, Legal & Insurance Div. General Manager, Business Management Department, Business Development Office Master's Degree, Tunghai University	None	None	None	None	None
Assistant Vice President, Flight Operations Div.	Chen, Chwen-Der	R.O.C.	Male	08/01/2018	19,299	0.00%	0	0.00%	0	0.00%	General Manager, Flight Operations Training Dept., Flight Operations Div. General Manager, Planning & Development Dept., Flight Operations Div. Master's Degree, National Cheng Chi University	None	None	None	None	None
Vice President, System Operation Control Div.	Chou, Jyh-Shyan	R.O.C.	Male	12/01/2017	9,171	0.00%	7,382	0.00%	0	0.00%	Assistant Vice President, Corporate Safety Office Vice President, Taiwan Airport Services Co., Ltd. Master's Degree, RMIT University, AU	None	None	None	None	None

Title	Name	Nationality/ Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses or Within Two Degrees of Kinship			Remark	
					Shares	%	Shares	%	Shares	%			Title	Name	Relation		
Assistant Vice President, System Operation Control Div.	He, Cheng	R.O.C.	Male	11/01/2019	251	0.00%	0	0.00%	0	0.00%	Control Manager, Flight Control Dept., System Operation Control Div. General Manager, Bali Branch, Indonesia Branch Master's Degree, Assumption University, Thailand	None	None	None	None	None	
Assistant Vice President, System Operation Control Div.	Huang, Hsiang-Piao	R.O.C.	Male	08/01/2017	1,000	0.00%	0	0.00%	0	0.00%	General Manager, Safety Assurance Department, Corporate Safety Office General Manager, Administration Department, Ground Services Div. Bachelor's Degree, National Sun Yat-Sen University	None	None	None	None	None	
Vice President, Passenger Sales & Passenger Marketing Div.	Peng, Pao Chu	R.O.C.	Female	01/01/2019	8,434	0.00%	0	0.00%	0	0.00%	Vice President, Corporate Development Office Assistant Vice President, Passenger Sales Div. Bachelor's Degree, National Taiwan University	Director, Sabre Travel Network (Taiwan) Ltd. Director, Everest Investment Holdings Ltd. Director, Yestrip Co., Ltd. Director, Mandarin Airlines, Ltd.	None	None	None	None	None
Assistant Vice President, Passenger Sales & Passenger Marketing Div.	Chen, Pei-Ti	R.O.C.	Female	11/01/2018	926	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Passenger Sales & Marketing Div. General Manager, Sales Management Department Bachelor's Degree, National Taiwan University	None	None	None	None	None	
Vice President, Finance Div. (concurrently finance and accounting manager)	Chen, I-Chieh	R.O.C.	Male	02/16/2017	6,161	0.00%	0	0.00%	0	0.00%	Vice President, Investment Development & Management Div. General Manager, Vietnam Branch Concurrently, General Manager, Hanoi Branch Master's Degree, National Taipei University	Supervisor, Dynasty Aerotech International Corp. Supervisor, CAL Hotel Co., Ltd. Supervisor, Mandarin Airlines, Ltd. Supervisor, China Pacific Laundry Services Ltd. Director, Tigerair Taiwan Co., Ltd.	None	None	None	None	None
Assistant Vice President, Finance Div.	Yen, Yang	R.O.C.	Female	05/01/2018	0	0.00%	0	0.00%	0	0.00%	General Manager, Finance & Treasury Department, Finance Div. General Manager, Economics Analysis Department, Finance Div. Master's Degree, The City University of New York, U.S.A.	Supervisor, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Supervisor, Kaohsiung Airport Catering Services Ltd.	None	None	None	None	None
Assistant Vice President, Finance Div.	Huang, Hui Na	R.O.C.	Female	09/01/2017	16,661	0.00%	0	0.00%	0	0.00%	General Manager, Passenger Sales Revenue Audit & Control Department, Finance Div. General Manager, Accounting And Administration Department, Taipei Branch Master's Degree, Soochow University	Supervisor, Global Sky Express Ltd. Supervisor, Yestrip Co., Ltd.	None	None	None	None	None
Vice President, Corporate Safety Office	Chen, I-Ko	R.O.C.	Male	03/01/2016	23,541	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Corporate Safety Office Vice President, Safety Office, Mandarin Airlines, Ltd. Associate's Degree, United College of Engineering	None	None	None	None	None	

Title	Name	Nationality/ Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses or Within Two Degrees of Kinship			Remark
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Assistant Vice President, Corporate Safety Office	Yu, Yueh Han	R.O.C.	Male	12/06/2018	0	0.00%	0	0.00%	0	0.00%	General Manager, Safety Department Corporate Safety Office Vice President of Safety, Security, Quality & Environment, Tigerair Taiwan Co., Ltd. Master's Degree, National Sun Yat-sen University	None	None	None	None	None
Vice President, Legal & Insurance Div.	Chien, Feng-Nien	R.O.C.	Male	01/03/2017	0	0.00%	0	0.00%	0	0.00%	Director of Legal Office, Taiwan Financial Asset Service Corporation Head Prosecutor, Taichung Prosecutors Office Master's Degree, National Taiwan Ocean University	None	None	None	None	None
Vice President, Corporate Communications Office	Liu, Tsao-Yang	R.O.C.	Male	11/05/2018	60,488	0.00%	0	0.00%	0	0.00%	Vice President, Ground Services Div. Chief Representative, South China, Concurrently General Manager, Guangzhou Office Bachelor's Degree, Chinese Culture University	None	None	None	None	None
Assistant Vice President, Corporate Communications Office	Lin, Heng-Shan	R.O.C.	Male	04/16/2019	0	0.00%	0	0.00%	0	0.00%	General Manager, Corporate Affairs Department, Corporate Communications Office General Manager, Employee Relations Department, Human Resources Div. Master's Degree, RMIT University, AU	None	None	None	None	None
Vice President, Administration Div.	Chen, Wei-Tau	R.O.C.	Male	11/18/2019	36,165	0.00%	2,196	0.00%	0	0.00%	Vice President, Ground Services Division President, Taiwan Airport Services Co. Ltd. Bachelor's Degree, Fu Jen Catholic University	Director, Dynasty Aerotech International Corp. Director, CAL Park Co., Ltd.	None	None	None	None
Vice President, Information Management Div. (concurrently research and development manager)	Chung, Ming-Jyh	R.O.C.	Male	11/18/2019	638	0.00%	0	0.00%	0	0.00%	Vice President, Administration Div. Deputy Auditor General, General Audit Office Master's Degree, National Taiwan University	Director, Sabre Travel Network (Taiwan) Ltd.	None	None	None	None
Assistant Vice President, Information Management Div.	Liu, Duan-Shiuh	R.O.C.	Male	04/20/2017	92,608	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Ground Services Div. General Manager, Information Planning Department, Information Management Div. Master's Degree, National Taipei University of Technology	None	None	None	None	None
Vice President, Cabin Crew Div.	Hong, Tsu-Kuang	R.O.C.	Male	05/04/2017	11,816	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Flight Operations Div. General Manager, Food & Beverage Services Department, In-Flight Service Supply Div. Bachelor's Degree, Soochow University	Director, China Pacific Laundry Services Ltd. Director, China Pacific Catering Services Ltd Director, CAL Hotel Co., Ltd..	None	None	None	None

Title	Name	Nationality/ Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses or Within Two Degrees of Kinship			Remark
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Assistant Vice President, Cabin Crew Div.	Fang, Yuan-Hua	R.O.C.	Male	08/04/2018	30,348	0.00%	0	0.00%	0	0.00%	President, Dynasty Hotel of Hawaii, Inc. General Manager, Qingdao Office Master's Degree, RMIT University, AU	None	Auditor General, General Audit Office	Fang, Juo-Ling	Siblings	None
Vice President, Corporate Development Office	Chang, Cheng-Hao	R.O.C.	Male	01/21/2019	11,803	0.00%	0	0.00%	0	0.00%	Vice President, Cargo Sales & Marketing Div. President, Taiwan Air Cargo Terminal Ltd. Master's Degree, Cranfield University, UK	Director, Tigerair Taiwan Co., Ltd. Director, Taiwan Airport Service Co., Ltd. Director, Global Sky Express Ltd. Director, Dynasty Hotel of Hawaii, Inc. Director, Dynasty Properties Co., Ltd. Director, China Aircraft Services Ltd. Director, Taiwan Air Cargo Terminal Ltd.	None	None	None	None
Assistant Vice President, Corporate Development Office	Wang, Wei	R.O.C.	Female	02/02/2017	54,297	0.00%	0	0.00%	0	0.00%	General Manager, Austria Branch Assistant Vice President, Finance Div. Master's Degree, George Washington University, U.S.A.	Supervisor, NORDAM Asia Ltd. Director, Kaohsiung Airport Catering Services Ltd.	None	None	None	None
Assistant Vice President, Corporate Development Office	Liu, Shou-Shu	R.O.C.	Female	12/01/2018	0	0.00%	0	0.00%	0	0.00%	Special Assistant of President Office, Mandarin Airlines Bachelor's Degree, National Taiwan University	None	None	None	None	None
Vice President, In-Flight Service Supply Chain & Marketing Div.	Chung, Wan-Chun	R.O.C.	Female	11/23/2019	27,687	0.00%	0	0.00%	0	0.00%	General Manager, Hong Kong Branch Vice President, Finance Div. Master's Degree, University of Illinois At Urbana-Champaign, U.S.A.	Chairman, China Pacific Laundry Services Ltd. Director, China Pacific Catering Services Ltd. Director, Kaohsiung Airport Catering Services Ltd.	None	None	None	None
Assistant Vice President, In-Flight Service Supply Chain & Marketing Div.	An, Long Chi	R.O.C.	Male	04/01/2020	77,308	0.00%	0	0.00%	0	0.00%	President, China Pacific Catering Services Ltd. General Manager, Xiamen Office Bachelor's Degree, Chinese Culture University	None	None	None	None	None
Vice President, Ground Services Div.	Chu, Te-Hsiu	R.O.C.	Male	11/18/2019	43,382	0.00%	8,277	0.00%	0	0.00%	Chief Representative, East China, and Concurrently General Manager, Shanghai Office Assistant Vice President, Flight Operations Div. Bachelor's Degree, Chinese Culture University	Director, China Pacific Laundry Services Ltd. Director, Taoyuan International Airport Services Co., Ltd.	None	None	None	None
Assistant Vice President, Ground Services Div.	Huang, Chin-Feng	R.O.C.	Male	10/16/2019	139,659	0.00%	589	0.00%	0	0.00%	President, Taoyuan International Airport Services Company Ltd. Senior Auditor, General Audit Office Bachelor's Degree, Soochow University	None	None	None	None	None
Assistant Vice President, Ground Services Div.	Hsu, Hsueh Wen	R.O.C.	Male	02/01/2020	13,149	0.00%	0	0.00%	0	0.00%	Station Manager, Customer Service, Taoyuan International Airport, Ground Services Div. Station Manager, Customer Service, Songshan International Airport, Ground Services Div. Bachelor's Degree, Fengjia University	None	None	None	None	None
Vice President, Cargo Sales, Marketing & Services Div.	Liu, Der-Chuan	R.O.C.	Male	07/17/2010	172	0.00%	0	0.00%	0	0.00%	Vice President, Cargo Sales & Marketing Div. Vice President, Cargo Services & Logistics Div. Bachelor's Degree, Fu Jen University	Director, Taiwan Air Cargo Terminal Ltd. Director, Dynasty Aerotech International Corp. Director, Global Sky Express Ltd. Director, Eastern United International Logistics (Holdings) Ltd.	None	None	None	None

Title	Name	Nationality/ Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses or Within Two Degrees of Kinship			Remark	
					Shares	%	Shares	%	Shares	%			Title	Name	Relation		
Assistant Vice President, Cargo Sales, Marketing & Services Div.	Sheu, Yuh-Shy	R.O.C.	Male	01/22/2019	24,648	0.00%	0	0.00%	0	0.00%	General Manager, Cargo Sales & Services, Mainland China General Manager, Cargo Sales Management Department, Cargo Sales, Marketing & Services Div. Bachelor's Degree, Feng Chia University	None	None	None	None	None	
Assistant Vice President, Cargo Sales, Marketing & Services Div.	Shann, Da-Sin	R.O.C.	Male	01/01/2018	29,818	0.00%	17,982	0.00%	0	0.00%	General Manager, Cargo Sales Management Department, Cargo Sales, Marketing & Services Div. General Manager, Cargo Revenue & Route Management Department, Cargo Sales, Marketing & Services Div. Master's Degree, National Taipei University	Director, Global Sky Express Ltd. Director, Chung-Hwa Express Co., Ltd.	None	None	None	None	None
Assistant Vice President, Cargo Sales, Marketing & Services Div.	Mao, Li-Chung	R.O.C.	Male	12/20/2019	0	0.00%	0	0.00%	0	0.00%	Chief Representative, South China Concurrently, General Manager, Guangzhou Office General Manager, Nanking Office Master's Degree, Chung Yuan Christian University	None	None	None	None	None	
Vice President, Maintenance Div.	Sun, Jia-Min	R.O.C.	Male	09/16/2017	62,602	0.00%	0	0.00%	0	0.00%	Vice President, Engineering Div. Vice President, Corporate Safety Office Master's Degree, National Taiwan University	Chairman, Dynasty Aerotech International Corp. Director, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Director, China Aircraft Services Ltd.	None	None	None	None	None
Assistant Vice President, Maintenance Div.	Hsiao, Jui-Fu	R.O.C.	Male	09/16/2017	0	0.00%	0	0.00%	0	0.00%	General Manager, Line Maintenance Department, Maintenance Div. General Manager, Line Operation Department, Maintenance Div. Master's Degree, Kainan University	None	None	None	None	None	
Vice President Quality, Assurance Div.	Li, Chih-Wei	R.O.C.	Male	09/16/2017	10,295	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Maintenance Div. General Manager, Line Operation Department, Maintenance Div. Master's Degree, Kainan University	Director, NORDAM Asia Ltd.	None	None	None	None	None
Vice President, Engineering Div.	Lee, Jung-Hui	R.O.C.	Male	09/16/2017	10,298	0.00%	0	0.00%	0	0.00%	Vice President Quality, Assurance Div. Assistant Vice President, Maintenance Div. Master's Degree, Tatung University	Director, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Director, Taikoo (Xiamen) Landing Gear Services Co., Ltd. Director, Haeco Composite Structures (Jinjiang) Co., Ltd.	None	None	None	None	None
Vice President, Taiwan	Chiu, Wei-Tuan	R.O.C.	Male	03/19/2020	4,901	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Passenger Sales & Marketing Div. General Manager, Osaka Branch Bachelor's Degree, National Chung Hsing University	Director, Sabre Travel Network (Taiwan) Ltd. Director, Yestrip Co., Ltd.	None	None	None	None	None
Vice President, Europe	Han, Liang Chung	R.O.C.	Male	06/12/2017	11,498	0.00%	0	0.00%	0	0.00%	Senior Vice President President, Mandarin Airlines Co., Ltd. Master's Degree, Business of Administration, University of Pittsburgh, U.S.A.	None	None	None	None	None	None
Vice President, Mainland China	Chang, Chih-Chieh	R.O.C.	Male	10/08/2018	96,553	0.00%	0	0.00%	0	0.00%	Senior Vice President, President Office Vice President, Passenger Sales Div. Bachelor's Degree, Tunghai University	None	None	None	None	None	None

Title	Name	Nationality/ Country of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses or Within Two Degrees of Kinship			Remark
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Vice President, Oceania	Chen, Chung-Ming	R.O.C.	Male	05/10/2017	32,779	0.00%	0	0.00%	0	0.00%	General Manager, Fukuoka Branch Assistant Vice President, Passenger Sales Div. Bachelor's Degree, Department of Transportation & Logistics Management of National Chiao Tung University	None	None	None	None	None

Note1: In recent years, competition in the aviation industry has been fierce. In order to increase our operating efficiency and streamline our decision-making and implementation, Chairman Hsieh, Su-Chien has been temporarily appointed as the President of the Company. However, the manager remains responsible for the implementation of all important proposals after approval by the Board of Directors. In order to prevent concurrent appointment from influencing the objectivity and supervision of the Board of Directors, except for Chairman Hsieh, Su-Chien and Director Wei, Yung-Yeh, who are concurrently directors and employees, none of the other members of the 21st Board of Directors are concurrently employees of the company.

Note2: Company presidents, senior vice presidents, vice presidents, data protection officer, assistant vice presidents, and department and branch general managers have not worked for the Company's currently designated accounting firm or affiliated enterprises within the specified period and do not hold Company stock under the name of a different person.

3.2.3 Remuneration of Directors, President, and Vice President

Remuneration of Directors

Title	Name (Note 1)	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Loss (%) (Note 10)	
		Base Compensation (A) (Note 2)		Severance Pay (B)		Bonus to Directors (C) (Note 3)		Allowances (D) (Note 4)		CAL	Consolidated Subsidiaries of CAL (Note 7)
		CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)		
Chairman	Hsieh, Su-Chien	4,574	4,574	0	0	0	0	468	1,556	-0.42%	-0.51%
Chairman	Ho, Nuan-Hsuan	1,676	1,676	2,866	2,866	0	0	241	608	-0.40%	-0.43%
Director	Chen, Charles C.Y.	40	40	0	0	0	0	530	770	-0.05%	-0.07%
Director	Ting, Kwang-Hung	40	40	0	0	0	0	540	540	-0.05%	-0.05%
Director	Chen, Han-Ming	40	40	0	0	0	0	530	530	-0.05%	-0.05%
Director	Ko, Sun-Ta	40	40	0	0	0	0	530	530	-0.05%	-0.05%
Director	Wei, Yung-Yeh	40	40	0	0	0	0	530	530	-0.05%	-0.05%
Director	Lin, Su-Ming	40	40	0	0	0	0	545	545	-0.05%	-0.05%
Director	Wang, Shih-Szu	0	0	0	0	0	0	102	102	-0.01%	-0.01%
Independent Director	Chung, Lo-Min	60	60	0	0	0	0	880	880	-0.08%	-0.08%
Independent Director	Chang, Hsieh Gen-Sen	60	60	0	0	0	0	900	900	-0.08%	-0.08%
Independent Director	Shen, Hui-Ya	60	60	0	0	0	0	900	900	-0.08%	-0.08%

1.State the policy, system, standard and structure of independent directors' remuneration, and the relationship between the remuneration amount and factors such as responsibilities, risks, and contributed time: The remuneration of the independent directors of the Company shall be handled in accordance with the Articles of Association and shall be determined by the Board of Directors with reference to the standards of relevant industries and listed companies, and shall be paid as fixed remuneration, transportation fees, and attendance fees.

Note 1: Aside from independent directors, all other directors are representatives of the Company's juridical person shareholders China Aviation Development Foundation, National Development Fund (Executive Yuan). Mr. Ho, Nuan-Hsuan was dismissed as Chairman on April 2, 2019; Mr. Hsieh, Su-Chien has been elected as Chairman on April 2, 2019.

Note 2: Refers to director remuneration over the past year (includes director salary, additional compensation, severance pay, various bonuses, incentive pay).

Note 3: As stipulated in the Company's Articles of Incorporation, directors are not awarded bonuses.

Note 4: Refers to relevant business expenses incurred by directors (including travel expenses, special disbursements, various allowances, living quarters, company car). If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT\$970,000.

Note 5: Refers to salary, bonuses, and allowances received by directors who are also employed by the Company (including as president, vice president, other management, or regular employee) over the past year and includes salary, additional compensation, severance pay, various bonuses, incentive pay, travel expenses, special disbursements, various allowances, living quarters, and company car. If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT\$196,000. As stipulated in IFRS 2 Share Based Payments including obtaining employee stock options and employee restricted stock awards and participation in a cash capital increase shall be calculated as remuneration.

* The content is provided for information disclosure, not tax purposes.

Unit: NT\$ thousands Dec 31,2019

Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Loss (%) (Note 10)		Compensation Paid to Directors from an Invested Company or Parent Company Other than the Company's Subsidiary (Note 11)
Salary, Bonuses, and Allowances (E)(Note 5)		Severance Pay (F)		Employees' Compensation (G) (Note 6)				CAL	Consolidated Subsidiaries of CAL (Note 7)	
CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL		Consolidated Subsidiaries of CAL (Note 7)				
				Cash	Stock	Cash	Stock			
1,579	1,942	0	0	0	0	0	0	-0.55%	-0.67%	None
0	0	0	0	0	0	0	0	-0.40%	-0.43%	None
0	0	0	0	0	0	0	0	-0.05%	-0.07%	None
0	0	0	0	0	0	0	0	-0.05%	-0.05%	None
0	0	0	0	0	0	0	0	-0.05%	-0.05%	None
0	0	0	0	0	0	0	0	-0.05%	-0.05%	None
1,589	1,589	0	0	0	0	0	0	-0.18%	-0.18%	None
0	0	0	0	0	0	0	0	-0.05%	-0.05%	None
0	0	0	0	0	0	0	0	-0.01%	-0.01%	None
0	0	0	0	0	0	0	0	-0.08%	-0.08%	None
0	0	0	0	0	0	0	0	-0.08%	-0.08%	None
0	0	0	0	0	0	0	0	-0.08%	-0.08%	None

2.Except as disclosed in the above table, the remuneration received by the Directors of the Company for the services provided for all companies in the financial report (such as serving as a consultant who is not an employee) in the most recent year: None

Note 6: Refers to employee compensation (including stock or cash) received by directors who are also employed by the Company (including as president, vice president, other management, or regular employee) over the past year, and the amount of employee compensation approved for distribution by the Board for the most recent year must be disclosed. The Company has no distributable earnings in 2019, so it does not plan to distribute employee compensation.

Note 7: The total remuneration provided by the Company and subsidiaries to directors is disclosed per the consolidated financial statement.

Note 8: The remuneration distributed to each member of the Company's Board is disclosed as a range and the names of directors are disclosed by range of compensation received.

Note 9: The total remuneration provided by the Company and subsidiaries to directors is disclosed per the consolidated financial statement and names of directors are disclosed by range of compensation received.

Note 10: Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. The Company's 2019 individual financial statement net loss (after tax) totaled NT\$1,199,798,000.

Note 11: (1) The directors of the Company do not receive any remuneration related to the reinvestment of enterprises other than subsidiaries.

(2) Compensation refers to pay, bonuses (including bonuses to employees, directors, or supervisors), or expenses paid in the execution of business to Company directors who serve as director, supervisor, or manager of an invested company other than a Company subsidiary.

(3) Compensation paid to directors from an invested company other than a Company subsidiary is included in Column I (Consolidated Subsidiaries of CAL) of the Director Remuneration by Compensation Level Table.

Note 12: (1) Aside from Chairman Ho, Nuan-Hsuan, and Chairman Hsieh, Su-Chien, all other directors received a travel allowance.

(2) Transportation subsidies for Director Ting, Kwang-Hung, and Director Wei, Yung-Yeh were partially donated to the China Airlines Employee Union.

(3) Directors who also serve as employees of the Company are Chairman Hsieh, Su-Chien and Director Wei, Yung-Yeh.

Director Remuneration by Compensation Level

Range of Remuneration	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	CAL (Note 8)	Consolidated Subsidiaries of CAL (H) (Note 9)	CAL (Note 8)	Consolidated Subsidiaries of CAL (I) (Note 9)
Under NT\$1,000,000	Chen, Charles C.Y.; Ting, Kwang-Hung; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh; Lin, Su-Ming; Wang, Shih-Szu; Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya	Chen, Charles C.Y.; Ting, Kwang-Hung; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh; Lin, Su-Ming; Wang, Shih-Szu; Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya	Chen, Charles C.Y.; Ting, Kwang-Hung; Chen, Han-Ming; Ko, Sun-Ta; Lin, Su-Ming; Wang, Shih-Szu; Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya	Chen, Charles C.Y.; Ting, Kwang-Hung; Chen, Han-Ming; Ko, Sun-Ta; Lin, Su-Ming; Wang, Shih-Szu; Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya
NT\$1,000,000 - NT\$1,999,999	-	-	-	-
NT\$2,000,000 - NT\$3,499,999	-	-	Wei, Yung-Yeh	Wei, Yung-Yeh
NT\$3,500,000 - NT\$4,999,999	Ho, Nuan-Hsuan	-	Ho, Nuan-Hsuan	-
NT\$5,000,000 - NT\$9,999,999	Hsieh, Su-Chien	Hsieh, Su-Chien; Ho, Nuan-Hsuan	Hsieh, Su-Chien	Hsieh, Su-Chien; Ho, Nuan-Hsuan
Total	12	12	12	12

President and Senior Vice President Remuneration

Title	Name (Note 1)	Salary (A) (Note 2)		Severance Pay (B)		Bonuses and Allowances (C) (Note 3)	
		CAL	Consolidated Subsidiaries of CAL (Note 5)	CAL	Consolidated Subsidiaries of CAL (Note 5)	CAL	Consolidated Subsidiaries of CAL (Note 5)
President	Hsieh, Su-Chien	1,403	1,403	0	0	176	539
Senior Vice President	Lo, Ya-Mei(Note 10)	1,779	1,779	0	0	540	990
Senior Vice President	Kao, Shing-Hwang	3,103	3,103	0	0	5,492	5,852
Senior Vice President	Wang, Chen-Min (Note 11)	3,157	3,157	0	0	765	1,516
Senior Vice President	Wang, Houng	3,314	3,314	0	0	841	1,358
Senior Vice President	Chang, Young	3,363	3,363	0	0	791	2,107

President and Senior Vice President Remuneration by Compensation Level

Range of Remuneration	Name of President and Senior Vice President	
	CAL (Note 6)	Consolidated Subsidiaries of CAL (E)(Note 7)
Under NT\$1,000,000	-	-
NT\$1,000,000 - NT\$1,999,999	Hsieh, Su-Chien	Hsieh, Su-Chien
NT\$2,000,000 - NT\$3,499,999	Lo, Ya-Mei	Lo, Ya-Mei
NT\$3,500,000 - NT\$4,999,999	Wang, Chen-Min; Wang, Houng; Chang, Young	Wang, Chen-Min; Wang, Houng
NT\$5,000,000 - NT\$9,999,999	Kao, Shing-Hwang	Kao, Shing-Hwang; Chang, Young
Total	6	6

Note 1: President Hsieh, Su-Chien concurrently serves as director. Their remuneration is listed above and also in the Remuneration of Directors table.

Note 2: Refers to president and senior vice president salaries, additional compensation, and severance pay over the past year.

Note 3: Refers to various bonuses, incentive pay, travel expenses, special disbursements, various allowances, living quarters, and company car distributed to presidents and senior vice presidents over the past year. If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT\$4,165,000. As stipulated in IFRS 2, Share Based Payments including obtaining employee stock options and employee restricted stock awards and participation in a cash capital increase shall be calculated as remuneration.

Note 4: Refers to employee compensation (including stock or cash) approved for distribution by the Board to presidents and senior vice presidents over the past year. Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. The Company has no distributable earnings in 2019, so it does not plan to distribute employee compensation.

* The content is provided for information disclosure, not tax purposes.

Unit: NT\$ thousands December 31, 2019

Employees' Compensation (D) (Note 4)				Ratio of Total Compensation (A+B+C+D) to Net Loss (%) (Note 8)		Compensation paid to the Presidents and Senior Vice Presidents from an Invested Company or Parent Company Other Than the Company's Subsidiary (Note 9)
CAL		Consolidated Subsidiaries of CAL (Note 5)		CAL	Consolidated Subsidiaries of CAL (Note 5)	
Cash	Stock	Cash	Stock			
0	0	0	0	-0.13%	-0.16%	None
0	0	0	0	-0.19%	-0.23%	None
0	0	0	0	-0.72%	-0.75%	None
0	0	0	0	-0.33%	-0.39%	None
0	0	0	0	-0.35%	-0.39%	None
0	0	0	0	-0.35%	-0.46%	None

Note 5: The total remuneration provided by the Company and subsidiaries to Company presidents and senior vice presidents is disclosed per the consolidated financial statement.

Note 6: The remuneration distributed to each president and senior vice president is disclosed as a range and the names of the presidents and senior vice presidents are disclosed by range of compensation received.

Note 7: The total remuneration provided by the Company and subsidiaries to presidents and senior vice presidents is disclosed per the consolidated financial statement and names of the presidents and senior vice presidents are disclosed by range of compensation received.

Note 8: Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. The Company's 2019 individual financial statement net loss (after tax) totaled NT\$1,199,798,000.

Note 9: The President and Senior Vice President of the Company do not receive any remuneration related to the reinvestment of enterprises other than subsidiaries.

Note 10: Miss Lo, Ya-Mei was dismissed from the position of Senior Vice President on August 1, 2019.

Note 11: Mr. Wang, Chen-Min assumed the position of Senior Vice President on January 1, 2019.

3.2.4 Comparison of Remuneration for Directors, Presidents, and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Presidents, and Vice Presidents

- A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, presidents, and vice presidents of the Company, to their net income (loss).

Title	2018		2019	
	CAL	Consolidated Subsidiaries of CAL	CAL	Consolidated Subsidiaries of CAL
Directors	1.18%	1.33%	-1.62%	-1.79%
Presidents and Senior Vice Presidents	1.58%	1.82%	-2.06%	-2.37%

- B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance.

As stipulated in the Articles of Incorporation, the Board of Directors is authorized to set the chairman's remuneration in accordance with the Company's policies regarding manager compensation and based on the extent of his or her participation in Company operations. The travel allowances and remuneration of other directors are determined by the Board in reference to the compensation levels provided by related-industries and public companies. In accordance with Article 29 of the Company Act, president and senior vice president remuneration is set by Board of Directors resolution based on Company employee salary related regulations. Bonuses and employee compensation are calculated based on the Company's overall operating performance and the employee's individual performance achievement rate.

- C. Procedure for establishing remuneration

In the case of remuneration for board members and managers, as per regulation, the Company's Salary and Remuneration Committee meets regularly to assess and set salaries and remuneration, which decisions are implemented after being submitted to the Board of Directors.

- D. Linkage to business outcomes

The remuneration of the president has already taken into account his professional capability and the Company's operations and financial situation; the experienced senior vice presidents handle matters based on the Company's employee achievement provisions, using a linkage of individual performance on goals management and work evaluations, and assessing performance after overall consideration.

- E. Linkage to future risk

Major decision making for operational levels of this company always balances various risk factors; major decision-making performance will be reflected in the Company's profits, and thereby is related to salaries and remuneration to management levels; specifically, the salaries and remuneration of the chairman of the board, the president, and senior vice presidents are related to the results of controlling and managing future risk.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A. From January 1, 2019, through April 25, 2020, a total of eleven meetings of the Board of Directors were held. Average attendance rate was 89%. Director attendance is detailed below:

Title	Name (Note 1)	Attendance in Person	By Proxy	Attendance Rate (%) (Note 2)	Juridical Person Shareholder Represented	Remarks
Chairman	Hsieh, Su-Chien	11	0	100%	China Aviation Development Foundation	Elected as Chairman on April 2, 2019.
Director	Chen, Charles C.Y.	8	3	73%	China Aviation Development Foundation	On May 8, 2019, Hsieh, Su-Chien was entrusted to attend as a proxy; On July 3, 2019, Chen, Han-Ming was entrusted to attend as a proxy; On October 8, 2019, Hsieh, Su-Chien was entrusted to attend as a proxy.
Director	Ting, Kwang-Hung	8	3	73%	China Aviation Development Foundation	On April 2, 2019, Hsieh, Su-Chien was entrusted to attend as a proxy; On June 25, 2019, Hsieh, Su-Chien was entrusted to attend as a proxy; On November 7, 2019, Hsieh, Su-Chien was entrusted to attend as a proxy.
Director	Chen, Han-Ming	11	0	100%	China Aviation Development Foundation	None
Director	Ko, Sun-Ta	10	1	91%	China Aviation Development Foundation	On October 8, 2019, Chen, Han-Ming was entrusted to attend as a proxy.
Director	Wei, Yung-Yeh	11	0	100%	China Aviation Development Foundation	None
Director	Lin, Su-Ming	10	1	91%	National Development Fund (Executive Yuan)	On November 7, 2019, Wang, Shih-Szu was entrusted to attend as a proxy.
Director	Wang, Shih-Szu	7	4	64%	National Development Fund (Executive Yuan)	On January 21, 2019, Hsieh, Su-Chien was entrusted to attend as a proxy; On April 2, 2019, Lin, Su-Ming was entrusted to attend as a proxy; On June 25, 2019, Lin, Su-Ming was entrusted to attend as a proxy; On July 3, 2019, Lin, Su-Ming was entrusted to attend as a proxy.
Independent Director	Chung, Lo-Min	10	1	91%	-	On March 18, 2020, Chang, Hsieh Gen-Sen was entrusted to attend as a proxy.
Independent Director	Chang, Hsieh Gen-Sen	11	0	100%	-	None
Independent Director	Shen, Hui-Ya	10	1	91%	-	On April 2, 2019, Chang, Hsieh Gen-Sen was entrusted to attend as a proxy.
Chairman	Ho, Nuan-Hsuan	2	0	100%	China Aviation Development Foundation	Dismissed as Chairman on April 2, 2019. Obligated to attend twice. Actual attendance was twice. Attendance rate is 100%.

Other mentionable items:

1. In the operation of the Board of Directors, should one of the below situations occur, the Board Meeting date, session, content of the resolution, opinions of all independent directors, and the Company's response to said opinions shall be properly recorded:

(1) Matters listed in Article 14-3 of the Securities and Exchange Act.: The Company has set up an Audit Committee, thus this does not apply.

(2) Other matters up for decision by the Board not listed in Article 14-3 of the Securities and Exchange Act but that were opposed by independent directors or about which said directors have reservations and their opinion has been recorded or submitted in a written statement: None.

2. Should a director recuse him or herself from a decision about which he or she has a conflict of interest, the name of the director, contents of the resolution, reasons for recusal, and the results of the vote should be noted:

Meeting Dates	Agenda content	Directors recused for conflicting interest	Reason for recusal	Participation in vote
May 8, 2019: 6th meeting of the 21st Board of Directors	Proposal on salary and remuneration of Chairman Hsieh, Su-Chien Proposal to release the non-competition restriction on Chairman Hsieh, Su-Chien	Chairman Hsieh, Su-Chien	Personal interest in this matter	Except for Chairman Hsieh, Su-Chien, who recused according to the law due to interests involved and did not participate in discussion or voting, the remaining 10 attending Directors approved the matter.
January 13, 2020: 9th meeting of the 21st Board of Directors	Chairman and Managers' 2020 Lunar New Year Incentive	Chairman Hsieh, Su-Chien	Personal interest in this matter	Except for Chairman Hsieh, Su-Chien, who recused according to the law due to interests involved and did not participate in discussion or voting, the remaining 10 attending Directors approved the matter.

3. Board of Director functional improvement goals for the last year and the current year (such as establishing an audit committee and improving information transparency) and implementation assessment:

(1) In order to strengthen management mechanisms and oversight, three functional committees, namely the Remuneration Committee, Audit Committee, and Risk Committee, were set up under the Board of Directors. Each is convened based on its charter, and the charters were approved by the Board. The committees meet to review and discuss relevant issues and report their conclusions and suggestions to the Board for resolution. The committees have been a success. The regulations governing functional committees passed by the Board specify the number of committee members, term of office, committee powers, rules of procedure, and resources to be provided by the Company when the committees exercise their powers.

- (2) In order to implement corporate governance and enhance the functions of the Board of Directors of the Company, and establish performance objectives to enhance the efficiency of the Board of Directors, the Company has formulated the "Regulations Governing the Board Performance Evaluation," which is implemented once at the end of each year. The evaluation method is divided into the performance evaluation of the entire Board of Directors, individual Board members, and the functional committees. The Company has conducted performance evaluation in 2019. The self-evaluation results by the entire Board of Directors, individual Board members, and the functional committees are all excellent.
- (3) The Company regularly arranges advanced courses for directors every year which cover corporate governance related topics, such as finance, risk management, sales, business, legal affairs, accounting, internal control system, financial reporting responsibility, corporate social responsibility, etc., and encourages members of the Board to continue to participate in courses related to corporate governance topics in their new or existing term of office in order to enable the members of the Board to have different professional functions, and to implement the diversification policy of directors.
- (4) For more information regarding China Airlines Corporate Governance, please refer to our website (<http://www.china-airlines.com>): Corporate Social Responsibility, "Stakeholders' Area" and "Investor Information".

4. Independent director attendance record for 2019 through April 25, 2020:

Name	Dates											
	01/21/2019	03/20/2019	04/02/2019	05/08/2019	06/25/2019	07/03/2019	08/07/2019	10/08/2019	11/07/2019	01/13/2020	03/18/2020	
Chung, Lo-Min	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	○	
Chang, Hsieh Gen-Sen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Shen, Hui-Ya	✓	✓	○	✓	✓	✓	✓	✓	✓	✓	✓	

Note: ✓ Indicates attendance in person. ○ indicates attendance by proxy. ✗ indicates the director did not attend.

Note 1: For directors that are juridical persons, the name of the juridical person shareholder and its representatives must be disclosed.

Note 2: (1) When a director resigns before the year's end, the remark column shall note the date of resignation and actual attendance rate (%) calculated based on the number of meetings held during the period prior to resignation and the director's actual number of meetings attended.

(2) If there is a change of directors prior to the end of the year, both the new and old directors shall be included in the table and the remark column shall note whether the director has been reelected or newly elected and the date of the (re)election. Actual attendance rate (%) is calculated based on the number of meetings held during the period of service and the director's actual number of meetings attended.

B. Evaluation of the Board of Directors

Evaluation cycle	Evaluation period	Scope of evaluation	Evaluation method	Evaluation content
(1) Engage in one internal evaluation per year. (2) An external evaluation shall be carried out every three years by an external professional independent organization or a team of experts and scholars.	January 1 to December 31, 2019	Covers the evaluation of the board as a whole, the individual directors, and functional committees	Evaluation by the business team of the Board of Directors, self-evaluation by the Board members, and performance evaluation by the functional committee members	(1) Board of Directors performance evaluation: 11 metrics in total, including 5 measurement items, i.e., the degree of participation in the Company's operations, the Board of Directors' decision-making quality, the composition and structure of the Board of Directors, the selection and continuing education of Directors, and internal control. (2) Individual Board members: 18 metrics in total, including 6 measurement items, i.e., mastery of Company's goals and tasks, recognition of Directors' responsibilities, participation in Company's operations, internal relationship management and communication, Director's expertise and continuing education, and internal control. (3) Evaluating Functional Committee Performance: 10 metrics in total, including 5 measurement items, i.e., the degree of participation in the Company's operations, functional committee responsibility awareness, decision-making quality of functional committee, composition and member selection of functional committee, and internal control.

3.3.2 Audit Committee

The Audit Committee convened night meetings from January 1, 2019, through April 25, 2020. Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director (Chairman)	Chang, Hsieh Gen-Sen	9	0	100%	None
Independent Director	Chung, Lo-Min	9	0	100%	None
Independent Director	Shen, Hui-Ya	9	0	100%	None

Other mentionable items:

1. Key functions of the Audit Committee:

The Committee consists of three Independent Directors. The key functions of the year is to assist the Board of Directors in supervising the Company on the fair presentation of the relevant financial statements, the appointment (dismissal) of a CPA and its independence and performance, the auditing of the Company's internal control system, the compliance with related laws, regulations and rules of the Company (such as: internal control system, acquisition or disposal of assets, derivative commodity transactions, loaning funds to others, providing endorsements or guarantees for others), and other matters included in its statutory functions (appointment and dismissal of financial supervisors or internal audit executive, mergers and acquisitions related matters).

2. In the operation of the Audit Committee, should one of the below situations occur, the Board Meeting date, session, content of the resolution, result of the Audit Committee resolution, and the Company's response to said opinions shall be properly recorded:

(1) Matters listed in Article 14-5 of the Securities and Exchange Act:

Meeting Dates	Agenda content	Results of the vote by the Board of Auditors and company's handling of the Board's opinion	Results of Board of Directors decision
January 21, 2019 3rd Extraordinary Meeting of the Audit Committee of the 21st Board of Directors	Listing Application Plan of Tigerair Taiwan	Passed to the Board of Directors upon unanimous approval by all members in attendance.	Approved by all attending Directors in the 4th meeting of the 21st Board of Directors on January 21, 2019.
March 20, 2019 3rd Meeting of the Audit Committee of the 21st Board of Directors	2018 Financial Report and Consolidated Financial Report 2018 Surplus Earnings Distribution 2019 CPA Appointment and Remuneration Revision of "Procedures for the Acquisition or Disposal of Assets" Revision of "Procedures Governing Derivatives Trading" 2018 Internal Control System Effectiveness Audit and Statement		Approved by all attending Directors in the 5th meeting of the 21st Board of Directors on March 20, 2019.
May 8, 2019 4th Meeting of the Audit Committee of the 21st Board of Directors	Amendment to the "Operational Procedures for Lending Funds to Others" and the "Operational Procedures for Endorsements/Guarantees" Disposal of 5 A330-300 aircraft through sale and leaseback transaction Evaluation and selection of new narrow body passenger aircraft and introduction of new aircraft		Approved by all attending Directors in the 6th meeting of the 21st Board of Directors on May 8, 2019.
June 25, 2019 4th Extraordinary Meeting of the Audit Committee of the 21st Board of Directors	777F new cargo aircraft introduction case Introduction of A321neo new narrow body passenger aircraft		Approved by all attending Directors in the 6th Extraordinary meeting of the 21st Board of Directors on June 25, 2019.
July 3, 2019 5th Extraordinary Meeting of the Audit Committee of the 21st Board of Directors	Plan to handle the matters relevant to releasing shares of Tigerair Taiwan		Approved by all attending Directors in the 7th Extraordinary meeting of the 21st Board of Directors on July 3, 2019.
August 7, 2019 5th Meeting of the Audit Committee of the 21st Board of Directors	Issuing NT \$3 billion in total face value of domestic unsecured convertible corporate bonds Carry out three 777F aircraft purchases to order		Approved by all attending Directors in the 7th meeting of the 21st Board of Directors on August 7, 2019.
October 8, 2019 6th Extraordinary Meeting of the Audit Committee of the 21st Board of Directors	Engine selection of A321neo new narrow body passenger aircraft		Approved by all attending Directors in the 8th Extraordinary meeting of the 21st Board of Directors on October 8, 2019.
November 7, 2019 6th Meeting of the Audit Committee of the 21st Board of Directors	2020 audit plan		Approved by all attending Directors in the 8th meeting of the 21st Board of Directors on November 7, 2019.
March 18, 2020 7th Meeting of the Audit Committee of the 21st Board of Directors	2019 Financial Report and Consolidated Financial Report 2019 Deficit Compensation 2020 CPA Appointment and Remuneration 2019 Internal Control System Effectiveness Audit and Statement		Approved by all attending Directors in the 10th meeting of the 21st Board of Directors on March 18, 2020.

- (2) Other matters up for decision by the Board not listed in Article 14-5 of the Securities and Exchange Act that were not passed by the Audit Committee but approved by a two-thirds majority of the entire Board: None.
3. In situations where independent directors recuse themselves due to conflict of interest, the independent director's name, content of the resolution, reason for recusal, and his or her voting participation should be properly recorded: None.
4. Communication between independent directors and internal audit managers and auditors (regarding issues such as Company financial and operational status, procedures, and results):
- (1) In addition to the independent directors of the Company receiving the audit report on a monthly basis, the audit officer submits the annual audit plan and the implementation of the semi-annual audit work to independent directors through the Audit Committee and the Board of Directors. The audit officer replies to the independent director's questions, provides necessary information, strengthens the audit work in accordance with his instructions, and ensures the effectiveness of internal controls. In addition, in non-routine communication, the audit value shall be continuously improved. In case of any major violation, the independent director shall be informed immediately.
- (2) Before the audit committee meeting held in each quarter, the certified public accountant and the independent directors shall convene a communication meeting to report to the independent director and explain the audit plan, implementation situation, or review results of the financial statements; the certified public accountant shall provide the financial statements and relevant necessary information to the audit committee and the Board of Directors in each quarter, and attend the meeting in a nonvoting capacity.
- (3) Directors shall contact the audit supervisor or accountants when needed for full communication.
- Communication between independent directors and accountants:

Means of communication	Communication matters		Communication results	
	Primary matter	Proposal by independent director	Results	Company's processing status
March 20, 2019 Audit Committee	Accountant to explain audit results of the 2017 financial report, and take questions from the attendees of the meeting for discussion.	To pay attention to the impact of rising oil prices on the operational aspect and the reasons for changes in operating expenses for two quarters; it was also recommended to adjust the expression of some financial statements according to the principle of consistency.	Approved by all attending Independent Directors.	1.The managerial department provided the explanation and response forthwith during the meeting. 2.Continued to submit for the Board of Directors' approval, and completed the 2018 financial report announcement and declaration on April 1, 2019.
May 8, 2019 Audit Committee	Before the meeting, the accountant shall separately report and explain the review situation to the independent director. At the meeting, the financial director of the Company shall explain the review results of the financial report in the first quarter of 2019 and the amendment of laws and regulations, and discuss and communicate the issues raised by the participants.	For the expression of the impact of the IFRS16 Leases bulletin on the balance sheet, it is suggested to describe in the notes.	Noted by all attending Independent Directors.	1. The managerial department has provided the explanation and response forthwith during the meeting. 2. Continued to report to the Board of Directors, and completed the Q1 2019 financial report was completed on May 15, 2019.
August 7, 2019 Audit Committee	Before the meeting, the accountant separately reported and explained the review situation to the independent director. At the meeting, the financial director of the Company explained the review results of the financial report in the second quarter of 2019 and the impact of the new bulletin on financial statements, and discussed and communicated the issues raised by the participants.	After discussing the implementation of the new IFRS16 Leases bulletin, discussed the increase in operating expenses in the first half of the year, and inquired about the reasons for the difference between financial results and budget in the first half of the year.	Approved by all attending Independent Directors.	1. The managerial department has provided the explanation and response forthwith during the meeting. 2. Continued to report to the Board of Directors, and completed the Q2 2019 financial report announcement and declaration on August 14, 2019.
November 7, 2019 Audit Committee	Before the meeting, the accountant separately reported and explained the review situation to the independent director. At the meeting, the financial director of the company explained the review results of the financial report for the third quarter of 2019, the amendment of laws and regulations and the 2019	Discussed the impact of falling revenue from cargo transport on the company's overall business operations and asked the managerial department to explain the reasons and benefits of the recent cargo aircraft procurement plan. Also the management authorities are	Noted by all attending Independent Directors.	1. The managerial department has replied in the meeting immediately. The purchase of cargo aircraft is a strategy for phasing-out of old with new aircraft, which can effectively save costs and improve the overall fleet efficiency. 2. Continued to report to the Board of Directors, and completed the Q3 2019 financial report announcement and declaration on November 14, 2019.

	financial report audit plan and key audit matters, and discussed and communicated the issues raised by the participants.	reminded to prepare countermeasures as soon as possible and adjust the operation mode of passenger and cargo transportation in time for the overall global economic situation, such as the China-US trade war.		
March 18, 2020 Audit Committee	Before the meeting, the accountant separately reported and explained the audit situation to the independent director. At the meeting, the financial director of the company explained the audit results of the financial report in 2019, and discussed and communicated the issues raised by the participants.	The impact of the COVID-19 pandemic on the Company's passenger revenue was addressed, and the adjustment to items of loss allocation were discussed.	Approved by all attending Independent Directors.	<ol style="list-style-type: none"> 1. The managerial department provided the explanation and response forthwith during the meeting. 2. Continued to submit for the Board of Directors' approval, and completed the 2019 financial report announcement and declaration on March 31, 2020.

• Communication between independent directors and internal audit supervisor:

Means of communication	Communication matters		Communication results	
	Primary matter	Proposal by independent director	Results	Company's processing status
January 21, 2019 Audit Committee	Internal audit business report for Q4 2018	To pay attention to whether there is a control mechanism for online sales.	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on January 21, 2019.
March 22, 2019 Audit Committee	2018 Internal Control System Effectiveness Audit and Statement	None	Approved by all attending members and reported to the Board of Directors.	Resolved by the Board of Directors on March 20, 2019, and the 2018 Statement of Internal Control was announced and declared on March 22, 2019 and disclosed in the 2018 annual report.
	Internal audit business report for January and February 2019	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on March 20, 2019.
May 8, 2019 Audit Committee	Internal audit business report for March 2019	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on May 8, 2019.
August 7, 2019 Audit Committee	Internal audit business report for Q2 2019	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on August 7, 2019.
November 7, 2019 Audit Committee	Internal audit business report for Q3 2019	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on November 7, 2019.
	2020 Audit plan	Sample the rationality of the passenger and freight pricing system.	<ol style="list-style-type: none"> 1. As for the items inquired by committee member Chung, the audit officer replied on-site: after being included in the annual audit and spot check items, the finance division also has a complete audit mechanism for the expression of accounting rights and responsibilities. 2. Approved by all attending members and reported to the Board of Directors for discussion. 	Resolved by the Board of Directors on November 7, 2019, and completed the announcement and declaration of 2020 internal audit plan on December 6.
March 18, 2020 Audit Committee	Internal audit business report for Q4 2019	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on March 18, 2020.
	2019 Internal Control System Effectiveness Audit and Statement	None	Approved by all attending members and reported to the Board of Directors.	Resolved by the Board of Directors on March 18, 2020, and the 2019 Statement of Internal Control System was announced and declared on March 23 and disclosed in the 2019 annual report.
	Amendment to 2020 Audit Plan	None	Approved by all attending members and reported to the Board of Directors.	Resolved by the Board of Directors on March 18, 2020, and completed the announcement and declaration of 2020 internal audit plan on March 24.

3.3.3 Risk Committee

The Risk Committee convened five meetings from January 1, 2019, through April 25, 2020. Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director (Chairman)	Chung, Lo-Min	5	0	100%	None
Independent Director	Chang, Hsieh Gen-Sen	5	0	100%	None
Independent Director	Shen, Hui-Ya	5	0	100%	None
Director	Lin, Su-Ming	4	1	80%	On November 7, 2019, Chung, Lo-Min was entrusted to attend as a proxy.
Director	Ting, Kwang-Hung	3	2	60%	On May 9, 2019, Lin, Su-Ming was entrusted to attend as a proxy; On November 7, 2019, Chang, Hsieh Gen-Sen was entrusted to attend as a proxy.

Other mentionable items:

1. Key functions of the Risk Committee:

The Committee assists the Board of Directors in reviewing the establishment, implementation results, and response measures of Company's management strategies for overall finance, economy, flight safety, and other risks, and submits its conclusions and recommendations to be resolved by the Board of Directors.

2. Professional competence of risk management committee members:

Independent director Shen, Hui-Ya has the professional ability of legal affairs; Independent directors Chang, Hsieh Gen-Sen, Chung, Lo-Min, and director Lin, Su-Ming all have the professional ability of financial accounting and practical practice and management experience; Director Ting, Kwang-Hung has the ability to perform business judgments, leadership and decision making, operation and management, crisis handling, and has outlook on international markets.

2. The operation of the Risk Committee:

Meeting Dates	Agenda content	Risk Committee resolution results and company action on Risk Committee opinions	Results of Board of Directors decision
March 20, 2019 3rd Meeting of the Risk Management Committee of the 21st Board of Directors	Safety management report 2019Q1-Q2 Operations risk management analysis Financial status report Operations outlook and financing, crude oil market analysis Financial risk hedging strategy Oil risk hedging strategy	Passed to the Board of Directors upon unanimous approval by all members in attendance.	Unanimously passed by all members of the Board of Directors in attendance.
May 9, 2019 4th Meeting of the Risk Management Committee of the 21st Board of Directors	Safety management report 2019Q2-Q3 Operations risk management analysis Financial status report Operations outlook and financing, crude oil market analysis Financial risk hedging strategy Oil risk hedging strategy		
August 8, 2019 5th Meeting of the Risk Management Committee of the 21st Board of Directors	Safety management report 2019Q3 Operations risk management analysis Financial status report Operations outlook and financing, crude oil market analysis Financial risk hedging strategy Oil risk hedging strategy		
November 7, 2019 6th Meeting of the Risk Management Committee of the 21st Board of Directors	Safety management report 2019Q4 Operations risk management analysis Financial status report Operations outlook and financing, crude oil market analysis Financial risk hedging strategy Oil risk hedging strategy		
March 18, 2020 7th Meeting of the Risk Management Committee of the 21st Board of Directors	Safety management report 2020Q1 Operations risk management analysis Financial status report Operations outlook and financing, crude oil market analysis Financial risk hedging strategy Oil risk hedging strategy		

3.3.4 Corporate Governance Implementation Status and Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies

Evaluation Item	Status of Implementation			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons
	Yes	No	Brief Explanation	
1. Did the Company establish its Corporate Governance Best-Practice Principles in accordance with Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and disclose those Principles?	✓		The Corporate Governance Principles of the Company has been established in compliance with the Corporate Governance Best-Practice Principles for TSEC/TPEX Listed Companies; its amendment has been approved in the 6th meeting of the 21st Board of Directors on May 8, 2019 and disclosed under the "Important Company Regulations" on the Company's website.	No Difference
2. Company ownership structure and shareholder rights (1) Did the Company establish internal operational procedures for dealing with shareholder suggestions, questions, disputes, and lawsuits and put these procedures into practice?	✓		(1) The Company's website has a portal for shareholder services and a "Method for Handling Investor Relations" has been set so that investor suggestions and concerns are dealt with by shareholder service personnel and shareholder service agents using relevant procedures. This ensures a smooth channel of communication between the Company and its shareholders and the quality of disclosed information.	No Difference
(2) Does China Airlines keep maintain a list of the major Company shareholders and the ultimate owners of these shareholders?	✓		(2) The China Aviation Development Foundation is China Airlines' largest shareholder and maintains full communication and contact with the Company.	No Difference
(3) Did China Airlines establish and implement risk control mechanisms and firewalls at the Company and affiliated enterprises?	✓		(3) The Company has established Operational Procedures for Endorsements/Guarantees, Operational Procedures for Lending Funds to Others, and Regulations Governing Management of Invested Enterprises. All capital loans and funding, endorsements/guarantees, and operational supervision and management of Company subsidiaries shall proceed in accordance with these procedures and regulations. Audit units perform quarterly audits of Company endorsements/guarantees and capital loans/funding, which are provided to management and independent directors. The Finance Div. is responsible for overseeing implementation at invested enterprises and should any faults be discovered, an improvement deadline is set and the progress is tracked.	No Difference
(4) Did the Company establish internal standards to prevent insider trading on undisclosed information?	✓		(4) The Company established the Directors Code of Conduct, Procedures for Handling Material Inside Information, and High-Level Manager Code of Conduct to specify insider trading prevention and processing of secret stock trading and operating information as required of employees by law. Those with undisclosed material inside information are prohibited from engaging in securities trading.	No Difference
3. Structure and responsibilities of the Board of Directors (1) Has the Company established policies calling for diversity among members of the	✓		(1) China Airlines advocates and respects the director diversity policy, and is convinced that diversity can improve the overall performance of the Company. Members of the Board of Directors shall be based on personal capability and the diversification from different aspects shall also be taken into consideration, including basic characteristics (e.g., age, gender and nationality, etc.), experience and skills (e.g., aviation, sea freight, transportation, finance and accounting, law and insurance, electricity, technology, and public utilities, etc.), operation and management, leadership and decision-making, and crisis management ability. In order to strengthen the Board's functions to achieve the ideal goals of corporate governance, the Company has established the Corporate Governance Principles, Article 20 of which specifies the overall abilities the Board of Directors shall be equipped with, which are as follows: A. The ability to make operational judgment.	No Difference

Evaluation Item	Status of Implementation			Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons																																																																																																																																																																																																																																																										
	Yes	No	Brief Explanation																																																																																																																																																																																																																																																											
Board of Directors and put said policies into practice?			<p>B. The ability to perform accounting and financial analysis. C. The ability to conduct management administration. D. The ability to conduct crisis management. E. Industrial knowledge. F. Perspective of the international market. G. The ability to lead. H. The ability to make decisions.</p> <p>The diversification policies of the current executives of the Company and its progress are as follows: APR 25, 2020</p> <table border="1"> <thead> <tr> <th rowspan="3">Diversified Core Name</th> <th colspan="5">Basic composition</th> <th colspan="7">Industrial experience</th> <th colspan="2">Professional competence</th> </tr> <tr> <th rowspan="2">Nationality</th> <th rowspan="2">Gender</th> <th rowspan="2">Has employee status</th> <th colspan="3">Age</th> <th rowspan="2">Length of office of independent director</th> <th rowspan="2">Airlines</th> <th rowspan="2">Transport</th> <th rowspan="2">Professional services and marketing</th> <th rowspan="2">Financial and finance</th> <th rowspan="2">Construction and engineering</th> <th rowspan="2">Banking, insurance and real estate</th> <th rowspan="2">Business and supply</th> <th rowspan="2">Information and technology</th> <th rowspan="2">Metal and machinery</th> <th>Risk management</th> <th>Accounting</th> <th>Law</th> </tr> <tr> <th>40-50</th> <th>51-60</th> <th>61-70</th> <th>Less than 3 years</th> <th>Six to nine years</th> <th>✓</th> <th>○</th> <th>○</th> </tr> </thead> <tbody> <tr> <td>Hsieh, Su-Chen</td> <td>R.O.C</td> <td>Male</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>✓</td> <td>✓</td> <td>○</td> <td>-</td> <td>-</td> <td>✓</td> <td>○</td> <td>-</td> <td>✓</td> <td>○</td> <td>-</td> </tr> <tr> <td>Chen, Charles C.Y.</td> <td>R.O.C</td> <td>Male</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>✓</td> <td>○</td> <td>-</td> <td>✓</td> <td>✓</td> <td>○</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> </tr> <tr> <td>Ting, Kwang-Hung</td> <td>R.O.C</td> <td>Male</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>-</td> <td>-</td> <td>○</td> <td>✓</td> <td>-</td> </tr> <tr> <td>Chen, Han-Ming</td> <td>R.O.C</td> <td>Male</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>✓</td> <td>○</td> <td>✓</td> <td>✓</td> <td>✓</td> <td>-</td> <td>✓</td> <td>✓</td> <td>-</td> <td>-</td> </tr> <tr> <td>Ko, Sun-Ta</td> <td>R.O.C</td> <td>Male</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>○</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> </tr> <tr> <td>Wei, Yung-Yeh</td> <td>R.O.C</td> <td>Male</td> <td>✓</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>○</td> <td>-</td> <td>-</td> </tr> <tr> <td>Lin, Su-Ming</td> <td>R.O.C</td> <td>Male</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>○</td> <td>-</td> <td>-</td> <td>-</td> <td>○</td> <td>✓</td> <td>-</td> </tr> <tr> <td>Wang, Shih-Szu</td> <td>R.O.C</td> <td>Female</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>○</td> <td>-</td> <td>✓</td> </tr> <tr> <td>Chung, Lo-Min</td> <td>R.O.C</td> <td>Male</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>○</td> <td>✓</td> <td>-</td> <td>○</td> <td>○</td> <td>○</td> <td>✓</td> <td>-</td> <td>-</td> </tr> <tr> <td>Chang, Hsieh Gen-Sen</td> <td>R.O.C</td> <td>Female</td> <td>-</td> <td>-</td> <td>✓</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>○</td> <td>✓</td> <td>-</td> </tr> <tr> <td>Shen, Hui-Ya</td> <td>R.O.C</td> <td>Female</td> <td>-</td> <td>✓</td> <td>-</td> <td>✓</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>✓</td> <td>-</td> <td>○</td> </tr> </tbody> </table>	Diversified Core Name	Basic composition					Industrial experience							Professional competence		Nationality	Gender	Has employee status	Age			Length of office of independent director	Airlines	Transport	Professional services and marketing	Financial and finance	Construction and engineering	Banking, insurance and real estate	Business and supply	Information and technology	Metal and machinery	Risk management	Accounting	Law	40-50	51-60	61-70	Less than 3 years	Six to nine years	✓	○	○	Hsieh, Su-Chen	R.O.C	Male	-	-	✓	-	-	✓	✓	○	-	-	✓	○	-	✓	○	-	Chen, Charles C.Y.	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			<p>a. Considering that the 11 directors (including 3 independent directors) of the 21st Board of Directors of the Company have business judgment, leadership decision-making, operation and management, international market outlook, crisis management, and other capabilities, as well as industrial experience, and professional ability; Among which, those with experience in transportation and tourism industry are Chairman Hsieh, Su-Chien, director Chen, Charles C.Y., director Ko, Sun-ta, and Director Wei, Yung-Yeh; Those who are good at marketing are Chairman Hsieh, Su-Chien, director Charles C.Y. Chen, director Ting, Kwang-Hung, director Chen, Han-Ming and director Ko, Sun-ta; Director Chen, Charles C.Y., who has made significant contributions to public welfare; Independent director Shen, Hui-Ya, who is competent in legal affairs; Director Wang, Shih-Szu, current politician (vice mayor of Tainan City); Independent director Chang, Hsieh Gen-Sen, independent director Chung, Lo-Min, director Lin, Su-Ming and director Ting, Kwang-Hung have the professional ability of accountant or finance and have practical practice, management, or teaching experience.</p> <p>b. The average term of office of the company's directors is 6 years, among which two independent directors Chang, Hsieh Gen-Sen and Shen, Hui-Ya have tenure of less than 3 years; The term of office of independent director Chung, Lo-Min is 8 years, and the consecutive term of office of all independent directors does not exceed 3 terms.</p> <p>The directors are all local citizens, and three independent directors constitute 27% of the board; there is one director who is also an employee (9%). The age distribution range of directors includes 2 directors aged 40-50, 5 directors aged 51-60, and 4 directors aged 61-70.</p> <p>In addition to the above, the Company also pays attention to gender equality in the composition of the Board. The current board of directors consists of three female members (two of which are independent directors), and the proportion of female directors is high, at 27%. In the future, the Company will remain committed to improving the proportion of female directors.</p> <p>c. The diversity, complementarity, and implementation of directors comply with and exceed the standards specified in Article 20 of the Corporate Governance Principles of China Airlines; In the future, the board of directors will continue to update its diversified policies according to board operations, operation style, and development needs, including but not limited to the standards of basic conditions and values, professional knowledge and skills, so as to ensure that board members generally have the necessary knowledge, skills, and literacy to perform their duties.</p>																															
(2) In addition to the establishment of the Remuneration Committee and Audit Committee as required by law, did the Company establish committees with other functions of its own accord?	✓		(2) In addition to setting up the Audit Committee and the Remuneration Committee according to law, in order to improve the risk management of the Company, the Company has voluntarily set up a Risk Management Committee, with five directors (including three Independent Directors) as members. Meetings are held on a quarterly basis according to the organization regulations approved by the Board of Directors. The Committee answers to the Board of Directors and assists the Board of Directors in reviewing the establishment, implementation results, and response measures of Company's management strategies for overall finance, economy, flight safety, and other risks, and submits its conclusions and recommendations to be resolved by the Board of Directors. Good operational effectiveness has been achieved.	No Difference																														
(3) Has the Company established performance evaluation guidelines and evaluation methods for the Board of Directors and does it evaluate its performance regularly each year, and, furthermore, does it report the evaluation results to the Board of Directors and use them as references for deciding on the remuneration of individual directors and nomination for continuing terms as directors?	✓		(3) The Company approved the "Regulations Governing the Board Performance Evaluation" in the 8th meeting of the 21st Board of Directors on November 7, 2019. The internal evaluation of Board performance shall be performed at the end of each year. The evaluation is divided into the performance evaluation of the entire Board of Directors, the individual Board members, and the functional committees. The evaluation shall be completed by the end of January of the following year, and the results of which shall be submitted by the Human Resources Department to be reported in the Board meeting held by the end of March and referred to in deciding directors' remuneration and nomination for renewal. <p>In December 2019, the Company completed the 2019 Board Performance Evaluation in accordance with the above regulations; which has been reported at the 10th meeting of the 21st Board of Directors on March 18, 2020 and disclosed on the Company's official website. The self-evaluation results are as follows:</p> <p>A. Entire Board of Directors</p> <p>a. Evaluation items: 10 items in total, including 5 major aspects, i.e., the degree of participation in the Company's operations, the improvement of Board of Directors' decision-making quality, the composition and structure of the Board of Directors, the continuing education of Directors, and internal control.</p> <p>b. Results of self-evaluation: Above standards.</p> <p>B. Individual Board members</p> <p>a. Evaluation items: 18 items in total, including 6 major aspects, i.e., mastery of Company's goals and tasks, recognition of Directors' responsibilities, participation in Company's operations, internal relationship management and communication, Director's expertise and continuing education, and internal control.</p> <p>b. Results of self-evaluation: Above standards.</p> <p>C. Functional Committees</p> <p>a. Evaluation items: 10 items in total, including the degree of participation in the Company's operations, functional committee responsibility awareness, improvement to functional committees' decision-making quality, composition and member selection of functional committee, and internal control.</p> <p>b. Results of self-evaluation: Above standards.</p> <p>In addition, the implementation of the performance evaluation of the Board of Directors of the Company will be performed by an external professional independent institution or a team of external experts and scholars every three years.</p>	No Difference																														
(4) Does the Company periodically assess the independence of external CPAs?	✓		<p>(4) The Audit Committee and the Board of Directors of the Company regularly assess the independence and competence of the accountants each year in accordance with the Company's Corporate Governance Principles, completing the "Accountant Independence Evaluation Form," and acquiring the "Accountant Independence Declaration." The evaluation results are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Item Assessed</th> <th colspan="2">Assessment Results</th> <th rowspan="2">Conforms to independence</th> </tr> <tr> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>1. Issued an accountant independence declaration.</td> <td>✓</td> <td></td> <td>Yes</td> </tr> <tr> <td>2. Has not gone seven continuous years without changing accountants.</td> <td>✓</td> <td></td> <td>Yes</td> </tr> <tr> <td>3. Not served as Company director or manager.</td> <td>✓</td> <td></td> <td>Yes</td> </tr> <tr> <td>4. Not a shareholder in the Company and has never been on the payroll.</td> <td>✓</td> <td></td> <td>Yes</td> </tr> <tr> <td>5. The accounting firm for which they work is not a Company affiliated enterprise.</td> <td>✓</td> <td></td> <td>Yes</td> </tr> <tr> <td>6. Has not provided any non-auditing services to the Company that could affect complete independence.</td> <td>✓</td> <td></td> <td>Yes</td> </tr> </tbody> </table> <p>After assessment by the Company, accountants Huang, Jui-Chan and Cheng, Shih-Ran of Deloitte & Touche both conform to the above assessment standards for independence, and are suitable to act as CPAs for this company. After the 7th meeting of the 21st Audit Committee on March 18, 2020, a report will be made to the 10th meeting of the 21st Board of Directors on the appointment of accountants.</p>	Item Assessed	Assessment Results		Conforms to independence	Yes	No	1. Issued an accountant independence declaration.	✓		Yes	2. Has not gone seven continuous years without changing accountants.	✓		Yes	3. Not served as Company director or manager.	✓		Yes	4. Not a shareholder in the Company and has never been on the payroll.	✓		Yes	5. The accounting firm for which they work is not a Company affiliated enterprise.	✓		Yes	6. Has not provided any non-auditing services to the Company that could affect complete independence.	✓		Yes	No Difference
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4. Does the TWSE/TPEx listed company have in place an appropriate number of qualified corporate governance officers, and a designated chief corporate governance manager to be responsible for corporate governance related matters (including but not limited to providing directors and supervisors with the information required to conduct business, assisting directors and supervisors in legal compliance, handling matters related to board meetings and shareholders' meetings in accordance with the law, and producing minutes of the board and shareholders' meetings)?	✓		<p>(1)The Company approved the establishment of the Chief Corporate Governance Officer in the 6th meeting of the 21st Board of Directors on May 8, 2019, which is served by the Vice President Chien, Feng-Nien, who has the professional qualifications and conducts legal related affairs as head of department for more than three years. The Chief Corporate Governance Officer's main duties include handling relevant meeting affairs of the Board of Directors and Shareholders Meetings in accordance with the law, producing meeting minutes of the Board meetings and Shareholders' Meetings, assisting Directors in assuming their positions and continuing education, providing Directors with information required to perform their duties, assisting Directors in complying with the laws and regulations, and other matters provided in laws, regulations, the Company's Articles of Incorporation, or contracts.</p> <p>(2)The Chief Corporate Governance Officer supervises the relevant units carrying out corporate governance matters:</p> <p>A. The Chief Corporate Governance Officer concentrates on the following matters which are handled by the personnel of the Board of Directors Business Task Force when conducting matters related to the Board of Directors and Committees (including the production meeting minutes), assisting Directors in assuming their positions, legal compliance and continuing education, and providing Directors with the information required to conduct business:</p> <p>a. Notifying respective members of meetings 7 days prior to the convening of meetings of Board of Directors and Committees, with cause(s) or subject(s) of the meeting and sufficient meeting materials attached; having the minutes of each meeting signed or sealed by the Chairman and recorder of each meeting, and be distributed to the members of the meeting within 20 days after the meeting.</p> <p>b. Providing new Director training to first-time Directors, introducing the Company's business, organization and other matters needing attention, and providing newly-elected Directors with regulatory guidance manuals regarding insiders and directors to assist Directors in taking office and legal compliance; also, assisting Directors in completing annual training courses in accordance with the Company's business characteristics and Directors' requirements.</p> <p>c. Providing necessary Company information for the Directors, maintaining smooth communication and exchange between the Directors and supervisors, and assisting in arranging communication meetings between Independent Directors and chief audit executive, CPAs, or other internal units to facilitate conducting of business by Independent Directors.</p> <p>d. Amending internal regulations related to corporate governance in cooperation with the latest laws and regulations relevant to the Company's field of business and corporate governance, and submitting the amendments to be resolved by the Board of Directors.</p> <p>B. As for the Company's registration and change of registration, the Administration Division shall be responsible for completing the relevant registration with the competent authority within the time limit for matters required to be registered or changes to registered matters of the Company.</p> <p>C. In addition, the Finance Division shall be responsible for the handling of matters related to the shareholders' meetings (the planning and convening of the shareholders' meetings, the production of meeting minutes and other stock affairs related business). It shall provide sufficient information to the shareholders to ensure that the shareholders' rights and interests are well protected.</p> <p>(3)From January 1, 2019 through April 25, 2020, the Chief Corporate Governance Officer has attended the following courses:</p> <table border="1"> <thead> <tr> <th>Sponsoring Organization</th> <th>Course</th> <th>Date(s)</th> <th>Training hours</th> </tr> </thead> <tbody> <tr> <td>Taiwan Corporate Governance Association</td> <td>How will Taiwanese companies respond to and manage the huge risks caused by the China-US trade war</td> <td>2019/08/07</td> <td>3hr</td> </tr> <tr> <td>Taiwan Corporate Governance Association</td> <td>Discussion on the responsibilities of directors and supervisors and corporate governance practices</td> <td>2019/10/16</td> <td>3hr</td> </tr> <tr> <td>Taiwan Stock Exchange Inc.</td> <td>Promotional session for effective exercising of directors' functions</td> <td>2019/11/06</td> <td>3hr</td> </tr> <tr> <td>Taiwan Corporate Governance Association</td> <td>Corporate Governance Forum - strengthen corporate governance ecology and implement independent director system</td> <td>2019/11/27</td> <td>6hr</td> </tr> </tbody> </table>	Sponsoring Organization	Course	Date(s)	Training hours	Taiwan Corporate Governance Association	How will Taiwanese companies respond to and manage the huge risks caused by the China-US trade war	2019/08/07	3hr	Taiwan Corporate Governance Association	Discussion on the responsibilities of directors and supervisors and corporate governance practices	2019/10/16	3hr	Taiwan Stock Exchange Inc.	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Taiwan Corporate Governance Association	Corporate Governance Forum - strengthen corporate governance ecology and implement independent director system	2019/11/27	6hr																					
5. Has the Company established communication channels with stakeholders (including but not limited to shareholders, employees, customers, and suppliers) and set up an area dedicated to stakeholders on the Company website? Does the Company respond appropriately to corporate social responsibility issues that stakeholders consider important?	✓		<p>The Company identifies stakeholders in accordance with the five principles of the AA1000 Stakeholder Engagement Standard (SES). In order to fully and effectively communicate with stakeholders, a spokesperson and "Stakeholders Section" have been established on the Company's official website to provide contact information of the units associated with various issues, so as to facilitate stakeholders' contact with corresponding personnel based on different issues (including contact personnel, e-mails, and telephone numbers); also, the webpage for communication with stakeholders has been disclosed on the corporate social responsibility website, explaining stakeholders' issues of concern, communication channels, response frequency and communication results. The communication situation with various stakeholders is also reported to the Board of Directors each year. The implementation results from 2019 have been reported at the 9th meeting of the 21st Board of Directors on January 13, 2020.</p> <p>Relevant content and frequency of the actual implementation show proper responses to various issues that include corporate social responsibility. See below for details:</p> <p>(1)Company website - stakeholders section: https://www.china-airlines.com/tw/en/about-us/stakeholder</p> <p>(2)Company Corporate Social Responsibility (CSR) website - stakeholder engagement: http://calec.china-airlines.com/csr/en/management_interested.html</p> <p>(3)Explanatory table:</p> <table border="1"> <thead> <tr> <th>Item Category</th> <th>Focus of Communication</th> <th>Contact Person</th> <th>Channel of Communication</th> <th>Frequency</th> <th>Result of Communication</th> </tr> </thead> <tbody> <tr> <td rowspan="4">Employees</td> <td rowspan="4"> <ul style="list-style-type: none"> Labor/management relations and engagement Governance and business integrity </td> <td rowspan="4">Human Resource Div. Miss Chi Tel: +886(0)-3-3998917</td> <td>Labor-Management Conference</td> <td>Monthly</td> <td rowspan="4">Employee satisfaction surveys are conducted every two years; the score in 2019 was 6.4 (Note: highest score is 10)</td> </tr> <tr> <td>Union</td> <td>Real time</td> </tr> <tr> <td>Employee concerns mailbox (Wecare listens mailbox, Speak Out employee communication mailbox, Team+ real-time information platform)</td> <td>Real time</td> </tr> <tr> <td>Website for retired employees and those who have left employment</td> <td>Real time</td> </tr> </tbody> </table>	Item Category	Focus of Communication	Contact Person	Channel of Communication	Frequency	Result of Communication	Employees	<ul style="list-style-type: none"> Labor/management relations and engagement Governance and business integrity 	Human Resource Div. Miss Chi Tel: +886(0)-3-3998917	Labor-Management Conference	Monthly	Employee satisfaction surveys are conducted every two years; the score in 2019 was 6.4 (Note: highest score is 10)	Union	Real time	Employee concerns mailbox (Wecare listens mailbox, Speak Out employee communication mailbox, Team+ real-time information platform)	Real time	Website for retired employees and those who have left employment	Real time	No Difference		
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Evaluation Item	Status of Implementation		Brief Explanation				Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons	
	Yes	No	Item Category	Focus of Communication	Contact Person	Channel of Communication		Frequency
			Customers	<ul style="list-style-type: none"> Flight safety management Passenger services management Privacy and information security 	Passenger Service Passenger dedicated phone line: +886(0)-2-412-9000 Cargo Service Mr. Lin Tel: +886(0)-3-3998262 Aircraft Maintenance Mr. Chou Tel: +886(0)-3-3987215	Customer satisfaction surveys Global business meetings Taiwan district business meetings Discussions with travel agencies Company website, industry social responsibility network, Facebook, e-mail, and message Customer-service hotline Corporate customer visits	Real time Annually Annually Quarterly Real time Real time Occasional	2019: 1. Passenger satisfaction rate was 87.70% 2. Cargo satisfaction rate was 88.6% 3. Maintenance factory satisfaction score was 8.76 (Note: highest score is 10)
			Investors	<ul style="list-style-type: none"> Financial performance Risk and crisis management 	Finance Div. Mr. Yang Tel: +886(0)-3-3998331 Finance Div. Mr. Lin Tel: +886(0)-3-3998361	Shareholders meeting Shareholder hotline/mailbox Corporate customer hotline Corporate customer hotline Corporate information meeting	Annually Real time Real time Annually Occasional	Continues to announce and respond with operation-related results according to laws, regulations, and investors' demand
			Partners (Suppliers)	<ul style="list-style-type: none"> Financial performance Governance and business integrity 	General Products Administration Div. Miss Xiao Tel: +886(0)-3-3999143 Aircraft Parts Engineering Div. Mr. Tsai Tel: +886(0)-3-3834251 Ext.7507 e-Shopping / Duty Free In-Flight Service Supply Chain & Marketing Div. Miss Tseng Tel: +886(0)-3-3993913	Telephone, e-mail Consultative conferences Business visits Site inspections	Occasional Occasional Occasional At least once every 6 months	A general supplier meeting was held at the end of 2019
			Society	<ul style="list-style-type: none"> Governance and business integrity Flight safety management Brand management 	Corporate Development Office Mr. Zhong Tel: +886(0)-3-3998530 Corporate Communications Office Mr. Lee Tel: +886(0)-3-3998639	Hold activities for the public good, participate in activities in society Press releases and messages Network mailbox	Occasional Monthly Occasional Occasional Daily	A total of 157,701 individuals benefited in 2019
6. Has the Company appointed a professional shareholder services agent to handle shareholders meeting matters?	✓		The Company's professional services organization is CTBC Bank, which has been appointed to handle shareholder meeting matters.				No Difference	
7. Information disclosure (1)Has the Company established a public website to disclose financial, operational, and corporate governance information?	✓		(1)Dedicated units within the Company provide information to be disclosed on the China Airlines corporate website (http://www.china-airlines.com) regarding marketing, operations, finance, administration, aircraft operations, human resources, training, shareholders' meetings, and the annual report, prospectus, and any material information. Through this easily available information, consumers, suppliers, and investors can better understand China Airlines operations.				No Difference	

Evaluation Item	Status of Implementation		Brief Explanation	Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No		
(2)Has the Company adopted other methods of information disclosure (e.g., setting up an English website, designating a specialist responsible for gathering and disclosing Company information, setting up a spokesperson system, uploading recordings of investor conferences onto the Company website)?	✓		(2)The Company has set up an English language website, the China Airlines Corporate Website (https://www.china-airlines.com/tw/en), with the Office of Public Relations as the spokesperson who is responsible for gathering and disclosing company information on a monthly basis and for announcing corporate information to the outside world, including press releases, new interviews, and press conferences.	No Difference
(3)Does the Company publicly announce and register the annual financial report within two months after the end of the fiscal year, and publicly announce and register the first, second, and third quarter financial reports and the monthly operating status earlier than the prescribed time limit?	✓		(3)The financial statement announcements of the first, second, third quarter and annual financial reports of the Company in 2019 have all been handled several days earlier than the prescribed registration time limit; the monthly operating status has also been registered within the time limit specified by the regulations.	No Difference
8. Does China Airlines have other important information to facilitate better understanding of the Company's corporate governance practices (including, but not limited to employee rights, employee care, investor relations, supplier relations, stakeholder rights, director and supervisor training regimes, risk management policies, and risk measurement standards as well as the implementation of client policies and the Company's purchase of liability insurance for its directors and supervisors)?	✓		<p>(1)Employee rights: In addition to obeying the Labor Standards Act, in 2002 the Company signed a collective agreement that remains in force today. Salaries and remuneration, benefits and insurance are adjusted annually based on the remuneration policy and revenue, and there are also procedures for merit pay and higher pay for promotions to select and promote outstanding employees.</p> <p>(2)Employee care: Primarily in three areas:</p> <p>A. Information:</p> <p>a. China Airlines has set up a China Airlines electronic bulletin board on the Company's internal information webpage to announce welfare information of the Company (such as childcare measures, various welfare subsidies, complimentary/discounted tickets and employee stock ownership trust). We have also set up a retirement/resignation section to thoroughly explain various procedures for handling retirement/resignation. In addition, a mailbox for all employees and the Team+ real-time messaging platform have been established to inform employees of important messages.</p> <p>b. We care listens mailbox, Speak Out employee communication mailbox, Team+ real-time messaging platform, etc. have been established to provide employees with two-way channels to fully express personal opinions and demands.</p> <p>B. Organizational:</p> <p>Based on the scale and dependencies of each unit in the Company, employee relations departments or dedicated personnel have been established to be responsible for good communication channels and overall management of relations, assisting in publicizing various beneficial policies of the Company and eliminating misunderstandings by improving internal employee satisfaction, cohesiveness, feeling of identification with the Company, and work achievements at appropriate times.</p> <p>C. Systematic:</p> <p>Periodically hold labor-management conferences and supervisor-employee communication meetings and have employee benefits committee members participate in meetings with various types of unions and employee representatives to tell employees about related governance actions at appropriate moments; each resolution gives full respect to employee opinions and interests.</p> <p>(3)Investor relations:</p> <p>The Company has established Rules for Handling Investor Relations by which it handles all investor concerns or opinions. A total of 6 were handled in 2019, and the company will continue to announce and respond with operation-related results according to laws, regulations, and investors' demand.</p> <p>(4)Supplier relations:</p> <p>In accordance with the Company's Regulations Governing the Procurement and Inspection of General Items, except for patents and emergency procurement, all procurement shall be processed through open tendering and the tender announcement shall be disclosed on the Company's website to establish a transparent, open, fair, and competitive trading environment. At the same time, the Company requires suppliers to issue a "Tenderer Declaration" before bidding, which regulates that suppliers must comply with the integrity and ethical requirements including the principle of conflict of interest avoidance, anti-bribery regulations, and supplier integrity, as well as requiring suppliers to abide by relevant local laws and regulations.</p> <p>(5)Stakeholder interests:</p>	No Difference

Evaluation Item	Status of Implementation		Brief Explanation	Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons
	Yes	No		
			<p>The Company website has a "Stakeholder Contact" and other diverse communications channels and platforms to appropriately and effectively address all manner of stakeholder complaints and wishes.</p> <p>(6)Continuing education for directors and supervisors: see P.66 for details.</p> <p>(7)Status of implementation for risk management policy and risk balance standards: The Company's operations are enormously impacted by both the domestic and international environment. So as to further improve the risk management system mechanism and reduce the effect created by interplay among risks, the Company has established a Risk Committee answering directly to the Board of Directors. The committee meets once per quarter and issues periodic reports to the Board of Directors, assisting the Board in oversight of the setting, and results and adaptive measures related to company risk management strategies. See P.40 for operation details.</p> <p>Moreover, to establish a solid internal governance system, the Company has additionally set up the China Airlines Procedures for Handling Important Internal Information, Ethical Code of Conduct for Directors, Ethical Code of Conduct for Senior Supervisors and Rules for Employee Conduct in the Course of Work.</p> <p>(8)Implementation of customer policies: The Company takes the initiative to send service satisfaction questionnaires to members' mailboxes (non-members can also fill out the questionnaire on the official website) to obtain passenger experience satisfaction with the Company's passenger flights and their suggestions;A total of 314,754 effective customer satisfaction questionnaires were completed in 2019, with a satisfaction rate of 87.70%. After compiling and analyzing statistics, the above data have been reviewed and the products and services will be improved, where necessary, to comprehensively enhance customer satisfaction.</p> <p>(9)Company purchase of liability insurance for directors and supervisors: The Company purchased liability insurance for all Directors in both 2019 and 2020 to reduce and diversify the Directors' legal liability risks. Important contents, such as Directors' liability insurance insured amount, coverage and premium rate, have been reported in the 5th meeting of the 21st Board of Directors on March 20, 2019, and the 10th meeting of the 21st Board of Directors on March 18, 2020, respectively.</p>	
<p>9. Please explain improvements that have been made in response to the results of the Corporate Governance Evaluation issued by the Taiwan Stock Exchange Corporate Governance Center:</p> <p>(1)The Company's annual report and website have fully disclosed the specific management goals, current achievements, and other information of the Board members' diversification policy, providing detailed descriptions of the diversification policy and implementation situation; it has also been disclosed that the selection of Board members is based on their abilities while also considering diversity, including basic components (for example: age, gender and nationality, etc.), experience and skills (for example: aviation, sea freight, transportation, finance and accounting, law and insurance, electricity, technology, and public utilities, etc.), as well as business judgment, business management, leadership and decision-making, and crisis management capabilities-sufficient to fully demonstrate that the existing Directors have a high degree of cross-industry, diversified, and complementary capabilities.</p> <p>(2)The Company has set up a Chief Corporate Governance Manager to be responsible for corporate governance related matters, and has explained in the Company's annual report its functions and powers, and the operation and execution situation of its key businesses.</p> <p>(3)The Company has, by the resolution of the Board of Directors in January 2019, approved the "Regulations Governing the Board Performance Evaluation," and completed the 2018 and 2019 performance self-evaluation of the Board of Directors. The evaluation results have been published in the annual report and on the website of the Company;in addition, on the Company's website and the corporate social responsibility website, the communication situation between the Independent Directors and the chief audit executive and accountants; the operation status of functional committees other than those required by laws; the implementation status of ethical corporate management; and the information relevant to stakeholder communication, etc., have also been disclosed.</p>				

3.3.5 Composition, Responsibilities, and Operations of the Remuneration

Committee

The objective of the Remuneration Committee is to assist the Board in implementing and assessing the Company's overall compensation and benefits policy and director and manager remuneration.

A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title (Note 1)	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks	
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10			
Independent Director (Chairman)	Shen, Hui-Ya	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
Independent Director	Chang, Hsieh Gen-Sen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
Other	He, Jyun-Huei	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-

Note 1: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during their term(s) in office.

- Not an employee of the Company or any of its affiliates.
- Not a director or supervisor of the Company or its affiliated enterprise (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary or a subsidiary of the same parent).
- Does not hold more than 1% of the Company's outstanding shares in their own names or under the name of spouse, underage children, or proxy shareholder; nor is a top-10 natural-person shareholder of the Company.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the manager listed in (1) or the personnel listed in (2) and (3).
- Not a director, supervisor or employee of a corporate shareholder who directly hold more than 5% of the total issued shares of the company, is within the top five shareholders, or appointed a representative to be a director or supervisor of the company in accordance with Article 27, Paragraph 1 or 2 of the Company Act (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary or a subsidiary of the same parent).
- Not a director, supervisor or employee of another company controlled by the same person who hold more than half of the Company's director seats or voting shares (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company or its parent company, its subsidiary or a subsidiary of the same parent).
- Not a director, supervisor or employee of another company or institution with the same person or spouse as the chairman, general manager or equivalent of the Company (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary or a subsidiary of the same parent).
- Not a director, supervisor, manager or shareholder holding more than 5% of shares of a specific company or institution that has financial or business dealings with the Company (except for independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the Company and its parent company, its subsidiary or a subsidiary of the same parent and if the specific company or institution holds more than 20% but less than 50% of the total issued shares of the Company).
- Not a professional who provides auditing related services to the Company or its affiliates and did not provide commercial, legal, financial or accounting related services to the Company or its affiliates with cumulative amount of remuneration obtained in the last two years exceeding NT\$500,000; and is not an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the Company or its affiliates. However, this does not apply to the members of the Remuneration Committee, the Public Takeover Review Committee or the Special Merger and Acquisition Committee who perform their functions and powers in accordance with the relevant laws and regulations of the Securities and Exchange Act or the Business Mergers and Acquisitions Act.
- Not a person of any of the conditions defined in Article 30 of the Company Act.

Note 2: The Remuneration Committee is composed of four members. For the Remuneration Committee Charter, please refer to the Company website: <https://www.china-airlines.com/tw/en/investor-relations/important-company-regulations>

B. Attendance of Members at Remuneration Committee Meetings

The Company's Remuneration Committee has a total of 3 members, and the term of the current Committee members: June 27, 2018, to June 26, 2021.

The Remuneration Committee convened four meetings over the past year (from January 1, 2019, through April 25, 2020). Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director (Chairman)	Shen, Hui-Ya	4	0	100%	None
Independent Director	Chang, Hsieh Gen-Sen	4	0	100%	None
Other	He, Jyun-Huei	4	0	100%	None

Other mentionable items:

- The members of the Committee shall exercise the due care of a good administrator, perform the following functions and duties faithfully, and shall be responsible to the Board of Directors and submit their recommendations to the Board of Directors for discussion:
 - Establishment and regularly review of policies, systems, standards, and structures for performance evaluation and salary and compensation for Directors and managers.
 - Regular evaluation and setting up of salary and compensation for Directors and managers.
 - Regular review of matters related to the organization regulations for the Board of Directors' revision.
 - Other matters handed over for discussion by the Board of Directors.
- If the Board of Directors declines to adopt or modifies a recommendation of the Remuneration Committee, the date of the meeting, session, content of the motion, resolution by the Board of Directors, and the Company's response to the Remuneration Committee's opinion (e.g., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be recorded): None.
- Resolutions of the Remuneration Committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified:

Meeting Dates	Agenda content	Resolution	Handling of members' opinions by the Company
January 21, 2019 4th Meeting of the Remuneration Committee of the 21st Board of Directors	Chairman and Managers' 2018 Year-end Bonus and 2019 Lunar New Year Incentive	Approved by all attending members to be reported to the Board of Directors for discussion.	No further business
May 8, 2019 5th Meeting of the Remuneration Committee of the 21st Board of Directors	Adjustment of travel expense for Directors (including Independent Directors) Proposal for salary and remuneration of Chief Corporate Governance Manager Proposal for salary and remuneration of Chairman Hsieh, Su-Chien Proposal for the service pay of former Chairman Ho, Nuan-Hsuan	The inclusion of the Chief Corporate Governance Manager in the management of the Remuneration Committee was approved in accordance with regulations governing the Chief Corporate Governance Manager; this matter has been reported to the Board of Directors for discussion.	No further business
October 23, 2019 6th Meeting of the Remuneration Committee of the 21st Board of Directors	Amendment to the Remuneration Committee Foundation Policy Amendment to the Regulations Governing the Board Performance Evaluation	Approved by all attending members to be reported to the Board of Directors for discussion.	No further business
January 13, 2020 7th Meeting of the Remuneration Committee of the 21st Board of Directors	Chairman and Managers' 2020 Lunar New Year Incentive	Approved by all attending members to be reported to the Board of Directors for discussion.	No further business

3.3.6 Corporate Social Responsibility and Deviations from the Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies

Evaluation Item	Implementation Status			Deviations from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons								
	Yes	No	Brief Explanation									
1. Does the Company, based on the materiality principle, conduct risk assessments on environmental, social and corporate governance issues related to the Company's operations and formulate relevant risk management policies or strategies?	✓		The Company has set up a "Risk Management Committee" under the Board of Directors to assist the Board of Directors in reviewing the formulation of Company's various risk management strategies, their implementation results, and response measures on a quarterly basis, and requires each unit to be responsible for controlling each major type of risk. Among which, safety and operation risks are cross-unit operational risks and shall be handled by the Company's management level. The "Corporate Safety Committee" and the "Corporate Sustainability Committee" have been established under the President of the Company to be responsible for such risks and report the environmental and energy management performance to the top management on a quarterly basis. In addition, through the routine "Sustainability Committee" and "Board of Directors and Risk Management Committee" meetings, reports have been made to the Directors on environmental and climate risks, opportunity issues, and various responding control operations and development plans.	No Difference								
2. Has the Company designated full- (or part-) time personnel to implement corporate social responsibility policy with senior management authorized by the Board of Directors to manage them, and do they give status reports to the Board of Directors?	✓		The Company has set up a Corporate Sustainability Committee in 2014, which is solely responsible for the promotion of sustainability and is the highest governance organization for sustainability governance promotion, with the President sitting as its Chairman. There are six major task forces in the Committee, based on different aspects of sustainability, which are "Trust Value Team, Manpower Value Team, Joint Creation Value Team, Environmental Value Team, Social Value Team, and Sustainable Development Foundation Team." Their main responsibilities are strategy formulation, business planning, and promotion of different aspects of sustainability; the teams report the implementation status to the Board of Directors on a regular basis every year in accordance with the Corporate Social Responsibility and Sustainable Development Best-Practice Principles. The results of the 2018 CSR operation and the 2019 CSR operation plan were reported in the 9th meeting of the 21st Board of Directors on January 13, 2020.	No Difference								
3. Environmental issues (1) Has China Airlines established an environmental management system that is specifically designed with the Company's operations in mind?	✓		<p>(1) Environmental management organization and system</p> <p>A. In 2011, the Company was the first in Taiwan's industry to establish a "Corporate Environmental Committee," in which the President serves as the representative of the top management, and the Corporate Safety Office serves as the executive secretary. According to the business attributes, five major environment management committees were established to respectively control and carry out aviation, maintenance and cargo transport service, headquarters and branch administration, environmental, energy, climate change and other risk and opportunity management related affairs of the operational activities, fully covering the corporate business scope. The Corporate Environmental Committee coordinates and integrates various environmental, energy, and climate change risk and opportunity response strategies and management resources through quarterly management meetings. Related important resolutions are also reported to the Directors through routine Board meetings and Risk Management Committee meetings.</p> <p>B. In order to integrate environmental protection operations into the daily operational risk management operations of the enterprise, China Airlines has introduced a number of international standard management systems since 2009, and has established and improved the environmental management operation mechanism of the enterprise, covering risk issues such as greenhouse gases, environmental management, and energy management. The Company has formulated management strategies and action measures for relevant risks and opportunities identified in various aspects of the environment. Beginning in 2017, the Company has introduced life cycle thinking and completed control over every link of the organization's operations; also, considering the issues of interest to stakeholders, the Company has further improved the level and perspective of environmental and energy risk management, and become comprehensively in line with the standard thinking of international enterprises' sustainable development governance. System standards covered by China Airlines' environmental management mechanism:</p> <table border="1" data-bbox="651 1854 1289 2011"> <thead> <tr> <th>Standard</th> <th>ISO 14064-1 Greenhouse gas inventory and management system</th> <th>ISO 14001 Environmental management system</th> <th>ISO 50001 Energy management system</th> </tr> </thead> <tbody> <tr> <td>Time of introduction</td> <td>2009</td> <td>2012 (Note1)</td> <td>2013 (Note2)</td> </tr> </tbody> </table>	Standard	ISO 14064-1 Greenhouse gas inventory and management system	ISO 14001 Environmental management system	ISO 50001 Energy management system	Time of introduction	2009	2012 (Note1)	2013 (Note2)	No Difference
Standard	ISO 14064-1 Greenhouse gas inventory and management system	ISO 14001 Environmental management system	ISO 50001 Energy management system									
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Evaluation Item	Implementation Status			Deviations from the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons												
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(2)Has the Company endeavored to make more efficient use of resources and use renewable materials that have a lower impact on the environment?	✓		<p>(2)The Company's implementation of environmental and energy performance management mainly promotes various resource conservation and reuse strategies and practices based on the "Environmental and Energy Management Policies," as follows:</p> <table border="1"> <thead> <tr> <th>Concepts</th> <th>Policies</th> <th>Promotion strategies</th> <th>Plans of action</th> </tr> </thead> <tbody> <tr> <td>Complying with environmental laws and regulations</td> <td>Performing compliance obligations and fulfilling environmental protection and energy conservation responsibilities.</td> <td> <ul style="list-style-type: none"> Understanding environmental protection trends in Taiwan and abroad, and improving the negotiation channel and platform for stakeholders. Actively participating in international cooperation and understanding mainstream issues. Perfecting management/supervision and evaluation mechanism </td> <td> <ul style="list-style-type: none"> Regular regulatory requirements checks and self-commitment reviews Actively participating in domestic and foreign industry and government meetings to grasp the trends of regulations. Implementation of checking mechanism for management system compliance obligation Participation in DJSI, CDP, and other leading international evaluations </td> </tr> <tr> <td>Conserving the Earth's resources</td> <td>Establishing environmental and energy management systems, and management performance indicators.</td> <td> <ul style="list-style-type: none"> Continuously improving the operational quality of the corporate environmental and energy management system Developing and implementing environmental performance and carbon reduction targets </td> <td> <ul style="list-style-type: none"> Understanding updates to ISO standards, implementing and perfecting the improvement of enterprise Environmental Management System, EMS. Improving the checking, oversight and evaluation mechanism for environmental, energy, and carbon emission risks </td> </tr> </tbody> </table>	Concepts	Policies	Promotion strategies	Plans of action	Complying with environmental laws and regulations	Performing compliance obligations and fulfilling environmental protection and energy conservation responsibilities.	<ul style="list-style-type: none"> Understanding environmental protection trends in Taiwan and abroad, and improving the negotiation channel and platform for stakeholders. Actively participating in international cooperation and understanding mainstream issues. Perfecting management/supervision and evaluation mechanism 	<ul style="list-style-type: none"> Regular regulatory requirements checks and self-commitment reviews Actively participating in domestic and foreign industry and government meetings to grasp the trends of regulations. Implementation of checking mechanism for management system compliance obligation Participation in DJSI, CDP, and other leading international evaluations 	Conserving the Earth's resources	Establishing environmental and energy management systems, and management performance indicators.	<ul style="list-style-type: none"> Continuously improving the operational quality of the corporate environmental and energy management system Developing and implementing environmental performance and carbon reduction targets 	<ul style="list-style-type: none"> Understanding updates to ISO standards, implementing and perfecting the improvement of enterprise Environmental Management System, EMS. Improving the checking, oversight and evaluation mechanism for environmental, energy, and carbon emission risks 	No Difference
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	Yes	No	Brief Explanation	
				<ul style="list-style-type: none"> Establishing and implementing various energy conservation, carbon reduction and environmental performance targets Implementing internal audit and management review mechanisms and conducting third party verification. Establishing a Task Force on Climate-Related Financial Disclosures (TCFD) system Establishing a corporate "Environmental Management Information System" to understand and document historical environmental performance.
			<p>Improving eco-efficiency</p> <p>Implementing environmental and energy conservation education to foster employees' environmental awareness.</p>	<ul style="list-style-type: none"> Creating diversified guidance and communication channels Establishing incentive programs to motivate colleagues to practice and develop environmental protection ideas. Implementing environmental and energy-saving education for all employees Organizing an annual "environmental protection education seminar" and "environmental protection competition" Establishing a platform to promote new knowledge of environmental protection and energy conservation from time to time Establishing a reward system for proposals
			<p>Implementing green supply chain management to enhance overall eco-efficiency.</p>	<ul style="list-style-type: none"> Establishing a supply chain risk assessment and management system Establishing environment and energy management capacity for companies of the Group Cultivating the Group's and key suppliers' environmental talent Holding value chain environmental protection and energy saving education and training Performing supply chain risk assessment operation

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	Yes	No	Brief Explanation	
			<ul style="list-style-type: none"> Organizing conferences and regular meetings for suppliers to communicate China Airlines' sustainability and environmental protection requirements. 	
			<p>Fulfilling social responsibility</p> <p>Creating a low-carbon operating environment to establish continual improvement of energy and environmental performance.</p> <ul style="list-style-type: none"> Optimizing devices performance Promoting energy-saving education and establishing corporate energy-saving culture. Introducing low-carbon and renewable energy facilities 	<ul style="list-style-type: none"> Checking and optimizing energy equipment and management measures Establishing and implementing energy conservation management and educational programs Mastering technology and regulatory trends, and introducing renewable energy equipment in a timely manner.
			<p>Supporting green design and procurement to promote environmental sustainability.</p> <ul style="list-style-type: none"> Deepening the awareness of planners in environmental protection and energy conservation Promoting green procurement and green consumer culture 	<ul style="list-style-type: none"> Incorporating service process into the operation scope of the Environmental Management System (EMS) and strengthening personnel training. Including environmental protection and energy saving effects as the key considerations for procurement Establishing and promoting "Green Fares - Carbon Exchange Service" Using environment-friendly certified on-board spare products and selling environment-friendly duty-free products Diversifying the promotion of green consumer awareness
(3) Does the Company assess the potential corporate risks and opportunities created by climate change now and in the future and does it take measures to deal with climate related issues?	✓		<p>(3)The Company's climate change risk and opportunity management is as follows:</p> <p>A. Climate risk and opportunity management mechanism</p> <p>With respect to specific issues, the Company has established functional task forces under the corporation's Environmental Committee, including the following task forces: Carbon management task force, aircraft alternative fuel research task force, TCFD work task force, among others, to facilitate cooperation among units and flexible allocation of required resources.</p> <p>B. Climate risk and opportunity response measures</p> <p>Through the carbon management and the TCFD work task forces, the Company</p>	No Difference

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			<p>identifies its environmental risk opportunity matrix, considers the identification and adjustment of changes in external specifications and technological development environmental conditions, brings the top nine topics into the scope of corporate environmental risk management and actively controls the response. Other issues have also been continuously improved through the operation of the corporate Environmental Management System (EMS).</p> <table border="1"> <thead> <tr> <th>Potential risks</th> <th>Potential opportunities</th> <th>Response measures</th> </tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> Poor weather conditions lead to flight delays, cancellations, etc., and increase business operation costs. The maintenance frequency and quality assurance requirements are increased, meaning increased costs. The operational efficiency of related equipment is reduced, and operational costs are increased. 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			<ul style="list-style-type: none"> reduce costs. Sign long-term contracts with relevant supply partners to maintain stable services. 	<ul style="list-style-type: none"> season to flexibly adjust raw materials used in meals to adapt to climate change trends, understand the compliance of goods carried, and strive for new market opportunities.
		<ul style="list-style-type: none"> Investors reduce their willingness to invest Capital investment is required to promote the consideration of highly efficient aircraft/sustainable fuel investment. 	<ul style="list-style-type: none"> Work with stakeholders to adapt to the climate and capture business opportunities by using innovative solutions. 	<ul style="list-style-type: none"> Discuss across departments, develop new routes and services. Develop a travel mode to save fuel and time Continue to research and analyze new technologies, facilities, and services, and introduce feasibility evaluation.
		<ul style="list-style-type: none"> The risk of infectious diseases has increased, reducing the demand for tourism and changing the demand for cargo transport. The consumer market attaches great importance to low-carbon and environmental protection of corporations, both of which affect brand trust and reduce revenue. Improvements in the awareness of carbon reduction changed the demand for air transport (such as changing to cruise lines, high-speed rail, etc.). 	<ul style="list-style-type: none"> Plan to promote low-carbon services and thereby enhance consumer support for our brand. Master the market model of low-carbon economy/transportation issues and create business opportunities and increase competitiveness. 	<ul style="list-style-type: none"> Cooperate with the governments of all countries to manage the disease properly, strengthen self-protection and response, and reduce the degree of impact. Develop all kinds of new products/services, improve service efficiency, and meet market demand. Launch environmentally friendly travel service ECO TRAVEL, invite passengers to participate in carbon reduction and enhance green/low-carbon business opportunities. Continuous research and development of new market channels or customer groups Develop diversified green and low-carbon activities and strengthen customer communication.
		<ul style="list-style-type: none"> Does not meet the expectations of stakeholders, affects brand reputation. Failure to properly manage supply chain issues, affecting operations. 	<ul style="list-style-type: none"> Strengthen the prediction system mechanism, maintain the rights and interests of customers, and stabilize revenue. We process emergency situations properly, increasing the public's trust. Promote supply chain cooperation and enhance corporate sustainable competitiveness. Cooperate with and support the government's environmental protection policies, enhance industrial cooperation opportunities, and promote industrial competitiveness. 	<ul style="list-style-type: none"> We continue to strengthen communication between external stakeholders, support scientific research, participate in international environmental sustainability comparison assessments, and enhance the corporate sustainable image. Strengthen employee education and training, hold environmental protection and energy conservation activities, and improve employee awareness. Strengthen cooperation with domestic and overseas suppliers of low-carbon products to enhance the sustainable value of the supply chain.

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(4) Has the Company compiled statistics on the past two years of GHG emissions, water usage, and waste amounts, and has it devised policies for energy conservation and carbon emissions reduction, GHG emissions reduction, water conservation, and other waste management?	✓		<p>(4)The Company's environmental/carbon/energy performance management is as follows:</p> <p>A. Greenhouse gas inventory and verification</p> <p>Since 2009, the Company has actively implemented ISO14064-1 greenhouse gas management, conducted and organized inventory of greenhouse gas emissions generated by operations, and carried out third-party verification.</p> <table border="1"> <thead> <tr> <th colspan="4">Greenhouse gas emissions</th> </tr> <tr> <th colspan="2">Scope of GHG</th> <th>2018</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Scope 1</td> <td>Aviation operations</td> <td>7,229,903</td> <td>7,059,083</td> </tr> <tr> <td>Ground operations</td> <td>3,511</td> <td>4,981</td> </tr> <tr> <td>Scope 2</td> <td>Ground operations</td> <td>19,949</td> <td>18,169</td> </tr> <tr> <td colspan="2">Total (Tons CO₂e)</td> <td>7,253,363</td> <td>7,082,233</td> </tr> </tbody> </table> <p>B. Greenhouse gas management and reduction strategy</p> <p>The Company's greenhouse gas management and reduction strategy takes into account the international industrial carbon reduction targets, strategy implementation and benchmarking technology of the same and different industries. It combines its corporate financial operation plan and technical feasibility to formulate air and ground carbon-reduction targets. In the future, it will continue to incorporate the Science-Based Target (SBT) concept to carry out rolling inspection of corporate carbon reduction objectives and management paths through the corporate risk management mechanism and platform.</p> <table border="1"> <thead> <tr> <th>Carbon reduction goals</th> <th>Target description</th> <th>2019 Achievement rate</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Aviation</td> <td>2020 To increase aviation fuel efficiency by 1.5% every year on average</td> <td rowspan="3">In 2019, the actual performance of fuel consumption efficiency was 0.2459 tons/thousand RTK, and the pre-established target value of 0.2147 tons/thousand RTK was not achieved. 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The Company will continue to strengthen fuel consumption efficiency countermeasures, and has formulated four major fuel saving strategies, including "promoting green energy flights," "improving ground service controls," "continuous regular maintenance" and "fuselage weight reduction," as well as a number of specific implementation measures. However, due to changes in the internal and external business environments in 2019, although total aviation fuel consumption decreased by 53,986 tons, a decrease of 2.36% compared with 2018, performance in revenue ton kilometer (RTK) decreased by 471,498 kiloton-kilometers, a decrease of 4.94% compared with 2018; the overall fuel consumption efficiency was 0.2459 tons/thousand RTK, which failed to reach the target value set in 2019 (0.2147 tons/thousand RTK).</p> <p>For ground operations, 57 environmental management KPIs and 15 fuel saving measures were promoted in 2019, which resulted in a total annual carbon reduction of 124,365 metric tons of CO₂e; among which, carbon reduction in ground operations amounted to 1,747 metric tons of CO₂e. Various data are as follows:</p>	Greenhouse gas emissions				Scope of GHG		2018	2019	Scope 1	Aviation operations	7,229,903	7,059,083	Ground operations	3,511	4,981	Scope 2	Ground operations	19,949	18,169	Total (Tons CO ₂ e)		7,253,363	7,082,233	Carbon reduction goals	Target description	2019 Achievement rate	Aviation	2020 To increase aviation fuel efficiency by 1.5% every year on average	In 2019, the actual performance of fuel consumption efficiency was 0.2459 tons/thousand RTK, and the pre-established target value of 0.2147 tons/thousand RTK was not achieved. 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It completed the installation of 99kW solar photovoltaic facilities on the roof of the simulator training building for parallel power generation to support Taiwan's renewable energy through practical actions. As of December 31, 2019, it has generated about 90,000 kWh of electricity and reduced emissions by about 48 tons of CO₂e. The Company was awarded the Bureau of Energy's (MOEA) Conservation Benchmark-Silver Award, Taipei Energy Conservation Leadership Award, and No. 1 in the Taoyuan Airport Energy Conservation and Carbon Reduction Reward Competition.</p> <p>E. Water resource utilization increase The total water consumption of the Company in 2019 was 146,490 kWh, which is about 1.17% less than that in 2018. Among which, the China Airlines headquarters park is located in a specific area of the airport. The airport management unit collectively applies for and obtains tap water from the water supply unit and pays the sewage treatment fee. The domestic sewage is collected and sent to the domestic sewage treatment plant for treatment. The maintenance facility, Songshan Park, and Taipei branch apply directly for water supply from the water company. In order to reduce the risk associated with water resources, the Company has successively set up water meters at important water line nodes, and it tracks and analyzes the direction of water resource flow and water consumption hot spots, and promotes water reduction and recycling measures, including: Purchasing water conservation label products, promoting water conservation advocacy, setting up a rainwater recovery system, recycling cooling water and introducing Eco-shine, etc.</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Unit</th> <th>107</th> <th>108</th> </tr> </thead> <tbody> <tr> <td>Tap water use volume</td> <td>Kilotons</td> <td>148.22</td> <td>146.49</td> </tr> <tr> <td>Recycled water use volume</td> <td>Kilotons</td> <td>31.94</td> <td>17.41</td> </tr> <tr> <td>Recycling percentage % (recycled volume/water use total volume)</td> <td>%</td> <td>21.55%</td> <td>11.88%</td> </tr> </tbody> </table>	Item	Savings	Unit	Carbon reduction (Tons CO ₂ e)	Aircraft fuel savings	48,447	Kiloliter	122,618	Ground fuel conservation	236	Kiloliter	620	Energy conservation	1,940	1,000 kilowatt hours	1,075	Water conservation	3	1,000 kilowatt hours	1	Paper conservation	12	Tons	51	2019 total carbon reduction			124,365	Item	2019 targets	Achievements	2020 expected targets	Aviation fuel efficiency	Improvement of 1.5% over 2018	Did not meet target (Note)	Improvement of 1.5% over 2018	Ground carbon emissions	Reduction of 36.7% over 2009	97%	Reduction of 38% over 2009	Water resources	Reduction of 0.75% over 2018	100%	Reduction of 1.5% over 2018	Domestic waste	Reduction of 1% over 2018	100%	Reduction of 2% over 2018	Hazardous industrial waste	Recycling ratio reached 40%	100%	Recycling ratio reached 40%	Photocopy paper	Reduction of 2.5% over 2018	100%	Reduction of 5% over 2018	Item	Unit	107	108	Tap water use volume	Kilotons	148.22	146.49	Recycled water use volume	Kilotons	31.94	17.41	Recycling percentage % (recycled volume/water use total volume)	%	21.55%	11.88%	
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			<p>F. Waste Management</p> <p>The Company processes waste management in accordance with the five following principles: Refuse, Reduce, Reuse, Recycle, Repair. We have set a goal for 100% resource reclamation of waste and have annually increased waste reuse rate.</p> <table border="1"> <thead> <tr> <th>Waste Management Principles</th> <th>Strategies and goals</th> <th>Actions</th> </tr> </thead> <tbody> <tr> <td>Refuse</td> <td rowspan="2">Through green design and procurement, reduce resource consumption and waste disposal demand at the source.</td> <td>Cooperate with suppliers to develop and purchase non-disposable plastic products (such as: wooden cocktail stir rods); Increase green procurement.</td> </tr> <tr> <td>Reduce</td> <td>Accurately plan business and service supplies to reduce consumption; improve maintenance processes and reduce end waste; implement electronic teaching materials and operations, conserve paper arising from training and communication.</td> </tr> <tr> <td>Reuse</td> <td rowspan="3">Through improvement of operation processes, improve the reuse rate of waste and reduce the opportunities where waste would be generated.</td> <td>Improve the reuse ratio (e.g: plastic waste bucket) of hazardous industrial waste.</td> </tr> <tr> <td>Recycle</td> <td>Working with the environmental protection agency's plastic film recycling platform, improving the recycling ratio of packaging plastics.</td> </tr> <tr> <td>Repair</td> <td>Continue to use passenger and freight equipment (such as pallets or containers/netting) after repair.</td> </tr> </tbody> </table> <p>In 2019, the production of ground operation and domestic waste was 702,966 kg, which is about 5.9% less than that of 747,202 kg in 2018. In 2019, the amount of business waste also decreased by 5.9% compared with that in 2018.</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Handling method</th> <th>2018</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td rowspan="4">Ground Operational</td> <td rowspan="2">Domestic waste</td> <td>Non-recyclable Incineration</td> <td>399,266</td> <td>381,626</td> </tr> <tr> <td>Recyclable: Resources recycled</td> <td>347,936</td> <td>321,340</td> </tr> <tr> <td rowspan="2">Hazardous industrial waste</td> <td>Non-toxic: Entrust qualified organization to remove/dispose</td> <td>251,317</td> <td>233,018</td> </tr> <tr> <td>Toxic: solidification and burial/chemical treatment</td> <td>16,434</td> <td>18,815</td> </tr> <tr> <td rowspan="2">In the air Service</td> <td>General industrial/ domestic waste</td> <td>Non-recyclable Incineration</td> <td>2,674,334</td> <td>3,052,461</td> </tr> <tr> <td></td> <td>Recyclable: Resources recycled</td> <td>995,369</td> <td>1,116,396</td> </tr> <tr> <td colspan="2">Total waste (kg)</td> <td>4,684,656</td> <td>5,123,656</td> </tr> </tbody> </table>	Waste Management Principles	Strategies and goals	Actions	Refuse	Through green design and procurement, reduce resource consumption and waste disposal demand at the source.	Cooperate with suppliers to develop and purchase non-disposable plastic products (such as: wooden cocktail stir rods); Increase green procurement.	Reduce	Accurately plan business and service supplies to reduce consumption; improve maintenance processes and reduce end waste; implement electronic teaching materials and operations, conserve paper arising from training and communication.	Reuse	Through improvement of operation processes, improve the reuse rate of waste and reduce the opportunities where waste would be generated.	Improve the reuse ratio (e.g: plastic waste bucket) of hazardous industrial waste.	Recycle	Working with the environmental protection agency's plastic film recycling platform, improving the recycling ratio of packaging plastics.	Repair	Continue to use passenger and freight equipment (such as pallets or containers/netting) after repair.	Item	Handling method	2018	2019	Ground Operational	Domestic waste	Non-recyclable Incineration	399,266	381,626	Recyclable: Resources recycled	347,936	321,340	Hazardous industrial waste	Non-toxic: Entrust qualified organization to remove/dispose	251,317	233,018	Toxic: solidification and burial/chemical treatment	16,434	18,815	In the air Service	General industrial/ domestic waste	Non-recyclable Incineration	2,674,334	3,052,461		Recyclable: Resources recycled	995,369	1,116,396	Total waste (kg)		4,684,656	5,123,656	
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4. Social issues (1) Has the Company established management policies and procedures in accordance with relevant laws and regulations and international human rights conventions?	✓		(1) In the area of comprehensive management systems and organizational capacity, the Company not only abides by the Employee Code of Conduct and Employee Work Standards set forth in various labor laws, but also refers to the Universal Declaration of Human Rights, the United Nations Global Compact, the International Labor Organization's basic compact on core labor standards, the UN Guiding Principles on Business and Human Rights, and local laws and regulations. The company has established a Human Rights Policy based on the aforementioned norms as guiding principles for the Company's management.	No Difference																																															
(2) Does the company establish and implement reasonable employee welfare measures (including compensation, vacation, and other benefits) that appropriately reflect the operating performance or results through employee compensation?	✓		(2) Employees are the most important assets of a company. In addition to improved planning and setting standards for the implementation of salary, work bonuses, flight safety bonuses, vacation, preferential air tickets, and a number of welfare measures, the Company allocates performance bonuses, annual bonuses, year-end bonuses, promotions, and employee compensation with reference to the performance of employees after the end of each fiscal year and based on the Company's annual profit situation. The Company takes this opportunity to care for its employees and treat them as the core of its sustainable operations. The average salary adjustment of all employees of the Company increased by about 2% in 2019.	No Difference																																															

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(3) Does the Company provide employees with a safe and healthy work environment and regularly implement health and safety education programs for employees?	✓		<p>(3) In order to protect the rights of employees, provide a healthy and safe working environment, and create a friendly workplace, the Company has established internal rules and regulations related to "employee complaint measures" and "employee safety report reward operation measures," and provides multiple communications channels, such as a speaking area, regularly scheduled labor-management consultation meetings, and special e-mails for complaints in various cases (including WeCare, workplace sexual harassment, professional ethics). Such channels are made available to all employees, and complaints are accepted in accordance with the operational procedures.</p> <p>A. Keep pace with international double certification in this new era of workplace safety To adapt to trends of global international labor development, improve the efficiency of safety and health management, and promote systematic management measures, the Company established an independent safety and health management system and obtained ISO45001:2018 and TOSHMS certification on April 20, 2019, which serve as the management basis of occupational safety and health management system certification. Self-management and preventive measures based on the PDCA cycle mode are used to effectively control occupational disaster risk, improve occupational disease preventive management, improve occupational safety and health management performance, and actively implement occupational safety policies; Provide a safe, healthy, and comfortable working environment for employees, and promote industry competitiveness.</p> <p>B. Occupational safety and health committee for two-way effective communication The Company has established an Occupational Safety and Health Committee in accordance with law. The committee is tasked with the objective of preventing occupational hazards and protecting the safety and health of all employees by reviewing, coordinating, and making recommendations pertaining to safety and health related matters. The position of chairman is served by the president. There is one vice chairman and one executive secretary under the chairman. The committee consists of the first-level management of designated units, occupational safety and health personnel, engineering and technical personnel, medical personnel, and labor representatives appointed by the labor union as members. A meeting is held once every three months to gather statistics and analyze the Company's occupational accidents and to report and follow up on subsequent safety and health management plans. A total of 14 safety and health proposals were reviewed, coordinated, and provided with suggestions in the meetings in 2019, and all proposals have been concluded; relevant meeting minutes have been announced on the Company's internal website.</p> <p>C. Regular implementation of safety and health inspections to discover hazards and make improvements A total of 1,488 inspections were conducted in 2019, 402 deficiencies were found, and those 402 cases were improved, with an improvement rate of 100%; random checks on various necessary equipment or facilities of the Company's leased transportation vehicles were performed, in addition, maternal health protection for employee workplace and operation hazard risk and management classification was conducted, with a total of 260 persons. The workplace environmental risk levels all belong to level-1 management.</p> <p>D. Full AQD for comprehensive risk assessment Taking advantage of China Airlines' Aviation Quality Database (AQD) of all personnel to reflect hidden hazards of the operating environment and implement risk assessment to reduce occupational accidents; in 2019, a total of 98 AQD safety and health related cases were received, and 98 cases were improved and settled, with an improvement rate of 100%.</p> <p>E. Strengthening safety and health education and popularizing safety and health concepts We strengthen the promotion of safety and health education at all levels. Every three years, each person receives at least 3 hours of education and training. Education and training for supervisors will be held depending on the promotion and transferring of the supervisors. The members of the Occupational Safety and Health Committee must complete at least three hours of safety and health education and training every three years to cultivate correct attitudes towards safety and health work; assisting in the training of safety and health officers at all levels to disseminate safety and health knowledge; holding necessary education and training sessions for newly hired labor, transferred labor, safety and health management personnel, special operators, and supervisors to perform work and prevent disasters, as follows: a. A total of 4 batches of new general personnel's safety and health education and training sessions were implemented, with a total of 76 participants. b. A total of 4 batches of industry-academia interns' safety and health education and training sessions were implemented, with a total of 76 participants.</p>	No Difference

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			<p>c.A total of 2 batches of new supervisors' safety and health education and training sessions were implemented, with a total of 59 participants.</p> <p>d.One education and training session for all members of the Occupational Safety and Health Committee.</p> <p>e.A total of 14 batches of occupational safety and health training sessions for in-service employees.</p> <p>f.First-aid personnel training.</p> <p>g.A total of 21 batches of safety and health training sessions for special operators.</p> <p>F. Hierarchical safety and health management, and the establishment of safety and health officers at all levels Implementing safe and healthy work;initiating a safety and health hazard identification proposal system to extend the participation in safety and health to all personnel;regularly strengthening the on-the-job training for safety and health officers of various units, including how to identify hazards in the workplace, risk classification, how to compose management plans, and occupational accident identification process and operations. Guiding the risk assessment of units at all levels and conduct prevention and improvement to build the concept of a corporate community.</p> <p>G. The Company held various health promotion activities in 2019. The topics included cardiovascular disease, infectious disease prevention, physical and mental stress relief, cancer screening, first aid education, pregnancy care, and vision care. The number of sessions and the number of participating employees are as follows:</p> <p>a. There were 5 health promotion activities in CAL Park, with a total of 252 participants.</p> <p>b. There were 6 health promotion activities at the Taipei branch, with a total of 209 participants.</p> <p>c. There were 4 health promotion activities at the Kaohsiung branch, with a total of 153 participants.</p> <p>d. Flu shots: A total of 1,622 persons vaccinated (including 217 persons in Taipei, 1,325 persons in Taoyuan, and 80 persons in Kaohsiung).</p> <p>e. A total of 636 cabin crew and first-line ground staff have received MMR vaccination.</p> <p>f. Providing a total of 4 issues of "Disease Management Information and Business / Travel Suggestion" periodicals to enable colleagues to understand domestic and foreign health knowledge, enrich the knowledge of epidemic diseases, and establish disease prevention concepts.</p>	
(4)Has the Company established an effective career skill development training program for employees?	✓		(4) In order to cultivate the Company's human resources, the Company has a Training Advisory Committee, which is responsible for the planning of annual education and training for all colleagues, including strategic occupational training, management occupational training, and job training. At the same time, in accordance with the Company's operational development strategy, and to deepen the Company's various levels of management professionals and broaden the horizon of potential talents, strategic and management occupational training was held on a regular basis to refine employees' necessary knowledge and skills. In addition, since 2009, the Company has established a Management Talent Training and Development System to cultivate talents with international vision and management capabilities, and to strengthen the management knowledge of management professionals through job experience, management course training, and rigorous assessment systems. As of today, more than 100 outstanding management professionals have been cultivated and are now serving in key units in Taiwan and foreign branches. In 2019, a total of NT\$253 million was invested in the training and development. The total number of training hours exceeded 52,865 hours.	No Difference
(5)With regard to customer health and safety, customer privacy, marketing and labeling of the products and services, does the Company follow relevant regulations and international standards, and formulate relevant policies and complaint procedures for consumer rights protection?	✓		(5)In addition to stipulating service commitments, transportation terms and conditions, and disclaimer clauses in accordance with the law, regarding the consumer rights policies, the Company has also established and disclosed on the Company's website the information security policy with its "privacy protection policy" and "privacy protection statement." It is committed to protecting the privacy of all customer personal information. Also, to protect the rights and interests of the passengers, reservation and ticket-related rules upon flight changes have been clearly disclosed in the FAQs on the official website. Furthermore, the Company has in place consumer complaint procedures to provide consumers with complaint channels for products and services, including: company website (including: stakeholders section, customer feedback, and service satisfaction survey), Facebook fan page, customer service e-mail, and global branches' addresses and phone numbers; consumers may also send letters to the Company directly. All complaints will be replied to after processing.	No Difference

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(6) Has the Company formulated supplier management policies that require suppliers to follow relevant regulations on issues such as environmental protection, occupational safety and health or labor human rights, and their implementation status?	✓		<p>(6) The Company has formulated the "Supplier Code of Conduct" which specifies that suppliers shall provide a healthy and safe working environment and shall ensure that workers respect each other, enjoy dignity and fairness, and abide by professional ethical standards; in any case, when providing products and services, suppliers shall strictly comply with the legal, ethical requirements and their commitment to be responsible to the society and environment; if the Code is violated, the Company may terminate the business relationship between the two parties.</p> <p>Moreover, the Company evaluates the supplier's past credit history, and reviews the supplier's quality, delivery date, and whether there are any negative reports before dealing with the supplier. In 2019, a total of 118 suppliers were reviewed. According to the operation of Collaborative Value Task Force under the CSR policy of the Company, risk assessment of "Supply Chain Sustainability Questionnaire (SAQ)" is conducted annually for key first-tier suppliers. The questionnaire includes aspects such as legal, environmental, social and quality, and information security. Among them, the legal aspect includes questions concerning ethics, legal compliance and compliance practices. If high-risk vendors are identified, on-site inspection will be conducted and guidance will be given to reduce potential risks and improve existing impact.</p> <p>In 2019, the Company surveyed 72 suppliers (mainly key first-tier suppliers) according to the supplier's sustainable supply chain mechanism. The questionnaire response rate reached 65%, and the average supply chain sustainability performance score was 88.88, showing that most of the Company's suppliers have internalized the concept of sustainability in their management mechanisms.</p> <p>In addition, in accordance with the "Sustainable Supply Chain Management Policy Statement" of the Company, since 2016, we have requested that every supplier sign the "Supplier Code of Conduct" when making a tender, jointly undertaking to create a sustainable industrial environment; we have also continued to promote the procurement of Green Mark certified products: by the end of 2019, we have completed green procurement of approximately NT\$19,258,000 in total.</p>	No Difference
5. Does the Company make reference to internationally accepted report preparation standards or guidelines to prepare its Corporate Social Responsibility (CSR) Report and other reports that disclose the Company's non-financial information? Has the aforementioned report been assured, verified, or certified by a third-party verification unit?	✓		The Company follows the GRI Standards - Core option issued by the Global Sustainability Standards Board and refers to the UN Global Compact when preparing its CSR Report. In May 2020, the Company's limited level report verification was completed by KPMG based on the GRI Standards and ISAE3000 Assurance Standard, and a third-party verification statement was issued, which has been disclosed on the Company's "Corporate Social Responsibility" section on its website.	No Difference
<p>6. If the Company has drawn up a code for CSR based on the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any differences between said code and the Best-Practice Principles:</p> <p>In order to fully implement the scope of corporate social responsibility, comply with the government's direction of CSR promotion, and accord with international practice, the Company has added to and amended the Company's Corporate Social Responsibility and Sustainable Development Best-Practice Principles in March 2017 based on the revised Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies; through this CSR's highest guiding principle, we have comprehensively reviewed the Company's operational constitution, reflected to the management and execution aspects, and striven to fulfill corporate social responsibility in three major aspects: environmental, social, and governance (economic) (ESG); there was no operational difference this year. For related information, please refer to the Company's corporate social responsibility website.</p>				
<p>7. Other important information for facilitating the understanding of CSR and its implementation:</p> <p>(1) Promoting the internationalization of local education:</p> <p>A. Strengthening education: 45,578 persons benefited in 2019</p> <p>Educational exchange: The Company firmly believes that education is the only way to cultivate more future talent. Therefore, upholding the spirit of deeply cultivating the community, giving back to local neighborhoods, and caring for the disadvantaged and the society, we have been cultivating the reading habits of school children through educational volunteers since 2010, and starting from 2013, we began to have long-term cooperation with universities in Taiwan to provide opportunities to learn professional knowledge and practical skills, strengthening industry-academia collaboration to achieve the ultimate goal of talent cultivation.</p> <p>Lectures by volunteers: Since its establishment in 2011, the "China Airlines Volunteers Club" has been dedicated to supporting disadvantaged groups in society. Every year, it regularly visits neighboring schools to give lectures, encourage students to cultivate an international vision, and pass on aviation knowledge and English lessons. In 2019, 16 lectures in schools such as Xihai Elementary School, Zhuwei Elementary School, Shanfeng Elementary School, and Kuolin Elementary School in Dayuan District were held. In total, there were 92 participating volunteers and 32 hours of service, benefiting 1,106 students. Upholding the spirit of mutual support and spreading love, the China Airlines Volunteers Club gives back to the society and community with actual actions. In order to realize remote students' dreams to fly, Mandarin Airlines specially launched a charity dream-come-true journey, arranging for students from Hualien Tafalong Elementary School and Nantou Chin-ai Music Experimental School to take the Mandarin Airlines' Taichung-Hualien flight to visit each other. It allows students from the two schools in eastern and central Taiwan to conduct educational and cultural exchanges and have a precious experience that will last as a lifetime memory</p> <p>Since 2014, China Airlines has been working with the Global Views Educational Foundation to collaborate on the "Common Knowledge Platform Public Welfare Project" sponsorship plan and to donate subscriptions to the "Global Kids Junior Monthly" to students in various elementary schools in Taoyuan City, Taitung County, Nantou County, and Hualien County to help students develop reading habits and to contribute to the cultural education of children. In 2019, 102 schools and about 44,472 students benefited. Continuing to hold the "Mandarin Airlines Flying Experience Camp" to provide localized flight training opportunities for young Taiwanese students.</p> <p>B. Environmental coexistence: 552 participants in 2019</p> <p>Responding to environmental protection: In response to international coastal cleanup activities, the Zhuwei Fishing Port Coastal Cleanup has been held on a yearly basis since 2011. For the first time, in 2019, we moved the activity to Shalun, Tamsui, where a total of 552 employees and their family</p>				

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			<p>members from various units in the China Airlines Group participated. In addition, we extended the activity to be held in Cijin, Kaohsiung. We cherish the earth with concrete actions and playing our part in environmental protection.</p> <p>Animal conservation: Mandarin Airlines continued its blue-tailed bee-eater eggs incubation project with the Taipei Zoo, and Kinmen County assisted in air transporting these little VIP eggs to Taipei for incubation. Through the participation of Mandarin Airlines in the "Kinmen Blue-Tailed Bee-Eater Abandoned Eggs Incubation and Research Project," this flock of cute "summer fairies," i.e. the blue-tailed bee-eaters, was successfully born in the Taipei Zoo in 2019 and made their debut with the establishment of the Tropical Rainforest Area in July.</p> <p>(2)Enhancing international visibility of local brands in Taiwan:</p> <p>A. Humanitarian relief: 419 persons benefited in 2019</p> <p>In 2019, the Company continued to promote the "In-flight Doctors" project, combining the resources of aviation industry with medical professions, so that passengers can have safer and more protected flights. China Airlines has been cooperating with Chang Gung Hospital since 2017. In July 2018, we expanded such cooperation and established the "In-flight Doctors" project with the Taiwan Medical Association and the Paujar Charity Foundation, inviting doctors to volunteer and take the initiative to lend a helping hand during flight and assist China Airlines and the ground medical support team in jointly protecting the health of passengers with urgent medical needs. In 2019, based on the concept of "compassion for society and kindness for the country," China Airlines' "In-flight Doctors" project was actively joined by the Tzu Chi medical system.</p> <p>B. Sports activist: 303 participants in 2019</p> <p>The Company has supported the development of Taiwan's sports for many years. Through our own air transportation expertise, we help Taiwanese athletes participate in international sports events, supporting Taiwanese athletes and teams to win international fame with concrete actions. In 2019, China Airlines sponsored a number of sports events to jointly improve the sports environment in Taiwan and enhance Taiwan's international reputation. Moreover, China Airlines continued to support Taiwan's local teams and players, and sincerely received many Taiwanese sports players. In the future, we will continue to support various sports activities with actual actions and help Taiwanese athletes to win international fame with concrete actions.</p> <p>Sports events supported in 2019: "2019 Taiwan Legends Championship".</p> <p>Sports players and teams supported in 2019: "2019 Formosa Dreamers Basketball Team, Taoyuan Pauian Archiland Basketball Team, basketball player Jeremy Lin, baseball player Wei-Chung Wang / Wei-Yin Chen, tennis player Chun-Hsin Tseng, fencer Yi-Tong Chan, volleyball player Pei-Hung Huang, ultra marathon runner Tommy Chen, Rising Star RG, and others."</p> <p>(3)Charity support: 61,448 persons benefited in 2019</p> <p>A. Disadvantaged students and the general public:</p> <p>"Love All Around Team" is a spontaneous China Airlines volunteer group. On their days off, volunteers visit remote rural schools to spread love and flight knowledge to balance the urban-rural education gap. Since 2014, it has covered 15 counties and cities in Taiwan, including 27 townships, 53 junior high and elementary schools and social welfare groups, and cared for 3,207 students. In addition, colleagues from China Airlines also organized a group by themselves to visit remote rural schools in Taitung and have deep cultivation interactions with 345 students. Such efforts have broadened their understanding of the aviation industry in order to cultivate more future talent. In 2019, the cabin crew held a total of 15 fundraising and charity bazaar activities to provide assistance needed by disadvantaged groups, benefiting a total of 58,035 people. China Airlines plays its part in fulfilling corporate social responsibilities. Along with the sponsored sports players, we organize public welfare sharing sessions to benefit students from rural areas. In 2019, the "China Airlines 60 New GO Jeremy Lin Charity Sharing Session" was held;baseball stars back from the U.S. Wei-Yin Chen and Wei-Chung Wang were invited to hold the joint "China Airlines Charity Baseball Camp," with expectations for fostering future stars in Taiwanese sports through charity sharing sessions. Mandarin Airlines has cared for disadvantaged groups in Hualien and Taitung for many years. Upon the 28th anniversary celebration, Mandarin Airlines especially held a charity bazaar carnival and donated all the income from the bazaar, amounting to NT\$100,000, and 5 boxes of charity goods to Hannah's Hope Home in Taitung, to build a warm new home for dispossessed children under the age of two in Hualien and Taitung. After more than two years of fundraising and construction by the Taitung Christian Hospital and public welfare partners, along with the help of kind people from all walks of life, Hsin Shih Hall, a place that can provide both day care for the disabled or elders with dementia and a better quality new home for dispossessed children under the age of two, was finally officially completed.</p> <p>B. Elders:</p> <p>Upholding the spirit of "extending the same care for our own elders to all elders in general," the Company has maintained long-term cooperation with the Huashan Social Welfare Foundation to care for local disadvantaged elders. In 2019, a total of three charity events were held: "Love the Elderly and Reunite," "Love the Elderly and be Active on the Dragon Boat Festival," and "Love the Elderly and Light Up the Mid-Autumn Festival." A total of 400 elders were cared for. During holiday reunions, volunteers from the Volunteers Club visited the elders' homes, from door to door, to give care and gifts and accompany the elders. China Airlines continues to invest in social care, bringing warmth to the cold winter.</p>	

3.3.7 Ethical Corporate Management and Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies”

Evaluation Item	Implementation Status		Brief Explanation	Deviations from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and Reason
	Yes	No		
1. Establishment of ethical operation policies and programs (1) Has the Company formulated an ethical management policy approved by the Board of Directors, and expressly stated in the regulations and external documents the policies and practices of ethical management, as well as the Board of Directors and senior management’s commitment to actively implement the management policy?	✓		(1) CAL has established Ethical Corporate Management Best-Practice Principles and Procedures for Ethical Management and Guidelines for Conduct, which were passed in 2016 at the 5th meeting of the 20th Board session. These guidelines and principles clearly spell out the Company’s ethical operating policies, methods, and commitments. They are published on the CAL website and the Taiwan Stock Exchange Market Observation Post System.	No Difference
(2) Has the Company established an assessment mechanism for the risk of unethical behaviors, regularly analyzed and evaluated business activities with a higher risk of being unethical within the business scope, and formulated a plan accordingly to prevent unethical behaviors, which covers at least the preventive measures provided in Article 7, Paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?	✓		(2) The Company’s Ethical Corporate Management Best Practice Principles sets out various business activities with a higher risk of being unethical to be prevented within the business scope to strengthens relevant preventive measures, which include behaviors provided in the subparagraphs under Article 7, Paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies.	No Difference
(3) Has the Company specified the operating procedures, behavioral guidelines, disciplinary penalties, and grievance system in its plan for unethical conduct prevention, and has it implemented said program while also periodically reviewing and revising it?	✓		(3) The Company’s Procedures and Guidelines of Conduct for Ethical Management clearly sets out all unethical and prohibited conduct, the whistleblowing system, and the disciplinary system. These procedures and guidelines are implemented in the operations of all units.	No Difference
2. Implementing ethical corporate management (1) Does the Company evaluate the ethical records of the businesses with which it has dealings and include clear ethical corporate behavior provisions in contracts with such counterparties?	✓		(1) In the process of business dealings with other companies, CAL employees explain our ethical management policy and related regulations to counterparties and expressly refuse to directly or indirectly provide, promise, demand, or accept any form of improper benefit. When signing contracts with others, CAL fully reviews the counterparty’s ethical corporate behavior and includes complying with our ethical corporate management policies as a provision in contracts.	No Difference
(2) Has the Company set up a special unit affiliated to the Board of Directors to promote corporate ethical management that periodically (at least once per year) reports to the Board of Directors on the status of the implementation of ethical management policies, the plan for unethical conduct prevention, and its supervision?	✓		(2) A. The Company’s Human Resources Management Division, which is the dedicated unit for ethical management, is responsible for consolidating the ethical management implementation status in relevant units of the Company and reporting periodically to the Board of Directors once per year. The 2019 implementation status has been reported at the 8th meeting of the 21st Board of Directors on November 7, 2019. In addition, the Company encourages the reporting of unethical conduct and misconduct. An independent reporting mailbox has been set up and announced. The General Audit Office reports the received cases, handling methods, and follow-up review and rectification to the Board of Directors. B. Relevant status of the Company’s implementation of ethical management policies in 2019: a. An E-learning training course was held to raise awareness of service principles and code of conduct. b. Whistleblowing channels such as the following have been announced: chairman’s mailbox, General Audit Office’s confidential mailbox, the Speak Out area, and the WeCare listens mailbox. These facilitate employees’ immediate reporting to management and the Human Resources Management Division. c. "Employee Workplace Code of Conduct", "Employee Job Specifications", and relevant reward and disciplinary procedures have been established; clear standards and an effective disciplinary system have been set out. d. Ethical management is implemented through scheduled and unscheduled annual inspection mechanisms to prevent fraud and corruption.	No Difference

Evaluation Item	Implementation Status		Deviations from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and Reason	
	Yes	No		Brief Explanation
(3)Has the Company formulated and implemented policies to prevent conflicts of interest and provide appropriate ways to record any potential conflicts found?	✓		(3)CAL Procedures for Ethical Management and Guidelines for Conduct expressly state that should a conflict of interest arise in the execution of Company duties, employees shall report the situation to their direct supervisor, who should provide appropriate guidance.	No Difference
(4)Has the Company established an effective accounting system and an internal control system in efforts to implement ethical management? Has the Company's internal audit unit used the results of ethical management risk assessments to draw up relevant audit plans and examined compliance with the plan for unethical conduct prevention or entrusted an accountant to perform such an audit?	✓		(4)The Company has established effective systems, including an accounting system and internal control system. Annual audit plans are formulated every year based on risk assessments to examine the Company's accounting and internal control systems. The systems are continuously inspected to implement ethical management.	No Difference
(5)Does the Company periodically hold internal and external ethical corporate behavior training?	✓		(5)The Company promotes ethical behavior and corporate ethics when new employees assume office, and conducts E-Learning online courses for supervisors dispatched in Taiwan and abroad. The Ethical Corporate Management Best-Practice Principles, the Procedures and Guidelines of Conduct for Ethical Management, and other documents have been disclosed on the Company's internal and official website for the reference of internal and external personnel. In order to strengthen employees' understanding of the Company's corporate culture of ethical management, employees have been receiving training since 2017 through the E-learning system. The training situation for the last two years is as follows: A. 2018: a.Trainee(s): Current foreign branch office/agency staff (excluding foreign cabin crew members and personnel on leave of absence during training). Number of trainees: 1,596 persons. Number of completions: 1,356 persons. Completion rate: 85% b.Trainee(s): Taiwanese and foreign cabin crew members (excluding personnel on leave of absence during training). Number of trainees: 3,439 persons. Number of completions: 3,439 persons. Completion rate: 100% B. 2019: Trainee(s): Taiwanese and foreign cabin crew members (excluding personnel on leave of absence during training). Number of trainees: 1,293 persons. Number of completions: 1,293 persons. Completion rate: 100%	No Difference
3. Operation of the Company's Violation Reporting System (1)Has the Company established a concrete violation reporting and rewards system, set up convenient reporting channels, and appointed suitable personnel to handle these cases?	✓		(1) Article 20 of the Company's Procedures and Guidelines of Conduct for Ethical Management expressly provides and discloses the rules of reporting, the reporting channel, and the processing procedures; the reporting mailbox auditor@china-airlines.com is disclosed and announced on the Company's website and internal website for the use of Company's internal personnel and external personnel. The reported cases will be handled by the General Audit Office of the Company and the circumstances of the report, its handling methods, follow-up review, and improvement measures will be reported to the Board of Directors.	No Difference
(2)Has the Company established the standard operating procedures for the investigation of received reports, the follow-up measures to be taken after the investigation is completed, and the relevant confidentiality mechanism?	✓		(2) According to CAL Procedures for Ethical Management and Guidelines for Conduct, all reports of violations and related follow up investigations are kept strictly confidential and CAL has set up clear and effective awards and punishments, an appeals system, violation reporting confidentiality mechanism, and investigation SOP. In addition, the Company also incorporates ethical management into employee performance evaluation and human resources policies. A clear and effective reward and disciplinary system, grievance system, and the standard operating procedures for the investigation of reports have also been established.	No Difference
(3)Does the Company have any measures in place to protect individuals from possible mistreatment arising from reporting violations?	✓		(3) Employees who process violation reports must sign a written statement pledging to maintain confidentiality of the reporters and the details of the case. CAL also promises to protect the whistleblower from being improperly punished due to the reporting.	No Difference
4. Strengthening information disclosure Does the Company disclose the content of our Ethical Corporate Management Best-Practice Principles and their effectiveness on our website and the TWSE Market Observation Post System?	✓		CAL's Ethical Corporate Management Best-Practice Principles and Procedures for Ethical Management and Guidelines for Conduct are disclosed on the China Airlines website and the Taiwan Stock Exchange Market Observation Post System, along with the effectiveness of ethical operations and fair trade principles.	No Difference

Evaluation Item	Implementation Status			Deviations from the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies and Reason
	Yes	No	Brief Explanation	
5. If the Company has established a code of ethical corporate management based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any differences between said code and the Best-Practice Principles: No Differences.				
6. Other information that will assist in the understanding of Company ethical corporate management practices: None.				

3.3.8 Corporate Governance Guidelines and Regulations

The Company has established a Corporate Charter, Rules for Discussions of Official Business at Shareholder Meetings, Rules for Discussions of Official Business by the Board of Directors, Ethical Code of Conduct for Directors, Election of Directors, Rules for Corporate Governance, Guiding Principles for Operational Integrity, Guide to Integrity in Management and Business Procedures and Conduct, Practical Guidelines for Corporate Social Responsibility and Sustainable Development, Ethical Code of Conduct for Directors, Ethical Code of Conduct for Senior Supervisors, Employee Workplace Rules of Conduct, China Airlines Group Rules of Conduct, Supplier Code of Conduct, and Human Rights Policy; it has formed 3 committees under the Board of Directors for audit, remuneration, and risk, and has established various organizational rules. The relevant rules listed above are all made public on the Company's website (<http://www.china-airlines.com>) and the Company's social responsibility network (<https://calec.china-airlines.com/csr/en/index.html>).

3.3.9 Summary table of the resignation and dismissal of relevant persons of the Company

April 25, 2020

Title	Name	Date of Appointment	Date of Dismissal	Reason for Resignation or Dismissal
Chairman	Ho, Nuan-Hsuan	06/24/2016	04/02/2019	Removal of juridical person director representative
Vice President, Information Management Div. (concurrently research and development manager)	Lu, Shih-Ming	01/05/2015	11/18/2019	Transfer

Note: "Relevant persons in the Company" refers to the chairman, general manager, accounting management, financial management, internal audit management, corporate governance manager, R&D management, and others.

3.3.10 Other Important Information Regarding Corporate Governance

A. The organization and operations of Company's internal auditing

The Company's internal audit operations are handled by the General Audit Office. In compliance with Article 11 of the "Regulations Governing Establishment of Internal Control Systems by Public Companies," the General Audit Office is under the jurisdiction of the Board of Directors. The main internal audit operation methods are announced via the quality document management system in the Company's corporate internal information network. Information announced include the manual of "Detailed Rules for Internal Audit Implementation" and relevant operational methods. A summary is provided as follows:

- (1) Day-to-day audit (pre-incident audit and post-incident audit).
- (2) Annual audit (on-site inspection of the head office, branch units, and subsidiaries).
- (3) Project audit.
- (4) Supervision of construction, maintenance, and procurement.
- (5) Financial inventory.

- (6)Self-assessment of the internal control system.
- (7)Periodical audit required by the Financial Supervisory Commission.
- (8)Other units that need unscheduled audits.

B. Certifications of the personnel related to the Company's internal audits

Institute of Internal Auditors-Chinese Taiwan Internal Auditor Certificate: 1 person, International Internal Auditor Certificate: 1 person, R.O.C. Certified Public Accountant License: 2 people, R.O.C. Securities (Senior) Specialist: 1 person, R.O.C. Futures Specialist: 2 people, R.O.C. Financial Planning Personnel Proficiency Test Passing Certificate: 1 person, R.O.C. Stock Affairs Specialist Proficiency Test Passing Certificate: 1 person.

C. Company financial staff certifications and licenses: Institute of Internal Auditors-Chinese Taiwan Internal Auditor Certificate

Institute of Internal Auditors-Chinese Taiwan Internal Auditor Certificate: 4 people, International Internal Auditor Certificate: 3 people, R.O.C. Certified Public Accountant License: 2 people, R.O.C. Securities (Senior) Specialist: 6 people, R.O.C. Securities Investment Trust and Consulting Professional: 5 people, R.O.C. Futures Specialist: 4 people, R.O.C. Financial Planning Personnel Proficiency Test Passing Certificate: 4 people, R.O.C. Stock Affairs Specialist Proficiency Test Passing Certificate: 7 people, USA Certified Public Accountant License: 1 person, R.O.C. Basic Enterprise Internal Audit Proficiency Test Passing Certificate: 3 people.

D. Company Director Continuing Education

From January 1, 2019, through April 25, 2020

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
Chairman	Hsieh, Su-Chien	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
Director	Chen, Charles C.Y.	3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
		3hr	11/12/2019	Taiwan Institute of Directors	The 8th Annual Chinese Family Businesses Forum
Director	Ting, Kwang-Hung	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
Director	Chen, Han-Ming	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
Director	Ko, Sun-Ta	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
Director	Wei, Yung-Yeh	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
Director	Lin, Su-Ming	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
		2.5hr	10/01/2019	Taiwan Insurance Institute	Analysis of Laws and Regulations related to Anti-Money Laundering and Counter-Financing of Terrorism (2019)

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
		3hr	11/12/2019	Taiwan Insurance Institute	Financial Consumer Protection Act and the Principle of Fair Hospitality
		3hr	11/21/2019	Taiwan Insurance Institute	Impact of IFRS17 on the business strategy of the Insurance Enterprise
		3hr	12/24/2019	Taiwan Corporate Governance Association	IFRS17 Conversion and Insurance enterprise response strategy
Director	Wang, Shih-Szu	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
Independent Director	Chang, Hsieh Gen-Sen	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
Independent Director	Chung, Lo-Min	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	08/07/2019	Training by: Taiwan Corporate Governance Association	How Taiwanese companies respond to and manage the huge risks caused by the China-US trade war
Independent Director	Shen, Hui-Ya	3hr	05/08/2019	Training by: Taiwan Corporate Governance Association	Developing Trends and Prevention of Corporate Corruption
		3hr	05/24/2019	Taipei Foundation of Finance	Corporate Governance - Analysis of Financial Crime Practices
		3hr	09/20/2019	Taipei Foundation of Finance	Corporate Governance Training - The UN Convention Against Corruption, Anti-Fraud and Whistleblower Protection
		3hr	11/15/2019	Securities and Futures Institute	Avoid Unintentionally Violating the Securities and Exchange Act - Starting with Untruthful Financial Statements and Insider Trading

E. Corporate Governance Related Training Attended by Company Managers

From January 1, 2019 through April 25, 2020

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
Vice President, Finance Div.	Chen, I-Chieh	12hr	10/21/2019-10/22/2019	Accounting Research and Development Foundation	Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges
Assistant Vice President, Finance Div.	Yen, Yang	12hr	01/09/2020-01/10/2020	Accounting Research and Development Foundation	Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges
Deputy Auditor General, General Audit Office	Fang, Juo-Ling	6hr	07/19/2019	Accounting Research and Development Foundation	Internal Audit and Internal Control Practices of Reward Systems for Corporate Employees
		6hr	10/21/2019	Institute of Internal Auditors-Chinese Taiwan	Internal Auditing Professional Course- How Audit Supervisors Assist the Board of Directors and Advisory Service
Deputy Auditor General, General Audit Office	Ho, Hui-Fen	6hr	09/09/2019	Institute of Internal Auditors-Chinese Taiwan	Internal Auditing Professional Course- The Functions and Duties of Corporate Governance Personnel in the Corporate Governance Blueprint
		6hr	10/21/2019	Institute of Internal Auditors-Chinese Taiwan	Internal Auditing Professional Course- How Audit Supervisors Assist the Board of Directors and Advisory Service

F. Succession plan for the Board of Directors and key management of the Company

The selection and nomination of China Airlines' directors are carried out in accordance with the Company Act, Securities and Exchange Act, China Airlines' Rules Governing the Election of Directors, and Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies. All elections of directors are conducted in accordance with the candidate nomination system. Shareholders may nominate director candidates; through shareholders' voting in the annual general meeting, directors (including independent directors) are elected from the list of candidates nominated by shareholders. The term of office of a director is 3 years.

As for the selection of director successors, the director representative successors should generally have the required abilities stated in the chapter within China Airlines' "Corporate Governance Principles" describing reinforced competencies of the Board of Directors. As required by the law, independent directors must have obtained certain professional qualification and work experience. Professionals who are experienced in the industry, including the governmental and academic fields, are the main direction of selection that forms the basis of succession planning (please refer to P.41 for diversification). In addition, the independence of all Board members is ensured in accordance with the law, and the results of its annual evaluation are an important reference for whether continued nomination is needed.

In order to enhance the directors' ability to exercise the powers of their posts and ensure that the Board's effectiveness is up-to-date, scheduled advanced studies are arranged every year to help elevate the professional competencies of the directors. The studies involve courses on corporate governance-related topics, including finance, accounting, business, commerce, legal affairs, information, risk management, internal control systems, and corporate social responsibility. To ensure that the succession plan is comprehensive, the study contents align with the updates of regulations and conditions of the internal and external environments, as well as topics applicable to future development needs. Furthermore, regarding the succession plan for important management, in addition to having excellent professional management ability, its behavior, ethics, and instructions shall be based on the resolutions of the Board of Directors, and be handled in accordance with the "China Airlines Executives Code of Ethical Conduct" and related laws and regulations to maintain the best interests of the Company, employees, and shareholders.

In the training plan for the Company's important management, regular senior management lectures are held every year, where there are invited personages from the fields of industry, public sector, and academia to give special lectures on the state of the global market and the development of the aviation industry, so that the Company's supervisors can better understand the state of the market and that the height and breadth of professional competence development may be improved. Periodic inter-agency transfers shall be handled according to the Company's rules to comprehensively cultivate diversified management capabilities of important management. In addition, to deepen the Company's various levels of management professionals and broaden the horizon of potential talent, strategic

and management occupational training sessions are held on a regular basis and talent training programs have been established to refine the necessary knowledge and skills of mid-level supervisors, cultivate talent with international vision and management capabilities, and strengthen the management knowledge of management professionals through job experience, management course training, and rigorous assessment systems. As of today, more than 100 outstanding management professionals have been thus cultivated and are now serving in key units in Taiwan and foreign branches.

- G. On December 6, 2012, after approval by the Board of Directors, the Company established the China Airlines Ltd. Procedures for Handling Material Inside Information. In addition to announcing the new procedures to the Board, management, and employees, they were also published under Important Company Regulations on the Investor Relations section of the CAL website so the Board, management, and employees can reference them at any time in order to avoid violations and the occurrence of insider trading.

3.3.11 Internal Control Systems

A. Internal Control Statement



China Airlines Co., Ltd.
Internal Control Statement



Date: March 18, 2020

The Company states the following with regard to our internal control system during the period of fiscal year 2019 based on the self-assessment result :

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are responsibilities of the management and the Board of Directors. The Company has established such a system. The goal of the system is aimed at the operation efficiency and effectiveness (including profits, performance, and assets safeguarding), and to provide reasonable assurance on producing reliable, timely and transparent reports in compliance with the governing law and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company, however, contains self-monitoring mechanisms which will take corrective actions upon detecting deficiency.
3. The Company should evaluate the effectiveness of the design and execution of its internal control system based on judgment criteria set by "the Regulation Governing the Establishment of Internal Control Systems by Public Companies" (hereinafter referred as "The regulations"). The regulations adopt the criteria, and divide the managerial control process into five key elements: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and Communications, and 5. Monitoring. Each element contains detailed items. Aforementioned items please refer to The regulations.
4. The Company has conducted an effectiveness evaluation on its internal control system by adopting the above mentioned internal control system judgment criteria.
5. Based on the preceding assessment result, the Company believes that its internal control system (with subsidiaries supervision and management) on the date of December 31, 2019 includes the awareness of operation



effectiveness and target achievement efficiency, reports are reliable, timely, and transparent in compliance with the governing law and regulations. The design and execution of the internal control system are effective which can reasonably assure the accomplishment of the aforementioned objectives.

6. This Statement will become the major part of the Company's annual report and prospectus, which will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been approved by the Board of Directors Meeting of the Company held on the date of March 18, 2020, where none of the eleven attending directors expressed dissenting opinions, and unanimously affirmed the content of this Statement.

Chairman and President

B. If the Company has commissioned external auditors to review the Company's internal control system, the external auditor's report should be disclosed: None.

3.3.12 Any disciplinary measures taken against the Company or its internal staff due to violations of legal requirements or taken by the Company against its own staff due to violations of the internal control system. The details of the disciplinary measures, major faults, and improvement measures should be noted

No.	Penalty	Deficiency	Improvement
1	A fine of NT\$1,000,000.	The Company underwent labor inspection on January 16, 2019. There was a violation of Article 49, Paragraph 1 of the Labor Standards Act, because cabin crew members' nighttime work had not been approved by the labor union.	(1) In the case of female workers' nighttime work, the Company union refused to acknowledge the provisions of the collective agreement; the Company believes that the outcome of the case was unfair, since the competent authority was biased towards the union's claim and imposed the penalty. (2) An administrative appeal has been filed for this case to protect the Company's rights and interests. (3) The Company and the Company union have initiated negotiation, and will reconfirm the provisions allowing female workers' nighttime work.
2	A fine of NT\$40,000.	The Company underwent labor inspection on February 13, 2019. There was a violation of Article 49, Paragraph 1 of the Labor Standards Act, because female workers' nighttime work	(1) In the case of female workers' nighttime work, the Company union refused to acknowledge the provisions of the collective agreement; the Company believes that the outcome of the case was unfair, since the

No.	Penalty	Deficiency	Improvement
		at the customer service center of the Taipei office had not been approved by the labor union. There was also a violation of Article 34, Paragraph 2, because the interval between two shifts was less than 11 hours.	<p>competent authority was biased towards the union's claim and imposed the penalty.</p> <p>(2) An administrative appeal has been filed for this case to protect the Company's rights and interests.</p> <p>(3) The Company and the Company union have initiated negotiation, and will reconfirm the provisions allowing female workers' nighttime work.</p> <p>(4) As for the case in which the interval between two shifts was less than 11 hours, it was caused by the large influx of calls triggered by the short-notice strike by the Pilots Union. The Company has rectified this case, and an administrative appeal will be filed because the case was due to the need to respond to a particular emergency.</p>
3	A fine of NT\$1,000,000.	The Company underwent labor inspection on April 22, 2019. There was a violation of Article 49, Paragraph 1 of the Labor Standards Act, because cabin crew members' nighttime work had not been approved by the labor union.	<p>(1) In the case of female workers' nighttime work, the Company union refused to acknowledge the provisions of the collective agreement; the Company believes that the outcome of the case was unfair, since the competent authority was biased towards the union's claim and imposed the penalty.</p> <p>(2) An administrative appeal has been filed for this case to protect the Company's rights and interests.</p> <p>(3) The Company and the Company union have initiated negotiation, and will reconfirm the provisions allowing female workers' nighttime work.</p>
4	A fine of NT\$1,000,000.	The Company underwent labor inspection on October 16, 2019. There was a violation of Article 49, Paragraph 1 of the Labor Standards Act, because cabin crew members' nighttime work had not been approved by the labor union.	<p>(1) In the case of female workers' nighttime work, the Company union refused to acknowledge the provisions of the collective agreement; the Company believes that the outcome of the case was unfair, since the competent authority was biased towards the union's claim and imposed the penalty.</p> <p>(2) An administrative appeal has been filed for this case to protect the Company's rights and interests.</p> <p>(3) The Company and the Company union have initiated negotiation, and will reconfirm the provisions allowing female workers' nighttime work.</p>
5	A fine of NT\$20,000.	The Company underwent labor inspection on January 9, 2020. There was a violation of Article 38, Paragraph 2 of the Labor Standards Act (leave arranged by workers), because the request for paid leave raised by pilots in the Flight Operations Division was not granted due to worker allocation.	<p>(1) In this case, paid leave could not be scheduled due to pilot allocation issues; the Company and the pilots had communicated to schedule the leave on other days. The competent authority insisted that the law stated the leave could only be arranged by workers and issued the penalty.</p> <p>(2) An administrative appeal has been filed for this case to protect the Company's rights and interests.</p> <p>(3) The Company will strengthen communication with employees to coordinate paid leave dates.</p>

In addition, from 2019 to the printing of the annual report, the Company was fined NT\$60,000 by the Ministry of Labor due to the ruling in the case of an unfair labor practice dispute with the Taoyuan Flight Attendants Union, and we continue to seek administrative remedies. The relevant statistics of cases and content of the disputes are as follows:

Number of cases	Main dispute	Total amount of fines
1	Dispute regarding granting of leave for union related business of the union's cadre.	NT\$60,000

3.3.13 Major Resolutions of Shareholders' Meeting and Board Meetings

A. Major Resolutions of Shareholders' Meeting in 2019

Item	Major resolutions	Execution
1. Business Report and Financial Statements for the year 2018	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019
2. 2018 Surplus Earnings Distribution	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019
3. Amendment to the Articles of Incorporation	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019, and has been complied with since that day.
4. Amendment to the Procedures Governing the Election of Directors	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019, and has been complied with since that day.
5. Amendment to the Procedures Governing the Acquisition and Disposal of Assets	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019, and has been complied with since that day.
6. Amendment to the Operational Procedures for Derivatives Trading	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019, and has been complied with since that day.
7. Amendment to the Operational Procedures for Lending Funds to Others	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019, and has been complied with since that day.
8. Amendment to the Operational Procedures for Endorsements/Guarantees	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019, and has been complied with since that day.
9. The Release of Tigerair Taiwan Stock	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 25, 2019, and has been complied with since that day.
10. Proposal to release the non-competition restriction of holding concurrent positions on Chairman Hsieh, Su-Chien	This resolution was passed as proposed upon voting.	The non-competition restriction on Chairman Hsieh, Su-Chien was lifted based on the resolution of Shareholders' Meeting on June 25, 2019, which was subsequently announced.

B. Major Resolutions of Board Meetings (January 1, 2019 to April 25, 2020)

Date	Item	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
January 21, 2019 21st Board of Directors 4th Meeting	(1)The Selling of Two A340-300 Aircrafts: B-18806 and B-18807 (2)Selling of Shares in "Huachuan Travel Agency" (3)Listing Application Plan of Tigerair Taiwan (4)Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Five Financial Institutions, Including Mega International Commercial Bank (5)Regular Review of Performance Evaluation Systems of Directors and Managers (6)Regular Review of Policies, Systems, Standards, and Structures for Salary and Compensation of Directors and Managers (7)2018 Employee Salary and 2019 Lunar New Year Incentive (8)2019 Employee Salary Adjustment (9)Chairman and Managers' 2018 Year-end Bonus and 2019 Lunar New Year Incentive (10) Proposal of Salary and Compensation for the Senior Vice President (VV) Wang, Chen-Min (11) Lifting of Non-competition Restriction on Holding Concurrent Posts for Wang, Chen-Min, Senior Vice President	Approved by all attending Independent Directors	None
March 20, 2019 21st Board of Directors 5th Meeting	(1)2018 Internal Control System Effectiveness Audit and Statement (2)The Convening of the 2019 Annual General Meeting (3)Amendment to "Directors Election Regulations" (4)2018 Financial Report and Consolidated Financial Report (5)2018 Business Report	Approved by all attending Independent Directors	None

Date	Item	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
	(6)2018 Surplus Earnings Distribution (7)2019 CPA Appointment and Remuneration (8)Amendment to "Company's Articles of Incorporation" (9)Revision of "Procedures for the Acquisition or Disposal of Assets" (10) Revision of "Procedures Governing Derivatives Trading" (11) Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Six Financial Institutions, Including the Bank of Taiwan (12) Revision of Definition of Employee Compensation and 2018 Employee Compensation (13) The handling status of four meetings between the Company and the Taoyuan Union of Pilots at the Ministry of Transportation and Communications and the signing of a collective agreement on February 21, 2019, at the meeting with the Department of Labor, Taoyuan City Government.		
April 2, 2019 21st Board of Directors 5th Extraordinary Meeting	Election of new Chairman	Approved by all attending Independent Directors	None
May 8, 2019 21st Board of Directors 6th Meeting	(1)Proposal on salary and remuneration of Chairman Hsieh, Su-Chien. (2)Proposal to release the non-competition restriction of holding concurrent positions on Chairman Hsieh, Su-Chien. (3)Proposal on the service pay of former Chairman Ho, Nuan-Hsuan. (4)Adjustment of travel expenses for Directors (including Independent Directors). (5)Establishment of Corporate Governance Manager. (6)Proposal on Salary and Remuneration of Chief Corporate Governance Officer. (7)Establishment of Domestic Tier-1 Division. (8)Amendment to "Rules of Procedure for Board of Directors Meetings". (9)Amendment to "Corporate Governance Principles". (10) Amendment to "Operational Procedures for Loaning Funds to Others" and "Procedures for Endorsement and Guarantee". (11) The Plan for the Stock Release of "Tigerair Taiwan". (12) Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Five Financial Institutions, Including Cathay United Bank. (13) NT\$5.5 Billion Five-year Non-guaranteed Commercial Paper Financing. (14) The Sale-leaseback Operation of Five Company-owned A330-300 Aircrafts. (15) Evaluation and Selection of New Narrow-body Passenger Aircraft and Introduction of New Aircraft.	Approved by all attending Independent Directors	None
June 25, 2019 21st Board of Directors 6th Extraordinary Meeting	(1)Introduction of new 777F cargo aircraft. (2)Introduction of the New A321neo Narrow-body Passenger Aircraft.	Approved by all attending Independent Directors	None
July 3, 2019 21st Board of Directors 7th Extraordinary Meeting	Plan to handle the relevant matters of releasing the shares of Tigerair Taiwan	Approved by all attending Independent Directors	None
August 7, 2019 21st Board of Directors 7th Meeting	(1)Dismissal of Senior Vice President (VW). (2)Issuing NT\$3 Billion of Total Face Value of Domestic Unsecured Convertible Corporate Bonds. (3)Provision of General Financing Limit and Financial Commodity	Approved by all attending Independent Directors	None

Date	Item	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
	Trading Risk Limit by Five Financial Institutions, Including Taishin International Bank. (4)Execute the Conversion of Three Options for Boeing 777F into Firm Orders.		
October 8, 2019 21st Board of Directors 8th Extraordinary Meeting	(1)The Case of "Engine Selection and the Procurement of 4 Backup Engines for the New A321neo Narrow-body Passenger Aircraft." (2)The Company's provision of endorsement and guarantee to Tigerair Taiwan Co., Ltd.	Approved by all attending Independent Directors	None
November 7, 2019 21st Board of Directors 8th Meeting	(1)2020 Audit Plan (2)Decision on the Authorization of the Chairman to Pre-determine the Transaction Limit of Contracts in which the Company Leases Real Estate to Subsidiaries. (3)Amendment to the "Regulations Governing the Board Performance Evaluation" (4)Amendment to the "Remuneration Committee Foundation Policy" (5)2020 Business Plan and Budget (6)Stock Release of "Tigerair Taiwan" Prior to Emerging Stock Market Registration (7)Provision of General Financing Limit and Financial Commodity Trading Limit by Five Financial Institutions, Including CTBC Bank	Approved by all attending Independent Directors	None
January 13, 2020 21st Board of Directors 9th Meeting	(1)Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Four Financial Institutions, Including DBS Bank (Taiwan) (2)2019 Year-end Bonus and 2020 Lunar New Year Incentive (3)Matters Regarding the Signing of Agreement with the CAL Employees Union on Issues of "13th Month Full Salary (Flight Safety Bonus)" and "Working Hours Rearrangement and Female Employees' Nighttime Work" on December 31, 2019 (4)2020 Employee Salary Adjustment (5)Chairman and Managers' 2020 Lunar New Year Incentive (6)Lifting of Non-competition Restriction on Holding Concurrent Posts for Senior Vice President (7)Report on the Company's Lease on Real Estate with a Subsidiary	Approved by all attending Independent Directors	None
March 18, 2020 21st Board of Directors 10th Meeting	(1)Amendment to 2020 Audit Plan (2)2019 Internal Control System Effectiveness Audit and Statement (3)New Branch Unit in Response to Route Launch (4)Change in Personnel and Position (5)The Convening of the 2020 Annual General Meeting (6)2019 Financial Report and Consolidated Financial Report (7)2019 Business Report (8)2019 Deficit Make-Up (9)2020 CPA Appointment and Remuneration (10) Issuance of Domestic Unsecured Ordinary Corporate Bonds (11) Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Three Financial Institutions, Including First Commercial Bank (12) Amendment to "Company's Articles of Incorporation" (13) Amendment to "Rules of Procedure for Shareholders Meetings" (14) Amendment to "Rules of Procedure for Board of Directors Meetings" (15) Amendment to "Audit Committee Organizational Rules"	Approved by all attending Independent Directors	None

3.3.14 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting with Important Resolutions Passed by the Board of Directors: None.

3.4 Information Regarding the Company's Audit Fee and Independence

3.4.1 Audit Fee

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Huang, Jui-Chan	Cheng, Shih-Ran	01/01/2019-12/31/2019	None

Unit: NT\$ thousands

Fee Range	Fee Items	Audit Fee	Non-audit Fee	Total
1	Under 2,000			
2	2,000 - 3,999			
3	4,000 - 5,999		✓	
4	6,000 - 7,999	✓		
5	8,000 - 9,999			
6	Over 10,000			✓

3.4.2 Audit and Non-Audit Fees Paid to CPAs, the Certified Accounting Firm to Which Said CPAs Belong and Any Affiliated Enterprises and Details Regarding Non-Audit Fees. See Below:

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Deloitte & Touch	Huang, Jui-Chan Cheng, Shih-Ran	7,350	-	-	-	5,829	5,829	01/01/2019-12/31/2019	Others include the business tax audit fee of dual-status business entities adopting direct deduction, the transfer pricing report service fee, the related accountant certification fee for issuance of corporate bond, the US airport Passenger Facility Charge (PFC) tax collection and audit fee, and the consulting fee of General Data Protection Regulation (GDPR).

3.4.3 Changed audit firms and the audit fee paid was less than the audit fees paid in the previous year prior to the change: Not Applicable.

3.4.4 Those with audit fees amounting to a reduction of 15% or more compared to the previous year: None.

3.5 Replacement of CPA:

3.5.1 On the previous accountant

Date of change	March 20, 2019		
Reason and explanation for change	Due to internal reorganization at the CPA firm, the resolution was passed at the 5th meeting of the 21st Board of Directors on March 20, 2019 that from the financial report for Q1 of 2019, the CPAs would be switched to Huang, Jui-Chan and Cheng, Shiu-Ran.		
Explanation was termination of the person or accountant appointed or refusal of appointment	Involved party	Accountant	Appointee
	Situation	None.	
	Proactive termination of appointment		
Did not accept further (continuing) appointment			
Newest check report within two years other than one signed and issued without disclaimer and reason	None.		
Objection from issuer	Yes		Accounting principles or customary practice
			Financial report disclosure
			Scope of check or steps
			Other
None		✓	
Explanation			
Other items disclosed (for which disclosure is required under Article 10, Clause 6, items 1d through 1g)	None.		

3.5.2 On successor accountants

Name of firm	Deloitte & Touche
Accountant Name	Huang, Jui-Chan; Cheng, Shiu-Ran
Date of appointment	March 20, 2019
Pre-appointment consultations for opinions on method of accounting or accounting principles for specific transactions and consultation on possibility of signing and results of same	None.
Written opinions of successor accountants at odds with those of previous accountants	None.

3.6 Audit Independence: None.

3.7 Changes in Shareholding of Directors, Managers, and Major Shareholders

Unit: Shares

Title	Name	2019		The current year through April 25, 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Major Shareholder	China Aviation Development Foundation (Note)				
Chairman	China Aviation Development Foundation Representative: Hsieh, Su-Chien	0	0	0	0
Director	China Aviation Development Foundation Representative: Chen, Charles C.Y.; Ting, Kwang-Hung; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh				
Director	National Development Fund, Executive Yuan Representative: Lin, Su-Ming; Wang, Shih-Szu	0	0	0	0
Independent Director	Chung, Lo-Min	0	0	0	0
Independent Director	Chang, Hsieh Gen-Sen	0	0	0	0
Independent Director	Shen, Hui-Ya	0	0	0	0
President	Hsieh, Su-Chien	0	0	0	0
Senior Vice President	Kao, Shing-Hwang	0	0	0	0
Senior Vice President	Wang, Chen-Min	0	0	0	0
Senior Vice President	Wang, Houg	0	0	0	0
Senior Vice President	Chang, Young	0	0	0	0
Auditor General	Fang, Juo-Ling	0	0	0	0
Data Protection Officer	Wu, Hsiao-Sui	0	0	0	0
Vice President	Chien, Feng-Nien	0	0	0	0
Vice President	Chen, I-Ko	0	0	0	0
Vice President	Lai, Ming-Hui	0	0	0	0
Vice President	Peng, Pao Chu	0	0	0	0
Vice President	Liu, Der-Chuan	0	0	0	0
Vice President	Liu, Tsao-Yang	0	0	0	0
Vice President	Yeah, Shao-Ting	0	0	0	0
Vice President	Chen, Wei-Tau	0	0	0	0
Vice President	Chen, I-Chieh	0	0	0	0
Vice President	Hong, Tsu-Kuang	0	0	0	0
Vice President	Chung, Wan-Chun (Assumed post on 11/23/2019)	0	0	0	0
Vice President	Chou, Jyh-Shyan	0	0	0	0
Vice President	Chu, Te-Hsiu (Assumed post on 11/18/2019)	0	0	0	0
Vice President	Chang, Cheng-Hao (Assumed post on 01/21/2019)	0	0	0	0
Vice President	Chung, Ming-Jyh	0	0	0	0
Vice President	Sun, Jia-Min	0	0	0	0
Vice President	Lee, Jung-Hui	0	0	0	0
Vice President	Li, Chih-Wei	0	0	0	0
Deputy Auditor General	Ho, Hui-Fen	0	0	0	0
Assistant Vice President	Yu, Yueh-Han	0	0	0	0

Title	Name	2019		The current year through April 25, 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Assistant Vice President	Chen, Chwen-Der	0	0	0	0
Assistant Vice President	Tung, Hsing-Hua	0	0	0	0
Assistant Vice President	Huang, Hsiang-Piao	0	0	0	0
Assistant Vice President	He, Cheng (Assumed post on 11/01/2019)	0	0	0	0
Assistant Vice President	Chen, Pei-Ti	0	0	0	0
Assistant Vice President	Mao, Li-Chung (Assumed post on 12/20/2019)	0	0	0	0
Assistant Vice President	Sheu, Yuh-Shy (Assumed post on 01/22/2019)	0	0	0	0
Assistant Vice President	Shann, Da-Sin	0	0	0	0
Assistant Vice President	Lin, Heng Shan (Assumed post on 04/16/2019)	0	0	0	0
Assistant Vice President	Lee, Pei-Chen (Assumed post on 04/01/2019)	46,455	0	0	0
Assistant Vice President	Yen, Yang	0	0	0	0
Assistant Vice President	Huang, Hui-Na	0	0	0	0
Assistant Vice President	Fang, Yuan-Hua	0	0	0	0
Assistant Vice President	An, Long-Chi (Assumed post on 04/01/2020)	0	0	0	0
Assistant Vice President	Huang, Chin-Feng (Assumed post on 10/16/2019)	0	0	0	0
Assistant Vice President	Hsu, Hsueh-Wen (Assumed post on 02/01/2020)	0	0	0	0
Assistant Vice President	Wang, Wei	0	0	0	0
Assistant Vice President	Liu, Shou-Shu	0	0	0	0
Assistant Vice President	Liu, Duan-Shiuh	0	0	0	0
Assistant Vice President	Hsiao, Jui-Fu	0	0	0	0
Assistant Vice President	Wei, Shi-Jong (Dismissed on 01/21/2019)	0	0	0	0
Assistant Vice President	Ouyang, John (Dismissed on 01/24/2019)	0	0	0	0
Assistant Vice President	Hung, I-Lan (Dismissed on 03/21/2019)	0	0	0	0
Vice President	Chen, Kang-Reuy (Dismissed on 03/31/2019)	0	0	0	0
Chairman	China Aviation Development Foundation Representative: Ho, Nuan-Hsuan (Dismissed on 04/02/2019)	0	0	0	0
Vice President	Chiu, Chang-Hsin (Dismissed on 08/01/2019)	0	0	0	0
Senior Vice President	Lo, Ya-Mei (Dismissed on 08/01/2019)	0	0	0	0
Assistant Vice President	Hsiao, Kuo-Chih (Dismissed on 08/05/2019)	0	0	0	0

Title	Name	2019		The current year through April 25, 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Assistant Vice President	Yu, Yau (Dismissed on 10/01/2019)	0	0	0	0
Assistant Vice President	Fang, Cheng-Ru (Dismissed on 10/01/2019)	0	0	0	0
Assistant Vice President	Jeng, Jong-Shinn (Dismissed on 10/31/2019)	0	0	0	0
Vice President	Lu, Shih-Ming (Dismissed on 11/18/2019)	0	0	0	0
Assistant Vice President	Chiu, Wei-Tuan (Assumed post on 08/10/2019)(Dismissed on 03/19/2020)	0	0	0	0
Assistant Vice President	Chen, Jo-Ching (Dismissed on 04/01/2020)	0	0	0	0
Assistant Vice President	Kao, Shu-Chuan (Dismissed on 04/01/2020)	0	0	0	0

Note: Refers to major shareholders holding more than 10% of company shares.

3.7.1 Shares Trading with Related Parties: None.

3.7.2 Shares Pledge with Related Parties: None.

3.8 Relationships among the Top Ten Shareholders

April 25, 2020

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
China Aviation Development Foundation (Representative: Wang, Kwo-Tsai)	1,867,341,935	34.45%	0	0%	0	0%	None	None	None
National Development Fund of The Executive Yuan (Representative: Dr. Chen, Mei-Ling)	519,750,519	9.59%	0	0%	0	0%	None	None	None
Chunghwa Telecom Co. Ltd. (Representative: Sheih, Chi-Mau)	263,622,116	4.86%	0	0%	0	0%	None	None	None
China Airlines Ltd. Employee Stock Ownership Trust Plan	63,333,017	1.17%	NA	NA	0	0%	None	None	None
New Labor Pension Fund	60,727,000	1.12%	NA	NA	0	0%	None	None	None
Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	53,130,442	0.98%	NA	NA	0	0%	None	None	None
Ocean Investment Holding Co., Ltd. (Representative: Wang, Yun-E)	48,727,000	0.90%	0	0%	0	0%	None	None	None
Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds	35,442,146	0.65%	NA	NA	0	0%	None	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank	35,300,821	0.65%	NA	NA	0	0%	None	None	None
iShares MSCI Taiwan Index	33,591,761	0.62%	NA	NA	0	0%	None	None	None

3.9 Ownership of Shares in Affiliated Enterprises

Dec 31, 2019

Unit: shares; %

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
1. CAL-Dynasty International, Inc.	2,614,500	100.00	-	-	2,614,500	100.00
1A Dynasty Properties Co., Ltd.	-	-	5,000	100.00	5,000	100.00
1B Dynasty Hotel of Hawaii, Inc.	-	-	400,000	100.00	400,000	100.00
2. CAL-Asia Investment Inc.	7,172,346	100.00	-	-	7,172,346	100.00
2A Eastern United International Logistics (Holdings) Ltd.	-	-	1,050,000	35.00	1,050,000	35.00
2B Airport Air Terminal (Xiamen) Co., Ltd.	-	-	(Note1)	28.00 (Note2)	(Note1)	28.00 (Note2)
2C Airport Air Cargo Service (Xiamen) Co., Ltd.	-	-	(Note1)	28.00 (Note2)	(Note1)	28.00 (Note2)
2D Taikoo (Xiamen) Landing Gear Services Co., Ltd.	-	-	(Note1)	2.59	(Note1)	2.59
2E Haeco Composite Structures (Jinjiang) Co., Ltd.	-	-	(Note1)	5.45	(Note1)	5.45
3. Dynasty Aerotech International Corp.	77,270	100.00	-	-	77,270	100.00
4. Yestrip Co., Ltd.	1,600,000	100.00	-	-	1,600,000	100.00
5. CAL Park Co., Ltd.	150,000,000	100.00	-	-	150,000,000	100.00
6. CAL Hotel Co., Ltd..	46,500,000	100.00	-	-	46,500,000	100.00
7. Taiwan Aircraft Maintenance And Engineering Co., Ltd.	135,000,000	100.00	-	-	135,000,000	100.00
8. Mandarin Airlines, Ltd.	188,154,025	93.99	-	-	188,154,025	93.99
9. Sabre Travel Network (Taiwan) Ltd.	13,021,042	93.93	-	-	13,021,042	93.93
10. Tigerair Taiwan Co., Ltd.	138,906,275	69.45	15,433,000	7.72	154,339,275	77.17
11. China Pacific Laundry Services Ltd.	13,750,000	55.00	-	-	13,750,000	55.00
12. Taiwan Air Cargo Terminal Ltd.	135,000,000	54.00	12,500,000	5.00	147,500,000	59.00
13. Kaohsiung Airport Catering Services	21,494,637	53.67	-	-	21,494,637	53.67
13A Delica International Co., Ltd.	-	-	1,020,000	51.00	1,020,000	51.00
14. Dynasty Holidays, Inc.	160	20.00	-	-	160	20.00
15. China Pacific Catering Services Ltd.	43,911,000	51.00	-	-	43,911,000	51.00
16. Taoyuan International Airport Services Co., Ltd.	34,300,000	49.00	-	-	34,300,000	49.00
17. Taiwan Airport Service Co., Ltd.	20,626,644	47.35	469,755	1.08	21,096,399	48.43
17A Taiwan Airport Service (Samoa) Co., Ltd.	-	-	(Note1)	100.00	(Note1)	100.00
18. NORDAM Asia Ltd.	3,797,500	49.00	-	-	3,797,500	49.00
19. Global Sky Express Ltd.	250,000	25.00	-	-	250,000	25.00
20. China Aircraft Services Ltd.	28,400,000	20.00	-	-	28,400,000	20.00
21. Jardine Air Terminal Services Ltd.	12,000,000	15.00	-	-	12,000,000	15.00
22. Everest Investment Holdings Ltd.	(Note3)	13.59	-	-	(Note3)	13.59
23. Chung-Hwa Express Co., Ltd.	1,100,000	11.00	-	-	1,100,000	11.00

Note 1: This company has not issued shares.

Note 2: CAL-Asia Investments Inc. directly holds 14% stake, Taiwan Airport Service (Samoa) Co., Ltd. directly holds 14% stake.

Note 3: Includes 1,359,368 shares of common stock and 135,937 shares of preferred stock.

Capital Overview

4.1 Capital and Shares

4.2 Corporate Bonds

4.3 Other Depository Receipts

4.4 Financing Plans and Implementation

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

A. Issued Shares

APR 25, 2020

Unit: shares; NT\$

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Sources of Capital	Approval Date and Document No. by Ministry of Economic Affairs
02/2012	10	5.2 billion	52 billion	5.2 billion	52 billion	Cash increase NT\$5,683,776,490	Jing Shou Shang No. 10101028630, February 20, 2012
05/2015	10	6 billion	60 billion	5.24 billion	52.4 billion	Corporate debt for equity swap NT\$491,665,650	Jing Shou Shang No. 10401079310, May 7, 2015
05/2015	10	6 billion	60 billion	5.37 billion	53.7 billion	Corporate debt for equity swap NT\$1,208,413,350	Jing Shou Shang No. 10401096840, May 28, 2015
09/2015	10	6 billion	60 billion	5.47 billion	54.7 billion	Corporate debt for equity swap NT\$1,000,652,560	Jing Shou Shang No. 10401186200, September 17, 2015
12/2015	10	6 billion	60 billion	5.47 billion	54.7 billion	Corporate debt for equity swap NT\$8,169,930	Jing Shou Shang No. 10401250360, December 8, 2015
12/2017	10	6 billion	60 billion	5.47 billion	54.7 billion	Corporate debt for equity swap, NT\$945,010	Jing Shou Shang No. 10601158980, December 4, 2017
12/2018	10	6 billion	60 billion	5.42 billion	54.2 billion	Treasury Stock Retired NT\$500,000,000	Jing Shou Shang No. 10701157330, December 18, 2018
05/2019	10	7 billion	70 billion	5.42 billion	54.2 billion	Adjustment of authorized capital in accordance with the Articles of Incorporation	Jing Shou Shang No. 10801043180, May 8, 2019

Note: There was no "Capital Increase by Assets Other than Cash."

B. Type of Stock:

APR 25, 2020; Unit: Thousand shares

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stock Inscribed	5,420,985	1,579,015	7,000,000	Listed Stocks

4.1.2 Status of Shareholders

APR 25, 2020; Unit: shares

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Treasury Stock	Total
Number of Shareholders	4	19	217	711	143,275	0	144,226
Shareholding	519,754,485	67,439,391	2,484,721,933	728,144,422	1,620,924,419	0	5,420,984,650
%	9.59%	1.24%	45.84%	13.43%	29.90%	0.00%	100.00%

4.1.3 Shareholding Distribution Status

APR 25, 2020; Unit: shares

Class of Shareholding	Number of Shareholders	Shareholding	Percentage
1-999	33,523	10,849,315	0.20%
1,000-5,000	66,491	160,343,416	2.96%
5,001-10,000	18,991	154,440,495	2.85%
10,001-15,000	6,602	83,509,579	1.54%
15,001-20,000	5,091	95,134,934	1.75%
20,001-30,000	4,461	115,451,031	2.13%
30,001-40,000	2,139	76,948,793	1.42%
40,001-50,000	1,698	80,038,450	1.48%
50,001-100,000	2,859	208,967,105	3.85%
100,001-200,000	1,290	185,797,043	3.43%
200,001-400,000	516	146,905,639	2.71%
400,001-600,000	201	98,028,565	1.81%
600,001-800,000	80	54,717,582	1.01%
800,001-1,000,000	50	45,051,240	0.83%
1,000,001 or over	234	3,904,801,463	72.03%
Total	144,226	5,420,984,650	100.00%

4.1.4 List of Major Shareholders

APR 25, 2020; Unit: shares

Shareholder's Name	Shareholding	Shares	Percentage
China Aviation Development Foundation		1,867,341,935	34.45%
National Development Fund of The Executive Yuan		519,750,519	9.59%
Chunghwa Telecom Co. Ltd.		263,622,116	4.86%
China Airlines Ltd. Employee Stock Ownership Trust Plan		63,333,017	1.17%
New Labor Pension Fund		60,727,000	1.12%
Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds		53,130,442	0.98%
Ocean Investment Holding Co., Ltd.		48,727,000	0.90%
Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds		35,442,146	0.65%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank		35,300,821	0.65%
iShares MSCI Taiwan Index		33,591,761	0.62%

4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: Thousand shares; NT\$

Year		2018 (Distributed in 2019) (Note 10)	2019 (Distributed in 2020) (Note 11)	2020 (As of APR 25) (Note 9)	
Market Price per Share (Note 1)	Highest Market Price	12.90	11.25	9.12	
	Lowest Market Price	8.97	9.00	5.50	
	Average Market Price	10.44	9.69	7.40	
Net Worth per Share (Note 2)	Before Distribution	10.54	10.44	9.68	
	After Distribution	10.44	10.44	-	
Earnings per Share	Weighted Average Shares	5,456,579	5,418,096	5,418,367	
	Diluted Earnings Per Share (Note 3)	0.33	(0.22)	(0.70)	
Dividends per Share (Note 8)	Cash Dividends	0.20960737	-	-	
	Stock Dividends	Dividends from Related Earnings	-	-	-
		Dividends from Capital Surplus	-	-	-
	Accumulated Undistributed Dividends (Note 4)	-	-	-	
Return on Investment	Price / Earnings Ratio (Note 5)	31.21	NA	-	
	Price / Dividend Ratio (Note 6)	49.14	NA	-	
	Cash Dividend Yield Rate (Note 7)	2.04%	NA	-	

*If shares are distributed in connection with a capital increase out of earnings or capital reserve, further disclose information on market prices and cash dividends retroactively adjusted based on the number of shares after distribution.

Note 1: Annual Average Market Price=Annual Turnover Value/Trading Volume.

Note 2: Based both on the number of issued shares at the end of the year, and on the distribution decided on at the Shareholders' Meeting the following year.

Note 3: For those requiring retroactive adjustment due to stock grants, both the pre-and post-adjustment EPS should be listed.

Note 4: In issuing equity securities, provisions may be made to accumulate undistributed dividends for the year and postpone distribution until a year when profit is made. The dividends accumulated over the period ending in the year of distribution should be disclosed.

Note 5: P/E Ratio=Average market price of a share in the current year/EPS.

Note 6: P/D Ratio=Average market price of a share in the current year/cash dividend per share.

Note 7: Cash dividend yield=cash dividend per share/average market price of a share in the current year.

Note 8: In accordance with Taiwan Stock Exchange regulations, treasury share effects have already been considered.

Note 9: Net worth per share and EPS are calculated based on the financial statement for the most recent quarter that has been verified by an accountant. All other fields are based on the current year data through the publication date of the annual report. As of publication of this report, the Q1 2020 financial information has not yet been reviewed by Deloitte & Touche.

Note 10: 2018 surplus allocation plan resolution passed at the 5th meeting of the 21st Board of Directors on March 20, 2019, and it will be sent to the 2019 shareholders' meeting for recognition.

Note 11: The Company's EPS for 2019 was negative and thus it will not distribute earnings; it has been decided by the 10th meeting of the 21st Board of Directors on March 18, 2020, that the Company will not pay dividends for 2019, thus this does not apply.

Note 12: The Company's 2019 final daily closing price was NT\$9.06.

4.1.6 Dividend Policy and Implementation Status

A. Dividend Policy

The CAL Articles of Incorporation outlines the following dividend policy:

If the Company makes a profit over the year, an amount of no less than 3% of the profit must be distributed as employee compensation. If the Company has accumulated losses, funds must be retained to offset the deficit.

The aforementioned employee compensation is primarily disbursed as stock or cash and the resolution must be approved at a meeting of the Board of Directors with two-thirds of directors in attendance and must receive support from half of participating members.

Should the Company make a profit over the year, said profit must first be used to pay all taxes and offset accumulated losses, then 10% of the remaining amount is to be set aside as a legal reserve. After setting aside or reversing a special reserve, any remaining amount along with accumulated undistributed earnings shall be distributed as shareholder dividends and bonuses according to a resolution drawn up by the Board:

- (1) Not less than 50% of the amount shall be distributed as shareholder dividends and bonuses. After pretax profits are deducted as outlined above, should the amount left not be sufficient for distribution, the difference will be made up by accumulated undistributed profit.
- (2) In the event of a yearly loss, depending on financial, operation, and management considerations, all or part of the legal reserve may be distributed as new stock or cash as prescribed by law and competent authority regulations.
- (3) Dividends and bonuses are distributed as stock or cash, with cash dividends making up no less than 30% of the total distributable dividends.

B. Proposed Distribution of Dividend

The Company does not have distributable earnings for 2019; it has been decided by the 10th meeting of the 21st Board of Directors on March 18, 2020, that the Company will not pay dividends for 2019.

C. No significant change in expected future dividend policy.

4.1.7 Impact of Stock Dividends Issuance on Company's Business Performance and Earnings per Share: Not Applicable.

4.1.8 Employees' Compensation and Directors' Remuneration

A. Articles of Incorporation regulations: See 4.1.6 Dividend Policy and Implementation Status.

B. The basis for estimating the amount of employee compensation and director bonuses, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period

The Company has not allocated employee compensation for this period. In addition, in accordance with the Articles of Incorporation, it will not pay remuneration to the directors.

C. Board approved employee compensation and director bonus proposal

(1) Amount of employee bonuses (including stock and cash) and director bonuses distributed. If the actual amount distributed differs from the original estimated amount, the difference, reason, and how this was handled is to be disclosed:

It has been decided by the 10th meeting of the 21st Board of Directors on March 18, 2020, that the Company will not pay dividends for 2019.

(2) The amount of any proposed distribution of employee stock bonuses and the size of such an amount as a percentage of the sum of the net income for the current period and total employee bonuses: Not Applicable.

D. The actual employee compensation and director bonuses distributed for the previous year (2018) (including number of shares distributed, value, and stock price). Should there be a discrepancy with the proposed amount of employee compensation and director bonuses, the difference, reason, and how this was handled should be stated

(1) Employee compensation: There is no difference between the proposed employee compensation approved by the Board of Directors and the actual amount paid.

(2) Director bonuses: Not Applicable.

4.1.9 Buyback of Treasury Stock: None.

4.2 Bonds

4.2.1 Corporate Bonds

APR 25, 2020

Corporate Bond Type	Domestic Unsecured Straight Bond (2016-1)	Domestic Unsecured Straight Bond (2016-2)	Domestic Unsecured Straight Bond (2017-1)	Domestic Unsecured Straight Bond (2017-2)
Issue date	05/26/2016	09/27/2016	05/19/2017	10/12/2017
Denomination	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000
Issuing and transaction location	Republic of China	Republic of China	Republic of China	Republic of China
Issue price	Par	Par	Par	Par
Total price	NT\$5,000,000,000	NT\$5,000,000,000	NT\$2,350,000,000	NT\$3,500,000,000
Coupon rate	1.19% per annum.	1.08% per annum	Tranche A: 1.20% per annum Tranche B: 1.75% per annum	Tranche A: 1.14% per annum Tranche B: 1.45% per annum
Tenor	5 year (May 26, 2016 to May 26, 2021)	5 year (September 27, 2016 to September 27, 2021)	Tranche A: 3 years (May 19, 2017 to May 19, 2020); Tranche B: 7 years (May 19, 2017 to May 19, 2024)	Tranche A: 3 years (October 12, 2017 to October 12, 2020); Tranche B: 5 years (October 12, 2017 to October 12, 2022)
Guarantee agency	Not applicable	Not applicable	Not applicable	Not applicable
Consignee	Huanan Commercial Bank	Huanan Commercial Bank	Huanan Commercial Bank	Huanan Commercial Bank
Underwriting institution	YuanTa Securities Ltd.	Masterlink Securities Ltd.	Masterlink Securities Ltd.	Fubon Integrated Securities Ltd.
Certified lawyer	Ture Honesty International Law Office Kuo, Hui-Chi, Attorney At Law	Ture Honesty International Law Office Kuo, Hui-Chi, Attorney At Law	Ture Honesty International Law Office Kuo, Hui-Chi, Attorney At Law	Ture Honesty International Law Office Kuo, Hui-Chi, Attorney At Law
CPA	Huang, Jui-chan (Deloitte & Touche)	Yang, Chen-Hsiu (Deloitte & Touche)	Yang, Chen-Hsiu (Deloitte & Touche)	Yang, Chen-Hsiu (Deloitte & Touche)
Repayment method	Repayment of 50% of the principal in the fourth year and the remaining 50% in the fifth year	Repayment of 50% of the principal in the fourth year and the remaining 50% in the fifth year	One-time repayment of capital upon maturity.	Tranche A: one-time payment upon maturity; Tranche B: return of 50% of capital 4 and 5 years from the start date, respectively.
Outstanding principal	NT\$5,000,000,000	NT\$5,000,000,000	NT\$2,350,000,000	NT\$3,500,000,000
Terms of redemption or advance repayment	None	None	None	None
Restrictive clause	None	None	None	None
Name of credit rating agency, rating date, rating of corporate bonds	None	None	None	None
Other rights attached	As of the printing date of this annual report, converted amount of (exchanged or subscribed) ordinary shares, GDRs, or other securities Issuance and conversion (exchange or subscription) method	Not applicable	Not applicable	Not applicable
Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity	Not applicable	Not applicable	Not applicable	Not applicable
Transfer agent	None	None	None	None

APR 25, 2020

Corporate Bond Type	Domestic Unsecured 6 th Convertible Bond	Domestic Unsecured Ordinary Corporate Bonds (2018-1)	Domestic Unsecured Ordinary Corporate Bonds (2019-1)
Issue date	01/30/2018	10/30/2018	06/21/2019
Denomination	NT\$100,000 per unit	NT\$1,000,000 per unit	NT\$1,000,000 per unit
Issuing and transaction location	Republic of China	Republic of China	Republic of China
Issue price	Issued at 100.2% of par value	Par	Par
Total price	NT\$6,012,000,000	NT\$4,500,000,000	NT\$3,500,000,000
Coupon rate	0.00% per annum	Tranche A: 1.32% per annum Tranche B: 1.45% per annum	Tranche A: 1.10% per annum Tranche B: 1.32% per annum
Tenor	5 years (January 30, 2018, to January 30, 2023)	Tranche A: 5 years (November 30, 2018, to November 30, 2023) Tranche B: 7 years (November 30, 2018, to November 30, 2025)	Tranche A: 5 years (June 21, 2019, to June 21, 2024) Tranche B: 7 years (June 21, 2019, to June 21, 2026)
Guarantee agency	Not applicable	Not applicable	Not applicable
Consignee	Chinatrust Commercial Bank Trust Department	Huanan Commercial Bank	Taishin International Bank
Underwriting institution	Taishin Integrated Securities Ltd.	Fubon Integrated Securities Ltd.	Fubon Integrated Securities Ltd.
Certified lawyer	Handsome Attorney-at-Law Chiu, Ya-Wen, Attorney At Law	Ture Honesty International Law Office Kuo, Hui-Chi, Attorney At Law	Ture Honesty International Law Office Kuo, Hui-Chi, Attorney At Law
CPA	Not applicable	Yang, Cheng-Hsiu (Deloitte & Touche)	Huang, Jui-chan (Deloitte & Touche)
Repayment method	According to the offering of Domestic Unsecured 6 th convertible bond section 6	Tranche A: Repayment of 50% of the principal at the end of the fourth year and the remaining 50% at the end of the fifth year; Tranche B: Repayment of 50% of the principal at the end of the sixth year and the remaining 50% at the end of the seventh year	Tranche A: Repayment of 50% of the principal at the end of the fourth year and the remaining 50% at the end of the fifth year; Tranche B: Repayment of 50% of the principal at the end of the sixth year and the remaining 50% at the end of the seventh year
Outstanding principal	NT\$6,000,000,000	NT\$4,500,000,000	NT\$3,500,000,000
Terms of redemption or advance repayment	According to the offering of Domestic Unsecured 6 th convertible bond section 18 and 19	None	None
Restrictive clause	None	None	None
Name of credit rating agency, rating date, rating of corporate bonds	None	None	None
Other rights attached	As of the printing date of this annual report, converted amount of (exchanged or subscribed) ordinary shares, GDRs, or other securities	Not yet converted	Not applicable
	Issuance and conversion (exchange or subscription) method as per the 5th issue of domestic unsecured convertible bonds	According to the offering of Domestic Unsecured 6 th convertible bond section 8 and 9	
Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity	(Note)	Not applicable	Not applicable
Transfer agent	None	None	None

Note: As of April 25, 2020, according to the conversion price NT\$12.60 of the sixth unsecured convertible bonds, and assuming the convertible bonds have been fully converted, the shareholdings percentage of the three major shareholders, namely China Aviation Development Foundation, National Development Fund, and Chunghwa Telecom, will be reduced from 48.90% to 44.95%, but there will be no significant change in the shareholding structure, thus it has little effect on shareholder equity.

4.2.2 Corporate Bonds Undergoing Private Placement

- A. At the 7th meeting of the 21st Board of Directors on August 7, 2019, the Company's seventh issuance of 30,000 domestic unsecured convertible corporate bonds was approved, each with a face value of NT\$100,000, to be issued at 100% - 100.5% of the face value. The total issuance amount was capped at NT\$3,015,000 thousand. It has been reported and put into effect by the approval of Financial Supervisory Commission letter Jin-Guan-Zheng-Fa-Zi No. 1080341270 dated January 3, 2020.
- B. Due to the recent changes in the domestic capital market conditions and the COVID-19 pandemic's continuing impact on the air transport industry, and considering that rash pricing and non-ideal issuance conditions might damage shareholders' rights, we applied for a three-month extension of the offering period for the seventh issuance of domestic unsecured convertible corporate bonds. It was approved and filed for future reference in letter Jin-Guan-Zheng-Fa-Zi No. 1090334953 dated March 20, 2020, and the offering period was extended to July 3, 2020. Once the market stabilizes, we will find the correct timing for pricing in order to protect the Company's interests and shareholders' rights.

4.2.3 Convertible Bonds

Unit: NT\$

Types of Corporate Bonds		Domestic Unsecured 6 th convertible bond	
Year		2019	The current year through April 25, 2020
Item			
Convertible Bond Market Price	Highest	102.00	100.00
	Lowest	99.15	98.55
	Average	99.91	99.21
Conversion Price		12.90	12.60
Issuance date and conversion price at the time of issue		The convertible bonds were listed on the Taipei Exchange on January 30, 2018; the conversion price upon issuance was NT\$13.20. Due to the distribution of 2018 cash dividends, according to the provisions of the sixth unsecured convertible bonds' issuance and conversion regulations, the conversion price shall be adjusted. The conversion price was thus reduced to NT\$12.60.	
Conversion method		Issue new shares.	

4.2.4 Exchangeable Bond, Shelf Registration, Shelf Registration: None.

4.3 Other Securities-Related Issues

4.3.1 Preferred shares: None.

4.3.2 Global Depository Receipts: None.

4.3.3 Employee Stock Options: None.

4.3.4 Employee Restricted Stock: None.

4.3.5 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.4 Financing Plans and Implementation

As of April 25, 2020, the use of funds earned through previously issued securities are progressing as planned and are in accordance with expected results.

Operational Highlights

5.1 Business Activities

5.2 Market and Sales Overview

5.3 Human Resources

5.4 Environmental Protection Expenditure

5.5 Labor Relations

5.6 Important Contracts

V. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

A. Main areas of business operations

- (1) Civil air transport business: Air passenger transport, regular and irregular contracting of international charter flights business, and training of civil aviation personnel.
- (2) General aviation business: In-flight commodity sales.
- (3) Airport ground service business: Ground services for civil international airports and transit aircraft.
- (4) Air cargo terminal entrepot operation: Air cargo transport services.
- (5) Aircraft and parts maintenance and manufacturing business: Aircraft body maintenance.
- (6) Inflight catering service: Provision of in-flight catering or other related supplies.
- (7) Laundry, dyeing, printing and finishing, and wholesale and retail of dyeing mills and dyestuff cleaning supplies: Washing of cloth and clothing inside the aircraft and general washing business in the hospitality industry.
- (8) Warehouse and storage: Warehousing services for import, export, and entrepot air cargo.
- (9) Other: All business items that are not prohibited or restricted by law, except for those that are subject to special approval.

B. Revenue distribution

Unit: NT\$ thousands

Item	2019	
	Net Revenue	Proportion of Revenue
Passenger Revenue	111,413,435	66%
Cargo Revenue	43,793,256	26%
Other	13,237,469	8%
Total	168,444,160	100%

C. Main products

- (1) Passenger service: Air passenger transport and regularly scheduled and non-scheduled contract international charter flight services.
- (2) Cargo service: Transport services for cargo, courier, mail, and packages.
- (3) Ground services: Handling of luggage and cargo, aircraft cleaning, and ground support equipment.
- (4) In-flight sales: Providing in-flight duty free sales services.
- (5) Airline catering: Providing meal services to airlines.
- (6) Warehousing and logistics services: Provide airfreight forwarding and logistics services.
- (7) Aircraft maintenance services: Airframe, engine, and aircraft component maintenance.
- (8) Tourism and leisure services: General hotel industry and travel services.
- (9) Investment holding and leasing services: Engaged in real estate investment, building management, and leasing.
- (10) Civil aviation personnel training: Provide maintenance training courses, develop professional maintenance personnel.

D. Product Development

(1) Website optimization

The Company is committed to improving its website experience quality; expanding the development of website functions to optimize the ticket purchasing process; introducing 3D verification functions for credit card transactions to ensure the security of customer transaction and prevent credit card fraud; and building multiple payment tools and supporting multi-currency payments.

(2) New fare products

To better service the passengers, new fare products were launched in September 2019. Passengers can choose additional products according to their travel needs, such as baggage allowance, preferred seats, and mileage accumulation standards, for them to select a la carte or package fares.

(3) Developing potential destinations and optimizing the aviation network extension

In order to actively expand the Southeast Asian aviation network layout and to strengthen the aviation network transfer market, the Company plans to launch several routes in 2020, including the Taoyuan-Cebu and Taoyuan-Chiang Mai routes.

5.1.2 Industry Overview

A. State of the industry and future development

(1) Economic growth

According to the economic forecast published by IHS Markit in February 2020, the estimated global economic growth rate is 2.5%; Taiwan's economic growth rate has been revised down to 2.1% (originally 2.4%) due to the impact of COVID-19 pandemic situation on consumption and trade. The economic growth rates of other major economies and countries are as follows: United States at 2.1% and the Eurozone at 0.9%. Affected by the COVID-19 pandemic, countries have adopted unprecedented measures for isolation, quarantine, and control, resulting in the stagnation of production and consumption activities in many regions. Therefore, in 2020, Japan's economic growth rate has been revised down to 0.5% (originally 0.6%), and China's to 5.4% (originally 5.8%).

(2) Oil prices

The price of aviation fuel has been kept stable, at around US\$80 per barrel at the beginning of 2018, and began to rise at the end of Q1, with an increase of more than 20%, reaching the highest price of US\$96 per barrel in October 2018. However, in November and December, sharp market decline, subpar global economic performance, along with the strong supply of oil shale manufacturers in the United States led to a rapid decline in prices, a decline more than 25% by the end of 2019. The average oil price in December was about US\$72. In 2020, the aviation industry was affected by the pandemic, which resulted in the declined demand for oil. The fuel price is estimated to be US\$48.60 per barrel on average.

(3) Air passenger market

The IATA originally estimated in December 2019 that in 2020, the growth rate of demand for the air passenger transport market would be 4.1% globally, and 4.8% in the Asia-Pacific region. However, as the COVID-19 pandemic has increased in severity, the IATA estimates that the growth rate of demand in the air passenger transport market in 2020 will turn negative, and passenger transport revenue will be reduced by about US\$63 billion to US\$113 billion due to the implementation of tourism restrictions on the grounds of pandemic prevention in various countries.

(4) Air cargo market

Demand in the global cargo transport market shrank by 3.3% in 2019, which was the first year of cargo transport volume decline since 2012 and the weakest performance since the global financial crisis in 2009. The tense international trade situation leading to insufficient global economic growth momentum was the key factor in the 2019 air cargo transport volume decline. Cargo supply volume has increased slightly by 2.1%, resulting in a decrease in the loading rate by 2.6%. The IATA estimated in December 2019 that in 2020, benefiting from the revival of trade, the growth rate of demand for the air cargo transport market would be around 2%. However, due to the uncertain geographical distribution and duration of the pandemic at this stage, its impact on the air cargo transport market can not yet be accurately estimated.

B. Relationship between upstream, midstream, and downstream firms

The air transport service industry primarily provides transportation for passengers and cargo. These operations rely on the support and assistance of upstream, midstream, and downstream industries that enable us to provide comprehensive services and meet our customers' needs.

(1) Upstream industries

Primarily aircraft, aircraft engine, and ground service equipment (such as towing vehicles, loading vehicles, and equipment needed on the apron) manufacturers. Currently, in addition to purchasing aircraft, Taiwanese airlines also utilize leasing to add to their fleets, so the aircraft leasing industry is also an upstream industry for air transport providers.

(2)Midstream industries

Primarily airlines themselves and related support industries such as the oil industry that provides aviation fuel, the aircraft maintenance industry that repairs and maintains airlines' aircraft and components, and the airline catering industry that provides in-flight meals. In response to the changing needs of downstream industries, the air transport industry's strategic adjustments in their operating scale, fleets, or flight networks will also affect the development of upstream industries.

(3)Downstream industries

In terms of passenger transport, the air transport industry primarily serves the public and travel agencies, while cargo transport services are provided to the courier and freight forwarding industries. As a member of the air transport industry, the needs of downstream customers are at the core of the CAL's product and services planning. Our mission is to provide safe, convenient, and comprehensive services.

C. Product development trends

(1)Aviation alliance cooperation

With the liberalization of the air transport market, airports have become increasingly congested. There being limited resources, airlines provide passenger transportation services in the form of alliance teams, with such mechanisms as code-sharing, extended route agency systems, and combined mileage cumulation frequent flyer programs. Aviation alliance cooperation also includes operating in the same terminal at major airports, sharing maintenance facilities and operating equipment, mutual support of personnel, and cooperation in ground handling and inflight catering to reduce costs. Benefiting from alliance cooperation, passengers can purchase flight tickets at a lower price. As long as they take alliance airlines, they can earn flight miles. Flight schedules provided by the alliance are more flexible with less transfers, making it easier for passengers to reach their destination. At present, there are three major alliances in the aviation industry, namely SkyTeam, Star Alliance, and One World. The Company is currently one of the 19 member airlines of SkyTeam. Through extensive global network cooperation, we provide transportation services in 170 countries and 1,036 destinations.

(2)Joint Venture (JV)

In order to establish a closer strategic alliance relationship, airlines further share their route network with business partners and perform joint marketing and bear risks together in order to obtain more revenue and route profit. Joint ventures share revenue on cooperative routes, sometimes including cost sharing. The economies of scale, aviation network revenue, cost reduction and management efficiency improvements generated through cooperation can effectively improve operational efficiency, surpassing the benefits of alliance cooperation. For example, United Airlines (UA) and All Nippon Airways (ANA / NH) have launched joint ventures since 2012. Passengers can take ANA from Taipei via Tokyo Narita or from Songshan via Tokyo Haneda to gateway cities in the United States, or choose United Airlines' daily Taipei - San Francisco direct flight and transfer to major cities in the United States. Under the JV fare structure, due to the unified fare for the same cabin class and greater flight interoperability, the sales process is simpler.

(3)Grasping logistics trends and expanding business territory

In response to the different transportation needs of special cargoes, such as semiconductor precision machinery, aircraft engine materials and the demand for equipment driven by the emerging 5G technology products, the Company provides professional large cargoes loading services with its Boeing 747-400 cargo-only aircraft. In addition, having obtained IATA CEIV Pharma certification, we are strongly developing the potential markets for special goods, such as the temperature-controlled cold chain and biotechnology and pharmaceutical markets. In response to the development of cross-border e-commerce, we are strengthening cooperation with express delivery companies and inter-airline cooperation, developing e-commerce postal air-bridge service transport, so as to expand business and increase the added value of transportation services.

D. Product competition

The Company is mainly engaged in international passenger and cargo transport services. Due to our continuous commitment to stable revenue and controlling costs, we not only stand in the leading position in the domestic aviation market, but are also fairly representative world-wide; according to the statistics of the Civil Aeronautics Administration (CAA), the Company's share in the passenger and cargo transport market is ahead of its peers; According to the IATA's 2018 international passenger and cargo transport volume rankings published in 2019, the Company ranked 34th in the world, with a passenger transport volume reaching 41,390 million Revenue Passenger Kilometers (RPK); In terms of cargo transport, the Company ranked 12th in the world, with a cargo transport volume reaching 5,804 million Freight Revenue Ton Kilometers (FRTK).

Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo in 2019

Airline	Passenger	Cargo
China Airlines	23.45%	37.37%
EVA Air	21.70%	24.12%
Mandarin Airlines	2.17%	0.64%
UNI Air	1.43%	0.56%
Far Eastern Air Transport	0.46%	-
Tigerair Taiwan	4.70%	0.04%
Other-Foreign Carriers	46.09%	37.27%

Source: Civil Aeronautics Administration Monthly Statistics from January to December 2019-Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo

IATA Global International Route Passenger and Cargo Rankings 2018

Passenger (Passenger-Kilometers) Rankings Unit: 1 million			Cargo (Ton-Kilometer) Rankings Unit: 1 million		
1	Emirates	302,298	1	Emirates	12,713
2	Ryanair ⁽⁴⁾	170,900	2	Qatar Airways	12,695
3	United Airlines	155,178	3	Cathay Pacific Airways	11,284
4	Lufthansa ⁽³⁾	153,639	4	Federal Express	8,455
5	Qatar Airways	152,210	5	Korean Air	7,815
6	British Airways ⁽³⁾	148,477	6	Lufthansa ⁽³⁾	7,391
7	Delta Air Lines	136,647	7	Cargolux	7,322
8	Air France ⁽³⁾	136,476	8	Singapore Airlines	6,491
9	Turkish Airlines ⁽³⁾	125,229	9	United Parcel Service	6,252
10	American Airlines	121,416	10	Air China	5,912
11	Cathay Pacific Airways	114,699	11	Turkish Airlines	5,860
12	KLM ⁽³⁾	107,676	12	China Airlines	5,804
13	Singapore Airlines	100,492	13	AirBridgeCargo Airlines	5,511
14	easyJet ⁽³⁾	93,609	14	China Southern Airlines	5,309
15	Air Canada	86,069	15	British Airways	4,270
16	Ethiad Airways	84,252	16	All Nippon Airways ⁽⁴⁾	4,113
17	Norwegian ⁽³⁾⁽⁴⁾	79,825	17	United Airlines	4,064
18	Korean Air	77,327	18	Asiana Airlines	4,052
19	Air China	74,611	19	Polar Air Cargo	4,010
20	LATAM Airlines Group ⁽³⁾	67,335	20	Atlas Air	3,792
21	Thai Airways International	66,263	21	Air France ⁽⁴⁾	3,672
22	Aeroflot Russian Airlines	64,019	22	KLM ⁽⁴⁾	3,604
23	China Southern Airlines ⁽³⁾	63,016	23	EVA Air	3,580
24	China Eastern Airlines	62,463	24	American Airlines	3,550
25	Qantas Airways	59,056	25	Ethiad Airways	3,471
26	Saudi Arabian Airlines	55,652	26	Kalitta Air ⁽²⁾⁽³⁾	3,121
27	Iberia ⁽³⁾	52,340	27	LATAM Group ⁽³⁾	3,044
28	All Nippon Airways ⁽³⁾	50,747	28	AeroLogic ⁽¹⁾	2,803
29	EVA Air	48,281	29	China Cargo Airlines	2,702
30	Wizz Air ⁽¹⁾⁽⁵⁾	45,050	30	Saudi Arabian Airlines	2,487
31	Asiana Airlines	44,220	31	Thai Airways International	2,438
32	Japan Airlines	44,175	32	Delta Air Lines	2,417
33	Ethiopian Airlines	41,804	33	Japan Airlines	2,410
34	China Airlines	41,390	34	Silk Way West Airlines	2,354

Source: IATA WATS 2019

E. Intellectual Property

The Company has internal regulations governing corporate identity system management and has a brand management platform to perform control and management. The scope includes the Company's office buildings and airport terminals (indoor and external signboards, marks and signs, etc.), transportation, advertisements, printed matters, in-flight and ground service supplies, logos, products, and other installations, publishing, or broadcasting with the application of corporate identity covered by the Corporate Identity System Guideline (hereinafter referred to as the "CIS Guideline"). By managing the Company's corporate identity, application, and authorization of corporate logos (i.e., trademarks), and through reviewing the plan, we maintain the consistency of corporate identity exposure, unify the Company's visual identity, and strengthen the Company's corporate image. According to the application situation of corporate identity in units in Taiwan and abroad, the Company will discuss and report the implementation method every two years, and notify the units to be audited by e-mail or memo. The units to be audited shall upload the audit samples on the brand management platform for the responsible unit to review (or an on-site audit shall be performed) to maintain the Company's trademark rights being under the protection of the law.

5.1.3 Research and Development

A. Costs of R&D investment and successfully developed technologies or products

From January 1, 2019, through the publication date of this report, the Company invested approximately NT\$95 million in research and development. The following table summarizes the technologies and products developed:

Project	R&D Project Description
Robotic Process Automation, RPA	To improve employee productivity and efficiency, we have built a robotic process automation platform, using robots to simulate the work flow of human beings at the computer to replace the repetitive operations of manual data input and reduce the omissions caused by manual input errors, thereby allowing employees more time to focus on creativity and decision-making judgments and thinking, and use manpower for high yield work. The platform was completed and went live in May 2019.
Ticket purchasing instant marketing platform	Completion in the stage of online ticket purchasing user log collecting and tracking, instantly grasping online user activities and conducting customer analysis, and cooperating with online sales activities to achieve marketing models, such as targeting and remarketing. Integration and application with Artificial Intelligence (AI) and Big Data technologies and systems can be planned in the future. This was completed and went live in June 2019.
New generation crew member shift arrangement system	In response to the substantial growth in the number of Company's flights and crew members, as well as the needs of passenger and cargo flight dispatch, we planned to build a next generation crew member dispatch system, to quickly meet the requirements of civil aviation regulations, optimize manpower dispatch, and fairly and efficiently allocate crew members' shifts, ensuring crew members' dispatch quality. The system was completed and went live in June 2019.
In-Flight Equipment Management System, IEMS	The system was built to implement the systematic management of the cabin in-flight service supplies data, promptly provide external agents with complete and accurate loading information, and use data analysis to further improve the loading efficiency and operation quality. The system was completed and went live in August 2019.
New sub-accounting system	In order to respond to the significant changes in the industry's prorating rules for joint venture account settlement in the future and be able to make modifications in due course, the new prorating system introduces interfacing with the passenger transport revenue system, to reduce manual intervention in fare prorating, improve prorating accuracy and account settlement quality of joint ventures. New prorating system uses the cloud construction method, which can reduce the use cost and maintenance risk of the Company's own physical facilities. The system was completed and went live in December 2019.
Flight Control & Monitoring System, FCMS	To enable flight control personnel to fully grasp the Company's flight transport capacity and current flight status and to produce the most appropriate flight operation decisions, through the automated analysis of the system, flight operation decision-making supplementary information was generated, such as flight on-time, late departure or arrival status, current and estimated flight transportation capacity, airport airworthiness, flight schedule surveillance and real-time flight trajectory. In addition to taking into account the flight operation cost and service quality, emergencies can be responded to at all times to ensure that flights arrive on time and safely. The system was completed and went live in December 2019.

B. Future R&D Projects

In order to meet future development needs, China Airlines will continue to invest in R&D projects. Over 2020, we plan to invest a total of NT\$61 million into R&D. The following table summarizes future projects:

Project	Future R&D Project Description	Estimated Completion Date
Customer Relationship Management, CRM	To establish the Company's consistent customer relationship service system and to expand business opportunities through data analysis in integrated systems. The primary goal is to serve passengers. We plan to consolidate data platforms such as membership, ticket files, reservations, in-flight duty-free products, and customer feedback. Through one single platform, data visualization and other operations, we can effectively accelerate customer service processing and improving service quality.	December 2020 The implementation progress was 12% as of the annual report printing date
Robotic Process Automation, RPA	Promoting relevant application of robotic process automation to all business units in China Airlines, reducing the manpower requirements for indirect manual operations, so to avoid the oversights caused by repetitive data input and manual input errors, improve work efficiency, and improve operating performance. Related projects carried out in 2020 include: (1) Audit tool improvement-establishment of automatic pricing function robotic system (2) Establishment of IATA account settlement, receipt, and disbursement automated system (3) Establish the automatic fare-downloading function.	December 2020 The implementation progress was 17% as of the annual report printing date

Project	Future R&D Project Description	Estimated Completion Date
Establish the relevant mechanism of Cyber Security Management Act	The Cyber Security Management Act will be the focus of information security protection work in 2020. Annual protection operations will be implemented according to the Company's information security protection plan. Plans to obtain the PCI DSS certification will be implemented; reinspections on the information security management system against the international standard ISO27001:2013 and the certification of the privacy information management system against the international standard ISO27701:2019 will be performed. These will ensure the security of the Company's credit card transaction environment as well as the legality and effectiveness of the Company's privacy protection system.	December 2020 The implementation progress was 30% as of the annual report printing date
iCabin Service 2.0, iCS 2.0	The cabin team leader/manager/head attendant can obtain information about passengers/flights/team members right away through mobile devices. They can write up cabin reports with flexibility, regardless of time or location. In addition, the digitized cabin manual is not only available for team members to read at any time, it also ensures that the content is kept up-to-date at all times. This effectively achieves synergy across improved passenger service quality, cabin management, and flight safety.	June 2020 The implementation progress was 86% as of the annual report printing date
e-Shopping	The "e-Shopping Duty-free Website" has been in use since the first project revision in 2013. After observing the functions and web designs of other airlines' websites and online shopping platforms, improvements will continue to be made to the website. In order to uphold the company's service spirit through continuous innovation and optimization while keeping up with today's trend of smart technology, plans to revise and optimize the website will be implemented. This will provide a more novel shopping experience that will in turn increase sales.	November 2020 The implementation progress was 10% as of the annual report printing date
CI Mobile APP	In order to enhance user experience on mobile devices, the Company continues to optimize CI mobile app functionality. The planned improvement projects cover car rental, accommodation booking/ticket refund application/chatbot customer services/pre-stored travel documents/passport scanning (OCR)/China Airlines eMall home delivery/push notification of system records/Google Pay-supported electronic boarding pass service/seat preselection/collaboration with credit card companies/proof of purchase application/function upgrade for the membership app/the establishment of an app for co-branded cards.	December 2020 The implementation progress was 30% as of the annual report printing date
Chatbot	Provide an innovative channel that reaches passengers and provides flight status in real time. During peak seasons or when significant changes are made to flights due to force majeure, provide passengers with an online instant chatbot conversational service to minimize the time passengers spend waiting on the customer service hotline. In addition, continue to utilize AI services and AI's continuously-growing semantic understanding to enhance passenger experience and improve service quality.	March 2020 Implementation progress was 100% as of the annual report printing date
OnlineCC	The China Airlines Customer Service Center was established in October 2003. The customer service system was introduced in 2004 and has been in use for more than 16 years. The equipment of the system must keep up with the times to cope with today's multifaceted business environment. In response to customer service center's heavy workload, changing times, and technological advancements, China Airlines plans to establish a next-generation multimedia customer service system. It involves several functions, including telephone services, fax, automated voice answering systems, voice outbound dialing, e-mail, Facebook, and online customer service on the official website. The system will not only increase passenger access channels, but also help managers obtain workload information and staff status in real time, promptly allocate human resources, and improve service effectiveness and quality.	May 2020 The implementation progress was 96% as of the annual report printing date

5.1.4 Long-term and Short-term Development

To promote sustainable operations and strengthen international competitiveness, CAL has planned the following short- and long-term passenger and cargo transport developments:

A. Short-term Development

(1) Passenger

- Make short-term adjustments to ASK in response to the impact of the COVID-19 pandemic. Since the outbreak of COVID-19 in late January 2020, the cross-strait and Hong Kong routes have been heavily impacted, and the passenger loads and booking volumes of Northeast Asian routes continue to decline due to the spread of the disease. The pandemic continues to worsen as it inflicts heavy losses on the aviation and tourism industries in the Asia-Pacific region. In addition to cancelling some flights, China Airlines proactively adjusted ASK according to market conditions in response to the sharp decline in passenger volume and revenue. Considering that the pandemic has yet to ebb, the China Airlines Group will continue to review market demand trends, adjust ASK accordingly, and reduce operational costs with the intention of minimizing losses.
- Cooperate with the government in promoting the New Southbound Policy; expand the aviation network in the ASEAN market through inter-airline cooperation. China Airlines has formulated plans to start flight routes in potential destinations in Southeast Asia (such as Cebu, Philippines; Chiang Mai, Thailand). In addition, as visa benefits for travelers from Southeast Asia are in place and the demand for exchange between Taiwan and ASEAN countries has been increasing, the Company will continue to review the potential of expanding in the markets of Southeast Asia routes for ASEAN countries (including Thailand, Malaysia, and Vietnam) and increasing flights. At the same time, increasing the number of charter flights for specific seasons, holidays, and themes will be arranged according to different needs to increase revenue. Through inter-airline cooperation (such as: code sharing, SPAs), China Airlines will expand its aviation network in the ASEAN market.
- Open up new routes and explore market potential. Open up Cebu and Chiang Mai flight routes to seize business opportunities in the Southeast Asia travel market, and strengthen the positioning of transfers to North America. For many years, Taiwanese people have frequently travelled to Southeast Asia, and with the support of the government's New Southbound Policy, the number of tourists from Southeast Asia to Taiwan has increased year by year. According to statistics recorded by the Tourism Bureau, Ministry of Transportation and Communications, 5.57 million tourists travelled between Taiwan and Southeast Asia in 2019. They made up 19% of Taiwan's travel demand, which showed an annual growth rate of 12%. Among which, the number of Taiwanese people who travelled to Southeast Asia grew by 17%, while the number of people who travelled from Southeast Asia to Taiwan grew by 6.7%. Both numbers are higher than the growth rate of the overall market, showing promising future prospects. Taking these into consideration, in 2020, China Airlines Group started successively opening up the Taoyuan-Cebu route and resuming the Taoyuan-Chiang Mai route to seize business opportunities in the market. At the same time, the schedules of these flights are arranged alongside the existing North America aviation network, so they can be connected to flights going to Los Angeles, Ontario, San Francisco, Vancouver, New York, and vice versa. This way, more convenient and comfortable services are provided to passengers travelling between Southeast Asia and North America.

(2) Cargo

- Make adjustments to market layout in response to the impact of the COVID-19 pandemic. Due to the impact of the global COVID-19 outbreak at the start of 2020, most factories in Mainland China delayed resumption of production, resulting in a slow recovery of production capacity. The transportation of goods has also been restricted due to the restrictions on the passage of people and vehicles at different key import and export destinations. In addition, different airlines' passenger flights flying into Mainland China have been reduced or canceled. This has also significantly impacted the airfreight market connected to Mainland China's imports and exports. Furthermore, the impact of last year's (2019) China-US trade war still continues, resulting in many uncertainties in the airfreight market this year. Regarding this matter, China Airlines has begun planning and successively adjusting the market strategy for the Southeast Asia region to strengthen the company's foothold in the export markets of Taiwan and Southeast Asia. At the same time, China Airlines continues to closely observe changes in market capacity and demands, and it will flexibly adjust its ASK and freight rate strategy accordingly. The Company is making an effort to secure urgent orders of goods and short-notice charter flight demands that are coming up in the short period of time after production resumed in Mainland China.
- Improve revenue management and promote customized services. We will continue to improve revenue management. Regarding the different transportation needs of special cargo, such as time limit, volume, and special loading procedures, we will continue to enhance price differentiation and increase the added value of transportation services by utilizing the advantages of large cargo loading and professional services of our Boeing 747-400 all-cargo aircrafts. In addition, in recent years, the promotion of the charter business has been strengthened. Customized charter services have been tailored to meet the needs of individual customers, which has contributed significantly to the increase in revenue. In 2020, we will continue to deepen our development in emerging markets, such as Southeast Asia, secure the efficiency of the overall aviation network in response to market changes, promote the customized routine and regular charter flight business, and maximize the benefits of the cargo fleet.

B. Long-term Development

(1) Passenger

- Roll out fleet plans.

In order to improve operational efficiency, in 2019, the Company finished its plans to replace the old cargo fleet and the old narrow-body fleet. Between 2021 and 2023, we will introduce 25 A321neo aircrafts, which will gradually replace the narrow-body aircrafts currently in operation. The new cabin design will enhance passenger service quality and strengthen product competitiveness.

- Efficiently establish aviation networks and deepen inter-airline cooperation to increase revenue.

Utilize the new-generation, long-haul aircrafts 777 and A350 to proactively maximize the benefits of China Airlines' aviation network in California (North America) and expand the customer base for long-haul flights; provide a more interconnected, and convenient aviation network in Europe to secure China Airlines' leading position in the market of flights flying from Taiwan to Europe; continue to expand the aviation network covering bi-directional transfers in routes between New Zealand/Australia, Europe, and Northeast Asia to strengthen China Airlines' travel services. Furthermore, increase flight destinations and expand into major cities and tourist destinations around the world through inter-airline cooperation; increase the overall earnings generated by the aviation network by increasing flight frequencies and interconnectivity.

- Optimize cabin products and strengthen brand marketing to enhance passenger experience and increase loyalty.

Continue to improve personnel service and cabin hardware; provide passengers with the best flight quality and pleasant in-flight services. Establish brand positioning and a marketing direction that is in line with the brand improvement plan and based on the corporate philosophy; enhance the brand recognition of China Airlines; further ensure the consistency of passenger experience and strengthen the brand loyalty passengers have for China Airlines' products.

(2) Cargo

- Improve revenue management and promote charter flight business.

Continuing efforts made in 2019, we will continue to improve revenue management. Regarding the different transportation needs of special cargo, such as time limit, volume, special ground treatment, and machinery requirements brought about by emerging 5G technology products, we will continue to enhance price differentiation and increase the added value of transportation services by utilizing our Boeing 747-400 all-cargo aircrafts, which not only provide advantages in large cargo loading and professional services, but also meet the standards of carrying large machinery cargo. We will also strengthen the promotion of bidding mechanisms for shipping space in peak seasons to enhance unit revenue. In response to customer demand, we will continue to promote scheduled and non-scheduled customized charter flight business. Fifty-five such flights were operated in 2019. In 2020, we will continue to deepen our development in emerging markets, such as Southeast Asia, flexibly adjust the aviation network in response to market changes, promote the customized charter flight business, and maximize the benefits of the cargo fleet.

- Work with inter-airline express delivery companies and promote cold chain cargo.

Strengthen and deepen cooperation with inter-airline express delivery companies and mutual benefits; continue to work with international express delivery companies, including UPS, DHL, FedEx, and SF Express. This includes cooperation with UPS in regard to the shipping space at flight destinations on the Taoyuan-Shenzhen freighter route as well as charter flights to the United States. We will also strengthen our partnerships with Japanese and American airlines operating in the Asia region. We hope that, through inter-airline cooperation, we will be able to provide more diversified products, generate mutual benefits from the aviation network, and prosper together with our partners. Furthermore, to innovate cargo transportation, we have upgraded our cold chain services. China Airlines has been actively promoting IATA's CEIV Pharma certification. In April 2019, China Airlines officially obtained certification, becoming the first aviation company in Taiwan to have such honorable achievement and become one of the 17 internationally certified airline companies in the world. We have significantly improved our cold chain transportation capability. We hope that the international certification will enable us to enhance our service quality and provide clients with more sophisticated cold-chain transportation services.

- Start cargo fleet renewal.

In 2019, the Board of Directors of China Airlines approved the plan to bring in six new 777F cargo aircrafts between 2020 and 2023. Since the fuel efficiency of the aircraft can increase payload capacity, after they are acquired, they will be prioritized to fly transoceanic routes and replace parts of the 747-400F cargo fleet. This will effectively increase fuel efficiency, increase the carrying capacity of transoceanic flights, improve operational efficiency, and significantly reduce operational noise, reaching environmental sustainability goals.

5.2 Market and Sales Overview

5.2.1 Market Analysis

A. Main Sales (Service) Region

Overview of Company passengers/cargo (RPK/FRTK, REV) by region and passenger and cargo transport market share over the past two years:

(1) Passenger routes:

Area \ Item	2018			2019		
	No. of Passengers	RPK (Million)	Revenue (NT\$ Million)	No. of Passengers	RPK (Million)	Revenue (NT\$ Million)
Trans-Pacific	984,161	10,404	14,478	1,017,031	10,780	15,282
Europe	603,342	5,678	9,661	623,389	5,863	10,209
South-East Asia	3,769,593	9,334	18,396	3,890,748	9,604	18,685
Domestic	1,239,130	292	1,967	1,467,638	344	2,252
Hong Kong/Macau	2,687,782	2,136	7,730	2,532,308	2,033	7,567
North-East Asia	6,805,685	12,129	35,454	7,023,173	12,589	36,752
Oceania	662,302	3,808	5,954	651,793	3,832	6,279
Mainland China	2,642,732	2,475	14,706	2,624,929	2,417	14,387
Total	19,394,727	46,256	108,346	19,831,009	47,462	111,413

Note 1: Revenue passenger kilometers (RPK) equal the total number of revenue passengers multiplied by the flight distance travelled (kilometers).

Note 2: The above data includes scheduled flights, charter flights, and extra flights.

Note 3: The above data includes Mandarin Airlines and Tigerair Taiwan.

(2) Cargo routes:

Area \ Item	2018		2019	
	FRTK(Million)	Revenue(NT\$ Million)	FRTK(Million)	Revenue(NT\$ Million)
Trans-Pacific	3,764	27,742	3,358	23,896
Europe	779	6,106	717	5,284
South-East Asia	814	8,879	756	7,901
North-East Asia	255	3,250	229	2,907
Oceania	156	794	161	780
Mainland China	147	3,076	149	3,025
Total	5,915	49,847	5,370	43,793

Note 1: Freight revenue ton-kilometer (FRTK) equals the revenue cargo load (tons) multiplied by the flight distance travelled (kilometers).

Note 2: The above data includes scheduled flights, charter flights, and extra flights.

Note 3: The above data includes Mandarin Airlines and Tigerair Taiwan.

B. Market Share (%) of Major Product Categories in the Last Two Years

Airline \ Year	Passengers		Cargo	
	2018	2019	2018	2019
China Airlines	24.23%	23.45%	38.60%	37.37%
EVA Air	22.13%	21.70%	24.44%	24.12%
Mandarin Airlines	2.34%	2.17%	0.71%	0.64%
UNI Air	1.52%	1.43%	0.52%	0.56%
Far Eastern Air Transport	0.40%	0.46%	-	-
Tigerair Taiwan	4.52%	4.70%	0.05%	0.04%
Other-Foreign Carriers	44.86%	46.09%	35.68%	37.27%

Source: Civil Aeronautics Administration Monthly Statistics from January to December 2018 and 2019-Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo

C. Market Analysis of Major Product Categories

(1) Passenger

According to statistics on the Taiwanese passenger transport market in 2019 published by the Tourism Bureau of the Ministry of Transportation and Communications, approximately 11.86 million foreigners entered Taiwan (a growth rate of 7.2%) and 17.1 million Taiwanese people went abroad (a growth rate of 2.7%). The growth rate of the number of foreigners entering Taiwan increased, showing that Taiwan's tourism market has potential for development. However, as the COVID-19 pandemic has been growing more severe since late January 2020, the IATA estimates that the air passenger transport market will see negative growth in demand in 2020, and global passenger transport revenue will drop by 11% to 19%, which is equivalent to 63 billion to 113 billion USD. The twists and turns in COVID-19's unfolding are almost unprecedented. Within approximately two months, the implementation of tourism restrictions on the grounds of pandemic response in various countries caused a significant drop in passenger traffic, which in turn resulted in flight cancellations and decline in ASK. The aviation industry is experiencing dramatic downturn in most parts of the world. While airlines are performing the important job of connecting the world economy, they are also doing their best to sustain their operations. The COVID-19 outbreak will be a global crisis which tests not only the aviation industry, but also the resilience of the global economy.

(2) Cargo

In 2019, the global economy was affected by factors such as protectionism, the China–US trade war, and the slow down in airfreight businesses growth. January 2020 was the 10th consecutive month in which the global freight volume was less than that of the same period in the previous year. Global freight supply increased by 0.9% compared to the same period in the previous year, marking the 21st consecutive month in which the supply growth exceeded demand growth. It was originally expected that the signing of the US-China trade deal on January 15, 2020, would effectively boost market demand. However, the global supply chain was disrupted by the COVID-19 pandemic. Due to the overly-significant changes in the unfolding of the pandemic, at this stage the IATA remains unable to forecast future impacts on airfreight businesses.

D. Competitive Niche

(1) The new-generation fleet can help to enhance service quality.

All aircrafts of China Airlines' new-generation long-haul fleet, which includes 10 Boeing 777-300ER and 14 Airbus A350-900, were delivered at the end of 2018 and were all allocated to fly long-haul routes. Flights for several routes, including the Taoyuan-Los Angeles, Taoyuan-Honolulu, and Taoyuan-Melbourne routes, will continue to increase. The overall cabin design concept was formulated from the perspective of passengers. It combines ideas of environmental protection, life aesthetics, and cultural creativity. The design has won recognition from many Taiwanese and foreign awards, including Japan's Good Design Award, Red Dot Design Award, Golden Pin Design Award, and Taiwan International Creative Design Competition. In the future, as the plan to phase out and renew the narrow-body aircraft fleet is implemented, the diversified, advanced, thoughtful, consistent hardware and software plan for the new-generation products will once again introduce a new look and new concept for the aviation industry, enabling China Airlines' passengers to have premium in-flight experiences.

(2) Highly-efficient cargo aircrafts to be introduced.

In June 2019, China Airlines' Board of Directors confirmed the purchase of three 777F cargo aircrafts from Boeing. Then, in August, the Board of Directors converted three option orders for 777F into firm orders. Six Boeing 777F cargo aircraft are expected to be introduced into the fleet between 2020 and 2023. Between 2014 and 2016, ten 777-300ER passenger aircrafts were introduced, and the benefits generated from their fuel efficiency are significant. Those aircraft are in the same series as the 777F cargo aircraft that China Airlines has discussed with Boeing. The 777F cargo aircraft is installed with the GE90 engine, which is the same as that used in passenger aircraft. This helps with engine management optimization and the lowering of maintenance costs. After the aircrews complete training on aircraft differences, they will be able to perform flight missions. This will enable flexible crew allocation.

In addition, China Airlines' Board of Directors agreed in 2019 that new A321neo passenger aircrafts will be introduced successively starting in 2021. Detailed cabin and system designs are underway. We look forward to providing products that better meet market demands and the most comfortable flying experience. China Airlines has also started selecting new-generation regional wide-body passenger aircrafts, which will provide the Company with the final puzzle piece for its new-generation product provision and give passengers a more consistent service standard.

(3) CEIV Pharma Certification

In April, 2019, China Airlines officially obtained IATA's CEIV Pharma Certification, becoming the first aviation company in Taiwan to earn such an honorable achievement and become one of the 17 internationally certified airline companies in the world. The certification shows that China Airlines has reached international standards in the field of medicinal air transport, which is sensitive to time and temperature. This not only enhances the Company's competitiveness and benefits generated in the highly valued freight market, but also strengthens the Company's leading position in the airfreight market in the Asia-Pacific region.

(4) Steady development of aviation networks.

In February 2019, the flight frequency for the Taoyuan-Palau route increased from 2 flights a week to 3 flights a week; in June, it further increased to 4 flights a week. In addition, in order to actively expand the Southeast Asian aviation network and strengthen the aviation network transfer market, China Airlines announced plans in 2020 to open up several routes, including the Taoyuan-Cebu and Taoyuan-Chiang Mai routes. As of the end of December 2019, China Airlines (including Mandarin Airlines) flew to a total of 23 countries across Asia, Europe, America, and Oceania, 72 passenger flight destinations, and operated an average of 712 flights a week.

(5) The Group's integrated resources increase overall efficacy.

China Airlines Group's overall combined fleet ASK provides differentiated aviation services and products to target markets with differentiated market positioning. Tigerair Taiwan operates with a low-cost airline business model and mainly flies regional routes. In the civil aviation market, Tigerair Taiwan, China Airlines, and Mandarin Airlines have each established its own positioning in different segments, providing consumers with a diversity of product options.

(6) Taken a leading position in the inter-airline cooperation market

In addition to self-owned routes, China Airlines is the first airline in Taiwan to join the global aviation alliance. We are also the first Taiwanese airlines to conduct code-sharing cooperation. Currently, we have cooperated with 23 airlines in code-sharing, ranking first among all Taiwanese airlines. The Company is active in its global market layout and provides more convenient and comprehensive services for passengers to travel between Taiwan and major cities around the world through the tightly-woven aviation network of China Airlines.

E. Corporate Policies

(1) Corporate Human Rights Policy

To implement the concept of corporate respect for human rights, the Company formulates human rights policies and management mechanisms based on the UN Guiding Principles on Business and Human Rights (hereinafter referred to as “UN Human Rights Guiding Principles”), international human rights trends, and local laws and regulations.

The scope of application covers the members in the China Airlines Group and their suppliers, and the Talent Value Task Force under the Company’s Corporate Sustainability Committee is responsible for human rights management. China Airlines sees its employees as its family and aspires to communicate and reach mutual understanding with the union through equal and respectful negotiation procedures, to create a more harmonious and friendly working environment, one based on a mutually beneficial situation for both labor and management. The Company and the union shall maintain an equal, cooperative, and respectful relationship. It is our core attitude to promote rational communication through open and transparent negotiations, so that labor and management can reach consensus and achieve common good, and can conduct two-way friendly communication on collective agreement issues. China Airlines believes that employees are the Company’s most important assets. The Company gradually strengthens and optimizes the working conditions and environments of colleagues to ensure they have employment safety and room for growth. The Company will treat each union with empathy and communicate and negotiate with them on their individual needs; give priority to fair protection of the labor rights of every employee; and perform the obligation to stay neutral in accordance with the law, showing the unions consistent respect and providing them with equal resources.

(2) Sustainable Supply Chain Management

Based on the corporate vision of “becoming the top airline in Taiwan,” the Company, based in Taiwan and flying around the world, is committed to pursuing the business goal of corporate sustainable development. We deeply understand that only by cooperating with business partners can we truly implement corporate sustainable development and create sustainable value. Therefore, the Company has been promoting sustainable supply chain management since the beginning of 2014. Subsequently, we established a Joint Creation Value Team for important procurement categories, including “aviation materials, aviation fuel, in-flight meals, service procurement, and general business affairs”; formulated long-term sustainability goals based on the United Nations’ Sustainable Development Goals (SDGs); and established China Airlines’ Sustainable Supply Chain Management Policy Statement and Supplier Code of Conduct with reference to the Global Reporting Initiative (GRI), ISO 26000, United Nations Global Compact (UNGC), International Labour Organization (ILO), and other international standards. In addition, the Company has also established a risk investigation mechanism, performed audit operations, organized supplier meetings to enhance the effectiveness of engagement, and set up other management measures, and has regularly reported the management results to the Corporate Sustainability Committee for follow-up inspection on a quarterly basis.

(3) Environmental Sustainability Management

The Company adheres to the belief of environmental sustainable management and regards “environment” as one of the key elements for the implementation of sustainable management. Since 2007, we have established the concept of environmental and energy management. In 2011, a dedicated environmental department and Environmental Committee were set up; every quarter, the president reviews the Company’s environmental and energy management performance and has set incentive measures. In 2013, an environmental and energy policy statement was issued; the Company became the first domestic airline to establish a dedicated environmental organization and formulate policies. While pursuing business development, China Airlines recognizes the value and irreversibility of the global environment, and understands the corporation’s responsibility and obligation for protecting natural resources and environment. Based on this understanding, the Company established the four environmental and energy management concepts and six environmental and energy policies according to the codes of practice for “Sustainable Environment Development” in the China Airlines Corporate Social Responsibility and Sustainable Development Best Practice Principles announced by the Board of Directors. The Company also referred to the UN’s SDGs when devising instructional strategies, to ensure the business operation direction is towards sustainable development, namely environmental friendliness, low-carbon emissions, and energy conservation.

(4) Corporate Social Responsibility

China Airlines is deeply aware that its achievements come from the support of the society, and “social support” is the key to promoting China Airlines’ success. The Company continues to make contributions and adheres to its core concept of “giving back to society” to build a loving society and fulfill its corporate responsibilities as a member of Taiwan. As a leader in Taiwan’s aviation industry and a corporate citizen of Taiwan, the Company takes “continuous creation of social value” as an important commitment for sustainable development. In 2019, China Airlines continued to use “brand perception,” one of the major directions in its sustainable strategy blueprint, to extend its development strategy to give back to the society: with “promoting the internationalization of local education” and “enhancing international visibility of local brands in Taiwan” as its main directions, and adding “promoting disadvantaged groups to obtain equal opportunities in society,” it looks to create co-prosperity and common good with the society through specific actions, such as “improving the overall quality of Taiwan’s education,” “strengthening Taiwan’s international visibility,” and “helping disadvantaged groups ameliorate their difficulties”.

(5) Enterprise Risk Management Architecture and Process

China Airlines understands the importance of risk management, and places great emphasis on possible interactions between risks. It refers to Enterprise Risk Management (ERM) and other publications and practical methods while also considering the environment and operational characteristics of the industry. The airline industry is currently facing three major risk sources: security, operations, and financial risk management structures, and uses four major steps, identification, risk analysis, risk assessment, and risk management". The Company identifies potential risks in these three areas and, based on frequency of occurrence and seriousness of the risk, performs analysis and assessment, distinguishing the degree of risk and finally developing response plans for high-risk items to reduce the impact on company operations.

F. Favorable and Unfavorable Factors in the Long Term

(1) Favorable Factors

- The government strongly develops a diversified market, continues to promote the simplification of visa process for New Southbound countries, and combines local resources to complete transportation and ticket services, effectively increasing the number of international tourists visiting Taiwan.
- Global aviation has benefited from the growth of emerging economies and the middle class. The growth in the passenger transportation volume is most prominent in the Asia-Pacific region. The total number of passengers in Taiwan has grown steadily and is dominated by passengers on international routes.
- With increasingly updated technology, transportation has become convenient, online security trading platforms have matured, cross-border e-commerce has changed business models, and the demand for logistics networks is increasing.

(2) Unfavorable Factors

- Labor awareness is rising. Striving for labor rights through strikes not only causes inconvenience to passengers, but also affects company's business performance.
- Geopolitical conflicts and economic and trade disputes will affect the global supply chain layout, which in turn will affect the overall aviation industry operations.
- Most air traffic rights lean towards the Treaty on Open Skies, in addition to allowing existing operators to increase flights, it also provides new operators with opportunities to join and LCCs with opportunities to have significant growth, intensifying competition in the route market.
- The development of air transport infrastructure is not as fast as that of the aviation industry, making it difficult to obtain or adjust time slots in airports at various locations. The airlines' route planning and aviation network expansion are thus limited, which is not conducive to business.
- International aviation environmental protection related regulations have developed rapidly. For example, ICAO CORSIA has been officially implemented, and many countries have also planned to levy aviation environment related taxes and promote sustainable aviation fuel policies, which will all affect the operation and operating costs of airlines.

(3) Response Measures

- We adapt to the unpredictable passenger transport market by increasing the passenger load factor and profit margins for the routes through the flexible adjustment of flights, deployment of aircrafts, and regulation of transportation capacity. Furthermore, based on the seasonal market demand in various places, adding extra flights or irregular charter flights for potential profitable destinations can grasp business opportunities and increase revenue.
- Through inter-airline cooperation, extending destinations, expanding the global aviation network and increasing the number of passengers, deepening resource sharing with alliance member airlines, and in turn reduce operating costs.
- Faced with the growth of new operators and low-cost carriers (LCC) in Asia, China Airlines Group will also combine the transportation capacity of Tigerair Taiwan's fleet to provide differentiated aviation service products to target customers based on market positioning, so as to consolidate the overall interests of the Group.
- It is planned to launch various marketing activities and improve the quality of website experience; expand the development of website functions to optimize the ticket purchasing process; and build multiple payment tools and support multi-currency payments. In addition, new fare products were launched. Passengers can choose fares and additional products on their own, such as baggage allowance, preferred seats, and mileage accumulation standards, to meet the different needs of passengers.
- In response to the development of cross-border e-commerce, for air cargo transport, we strengthen cooperation with express delivery companies and inter-airline cooperation to expand the air-bridge service transport for e-commerce postal services, providing more diversified products through cooperation to achieve mutual benefit and common prosperity in the aviation network.
- Through the development of the CEMS system, continuing to review and correct to comply with the CORSIA management measures and operational procedures, and continuing to promote the TCFD project to deepen carbon management operations and enhance resilience to the climate change. Continuing to pay attention to the development of SAF related policies to respond to the international trend of carbon reduction and sustainable energy that are growing in seriousness as early as possible.

5.2.2 Production Procedures of Main Products

A. Major Products and Their Main Uses

Major Products	Main Uses
Passenger services	International passenger air transport and scheduled, non-scheduled, and charter flights.
Cargo services	International cargo, courier, mail, and package transport.
In-flight sales	Providing passengers with in-flight duty free sales services.

B. Major Products and Their Production Processes

The Company is a member of the airline industry and not a manufacturer, so there is no production process.

5.2.3 Supply Status of Main Materials

CAL is a member of the airline industry, not a manufacturer. Therefore, there is no need for production raw materials. Aviation fuel makes up the largest proportion of operating costs. In addition to aviation fuel supplied at Taiwan Taoyuan Airport by CPC Corporation and Formosa Petrochemical Corporation, the Company also purchases fuel from large oil companies around the world at the various destinations served, so fuel supplies are very fragmented.

5.2.4 Major Suppliers and Clients

A. Major Clients in the Last Two Calendar Years

CAL is a member of the airline industry and clients are members of the general public.

B. Major Suppliers in the Last Two Calendar Years

CPC Corporation, Formosa Petrochemical Corporation, and Chevron Corporation, etc.

Unit: NT\$ thousands

Item	2018				2019				2020 (as of March 31)			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	CPC Corporation	18,413,016	12.00	None	CPC Corporation	17,197,546	11.33	None	CPC Corporation	3,337,695	10.32	None
2	Formosa Petrochemical Corporation	5,372,889	3.50	None	Chevron Corporation	5,126,545	3.38	None	Chevron Corporation	1,024,781	3.17	None
3	Chevron Corporation	5,117,227	3.33	None	Formosa Petrochemical Corporation	4,939,381	3.25	None	Formosa Petrochemical Corporation	857,008	2.65	None
Other		127,600,944	81.17		Other	124,493,760	82.04		Other	27,116,778	83.86	
Net Total		153,504,076	100.00		Net Total	151,757,232	100.00		Net Total	32,336,262	100.00	

Reasons for changes:

Fuel is the Company's primary operating expense. Overall, purchases have remained stable.

5.2.5 Production in the Last Two Years

Unit: thousand kilometers

Year	2018	2019	Rate of Increase (Decrease)
Capacity and Traffic			
Available Seat Kilometers (ASK)	58,043,562	58,590,098	0.94%
Revenue Passenger Kilometers (RPK)	46,256,379	47,462,113	2.61%
Load Factor (%)	79.69%	81.01%	1.32 ppt
Freight Available Ton Kilometers (FATK)	8,290,378	8,012,739	-3.35%
Freight Revenue Ton Kilometers (FRTK)	5,914,889	5,370,078	-9.21%
Load Factor (%)	71.35%	67.02%	-4.33 ppt
Available Ton Kilometers (ATK)	13,498,780	13,269,365	-1.70%
Revenue Ton Kilometers (RTK)	10,065,315	9,627,913	-4.35%
Load Factor (%)	74.56%	72.56%	-2.00 ppt

Note 1: The above data includes scheduled flights, charter flights, and extra flights.

Note 2: The above data includes Mandarin Airlines and Tigerair Taiwan.

Reasons for Changes:

In 2019, the Company had new transportation capacity of passenger transport put into the market, and the available seat kilometer (thousand) and the revenue passenger kilometer (thousand) increased compared with 2018; in response to the decrease in demand for cargo transport, the FTK (thousand) of FRTK (thousand) also decreased compared with 2018.

5.2.6 Shipments and Sales in the Last Two Years

Unit: thousand kilometers; NT\$ thousands

Item	2018		2019	
	RPK/FRTK	Amount	RPK/FRTK	Amount
Passenger Revenue	46,256,379	108,345,648	47,462,113	111,413,435
Cargo Revenue	5,914,889	49,847,065	5,370,078	43,793,256
Other Operating Revenue	-	12,518,894	-	13,237,469
Total	-	170,711,607	-	168,444,160

Note 1: The above data includes scheduled flights, charter flights, and extra flights.

Note 2: The above data includes Mandarin Airlines and Tigerair Taiwan.

Reasons for Changes:

The sales volume of the Company's passenger transportation business in 2019 has increased compared to 2018, mainly due to the introduction of additional passenger transportation capacity into the market in 2019, which led to the increase in the Revenue Passenger Kilometer (RPK) and sales; however, due to the continued downturn of the cargo transport market in 2019 and the slowdown in international trade demand, the cargo transport sales in the entire year of 2019 has declined.

5.3 Human Resources

Year		2018	2019	APR 25, 2020
Number of Employees	Male	6,379	6,302	6,048
	Female	6,030	5,937	5,126
	Total	12,409	12,239	11,174
Average Age		41.10	41.40	42.44
Average Years of Service		13.90	14.00	15.00
Education	PhDs	0.10%	0.09%	0.10%
	Master's Degrees	10.94%	11.10%	11.99%
	Bachelor's Degrees	82.71%	82.63%	81.83%
	Senior High School	5.94%	5.89%	5.77%
Below Senior High School		0.31%	0.29%	0.31%

5.4 Environmental Protection Expenditure

5.4.1 Total Losses and Penalties: None.

5.4.2 Company Countermeasures to Future Environmental Protection Issues

A. ISO 14001 Environmental Management System and ISO 50001 Energy Management System

In order to integrate environmental protection operations into the daily operational risk management operations of the enterprise, China Airlines has introduced a number of international standard management systems (ISO 14064-1, ISO 14001, ISO 50001) since 2009, and has established and improved the environmental management operation mechanism of the enterprise, covering risk issues such as greenhouse gases, environmental management and energy management. The Company has formulated management strategies and action measures for relevant risks and opportunities identified in various aspects of the environment.

(1) Management system operations

In 2017, we completed the revision of the ISO 14001: 2015 standard, incorporating the "life cycle thinking," "stakeholder engagement," "risk and opportunity management" and other aspects into the operation of the Corporate Environmental Management System (EMS). Following that, in 2019, we further developed ISO 50001:2018 version transferring operation, strengthening the identification and operation control of energy use, comprehensively reviewing and optimizing

energy performance indicators, to fit with the international enterprise benchmark mode of thinking on sustainable development and governance.

(2) Value chain and outstation environment management

In order to fully grasp the global operational risks, the Company has initiated outstation risk/opportunity investigation and evaluation operation since 2018, strengthening the grasp of international environmental protection control trends, and entrenching the identification and handling of environmental energy-related risks and opportunities in operation. In 2019, we further focused on the current operational status of various issues of concern, and used best-case sharing to assist each station in seeking room for continuous improvement and implementing related operations.

In addition to strengthening its own environmental sustainability management capacity, the Company also actively strengthens the sustainability value of the overall industrial chain. In 2018, it started the value chain environmental management operation and asked Group partners to set up environmental protection seeds, and by holding environmental/energy/carbon management workshop to promote Group partners' understanding of the meaning and benefits of environmental/energy/carbon management. In 2019, it further cultivated Group's corporate environmental energy risk management capacity through environmental risk/opportunity investigation and communication meetings

(3) Green maintenance operation and pollution prevention

In order to reduce the environmental impact of the Company's maintenance operations, in addition to implementing and continuously improving the aforementioned risk management operations, the EMO (park maintenance) Environmental Management Committee under the Company's Corporate Environmental Committee also tracks and inspects on a quarterly basis the results of the environmental management of the maintenance plant area, in order to comply with environmental regulations, international trends, headquarters policies, and corporate environmental sustainability obligations. Its operating unit performs declaration and fee payment in accordance with the regulations every year, and operates in accordance with the water pollution prevention measures plan, waste disposal plan and related permit documents, and actively follows the principles of source reduction, poison reduction, and end-of-pipe recycling, continuously improving and enhancing environmental performance and ecological benefits.

The Company is the second airline in the world and the first Taiwanese airline to pass certification for ISO14001 and ISO50001 at the same time. The scope of certification is also the most complete in the domestic service industry. It has continued to complete the annual third party audit and verification operations for ISO 14001 and ISO 50001 on December 20, 2019.

B. Environmental KPI Controls

The Company has followed the United Nations' SDGs and set a number of short-, medium-, and long-term environmental protection and energy conservation objectives, including those for aviation fuel efficiency, ground carbon emissions, water consumption, domestic waste, business waste, and photocopy paper consumption. The five major environmental management committees and the carbon management task force develop and implement annual environmental protection KPI, and the Corporate Environmental Committee chaired by the President conducts the annual audit and review. The Company completed a total of 72 KPIs in 2019 and reduced carbon emissions by 124,365 tons CO₂e. 69 KPIs are further planned in 2020, and it is expected to reduce emissions by 58,106 tons CO₂e.

C. Strengthening adaptability to climate risks and opportunitiesIn order to strengthen our grasp of climate-related risks and opportunities, in 2018, the Company signed the initiative supporting the international Task Force on Climate-Related Financial Disclosures, TCFD, and launched project operations, through interviews, questionnaires, workshops, high-level forums, and other engagement processes, exploring the current or future climate risks and opportunities faced by business operations in different climate scenarios, and their potential impacts and corresponding costs, to gradually establish the Company's climate risk and opportunity management mechanism.

D. Solidifying environmental management supervision mechanismThe Company promotes environmental management supervision mechanisms. Each unit independently implements the first-level audit of environmental management; second-level audit of environmental management is

implemented by the headquarters. The double audit mechanism ensures that environmental management is implemented in the basic level operations of all units.

The Company has completed the second-level audit in 2019 Q2 and Q4. In addition to the checklist items, the audit items conducted also included the improvement on the previous audit findings, the degree of implementation of external stakeholders' concerns and annual KPI implementation review.

E. Entrenching environmental education and training for all employees

To implement the corporate environmental and energy policy of "implementing environmental and energy conservation education to foster employees' environmental awareness," as well as to achieve the goal of "environmental protection by all employees," the Company has set up an annual "environmental protection education campaign" to implement online or in-class environmental management education and training in Taiwan. The implementation performance is as follows:

- (1) New employee and outstation supervisor environmental education and training implementation rate is 100%.
- (2) The implementation rate of professional knowledge training on environmental/energy/carbon management system is 100%.
- (3) A total of 151 participants in the environmental protection forum for all employees on the theme of climate change.
- (4) A total of 2,229 participants in interactive employee activities.
- (5) Published 35 promotional articles on the internal communication platform; set up "green footprint" stickers on the ground and posters in the headquarters and maintenance park to convey information on 21 environmental protection measures, and set up plant identification placards.

F. Carbon Inventory and Reduction Project

(1) Annual organization level greenhouse gas emission inventory operations

According to the ISO/CNS 14064-1 standard, the Company has conducted a greenhouse gas inventory each year since 2009, covering aviation, ground service and office administration operations, and has conducted third-party verification operations in accordance with the requirements of "Reasonable Assurance".

The greenhouse gas emissions in 2018 and 2019 were 7,253,363 tons CO₂e and 7,082,233 tons CO₂e, respectively, a decrease of approximately 2.36%.

(2) EU ETS (European Emission Trading Scheme) operations

According to the EU regulations, because the CO₂e emissions of the Company's 2019 Intra-EU Flights were all less than 3,000 metric tons, carbon emissions may be calculated by the EUROCONTROL tool; the calculation result for 2019 is as follows: CO₂e emissions of 988 tons from 26 flights in total. The carbon credit allocated by the EU to the Company between the period from 2017 to 2020 is 7,157 metric tons per year. Therefore, in 2019, the Company's carbon credit account balance was 23,781 metric tons. We will continue to conduct trading operations based on market demand and pricing trends.

G. Improving business eco-efficiency

After obtaining the "Diamond Green Buildings Label" certification in 2017, in the headquarters of China Airlines, CAL Park, we continued to promote equipment renewal, optimize the operation process, and improve the overall energy efficiency of the buildings; In 2019, we further responded to the government's green energy policy and completed the installation of 99kW of solar photovoltaic facilities grid-connected power generation on the rooftop of the simulator training building. As of December 31, 2019, it had generated 90,000 kWh of electricity and reduced CO₂e emissions by approximately 48 tons; Relevant actions have been recognized by the Energy

Conservation Benchmark - Silver Award of the Ministry of Economic Affairs, Bureau of Energy; Energy Conservation Leadership Award of Taipei City; No. 1 in the Carbon Reduction and Electricity Conservation Reward Competition of Taoyuan Airport.

Moreover, to reduce the risk of water resources, the Company has successively set up water meters at important water route nodes to track and analyze the flow direction of water resources and water consumption hot spots, and has promoted water reduction and recycling measures, including: purchasing water conservation label products, promoting water conservation advocacy, setting up a rainwater recovery system, promoting cooling water recycling and introducing Eco-Shine environmentally friendly cleaning solution; The amount of tap water used dropped from 148.22 kilotons in 2018 to 146.49 kilotons in 2019, a decrease of about 1.17%. Data relevant to this has been disclosed in the Company's 2019 CSR report and assured by third parties.

In terms of waste management, the Company manages waste based on five main principles: refuse, reduce, reuse, recycle, and repair. And with the goal of 100% waste resource recovery, the Company is increasing its waste reuse rate year by year. In addition, considering that waste management in aviation services involves a wide range of businesses, the Company established a waste management team in 2019. Service and supply planning and quality assurance units, as well as aviation catering, cabin cleaning, and other suppliers and partners are invited to form a periodical communication platform, where all parties come together to analyze the trends in international aviation service waste management and discuss response strategies. Domestic waste output from employees in 2018 and 2019 were 747,202 kg and 702,966, respectively, showing a decrease of approximately 5.9%. Data relevant to this has been disclosed in the Company's 2019 CSR report and assured by a third party.

H. Promote Green Consumption

The Company actively reveals its environmentalism philosophy and implementation performance irregularly through different platforms, such as social networks and in-flight magazines, with the intention of establishing and promoting the awareness of green consumption. In 2017, in a further effort to follow international trends, the Company started promoting the voluntary carbon offsetting program for passengers: the "ECO TRAVEL - Carbon Offsetting" service. Diversified electronic-friendly service platforms, including the official website, ticket-purchasing system, and travel reminders, are used to invite passengers to practice "zero-carbon" flying. In 2019, a total of 156 people took part in the carbon offsetting program, in which a total of 258.45 metric tons of carbon was offset. Such performance exceeded all other Taiwanese companies in the same industry during the same period. Other actions to elevate and promote green consumption include:

- (1) Selecting 12 environmental films to play on airplanes.
- (2) Presenting 5 posts about environmental topics and reports on social media.
- (3) Interactive educational work, such as promoting closing windows in summer.
- (4) Adding environmentalism products in the catalogue of home-delivery duty-free goods, and include China Airlines' sustainability logo.

The heating boilers in the engine plant and the electroplate plant of the companies' repair factory are inspected yearly against relevant regulations for air pollutant emissions; air pollution control fees are also reported and paid quarterly (the repair factory uses super diesel, so it is exempted from inspections, but reports are required).

I. Continue to Support International Environmental Protection Research Projects

The Company is working with several environmental protection organizations, including the Environmental Protection Administration, National Central University, and the European Union's IAGOS-ERI in the implementation of the Pacific Greenhouse Gases Measurement (PGGM) project. In June 2012, July 2016, and July 2017, IAGOS instruments were installed onto the Company's B-18806, B-18317 and B-18316 aircrafts, respectively. Since then, atmospheric gas data have been automatically collected during flights. The data is observed by important Taiwanese and foreign

research organizations to gain understanding of the changes in high-altitude gasses. This facilitates the understanding of environmental quality changes and provides reference material for important decision-making platforms, such as the UNFCCC. During the period from July 1, 2012 to December 31, 2019, atmospheric data collected from a total of 11,254 flights was collected, contributing to the ecosystems on Earth and Taiwan's image in the environmentalism field.

J. Transparent Disclosure of Environmental Protection Responses and Performances
 Since 2012, the Company has been publishing its Corporate Social Responsibility (CSR) Report every year (former titles include the Environmental Sustainability Report and Corporate Sustainability Report). The Company has also been establishing and updating the CSR network. It publicly and transparently discloses its sustainability governance strategies, as well as the results and performances in the environmental, social, and financial aspects of its operations. The reports are an important tool and channel that facilitates discussions with stakeholders.

5.4.3 Countermeasures

Unit: NT\$ thousands

Year	Item	2019	2020	2021	2022
	Environmental protection equipment and maintenance costs (does not include depreciation)	13,969	14,000	14,000	14,000
	Fees for wastewater equipment regular sampling inspections by inspection agencies and permitting	123	100	100	100
	Waste disposal costs	4,062	4,000	4,000	4,000
	Aviation noise control fees (paid to the terminal based on airplane model and number of flights)	188,787	193,318	193,318	193,318
	Fees for establishment of an environmental control system and strategic research project	2,541	4,000	4,000	4,000
	Green procurement	19,258	20,000	20,000	20,000

5.4.4 Effect of Environmental Expenditures on Earnings

Energy-saving equipment and improved management expenditures reduce both Company energy use and operating costs.

5.4.5 Effect of Environmental Expenditures on Competitiveness

Environmental performance has already become an important benchmark in achieving corporate social responsibility. With the rise of green consumers, actively investing in environmental improvements can positively affect our competitive position and improve brand image.

5.5 Labor Relations

5.5.1 List of employee benefits, training, retirement program, and status of implementation, and labor-management agreements and protection of employee rights and interests

A. Good Labor-Management Relations

On May 4, 1988, the China Airlines Union was established. On July 29, 2011, in accordance with revisions to the Labor Union Act, it was renamed the "China Airlines Employee Union." In 2002, a collective agreement was signed between labor and management, which is regularly negotiated and renewed.

B. Retirement Program and Pension Preparations

(1) Labor Standards Act Old-Age Pension System

The Labor Pension Reserve Supervisory Committee of the Company was established in June 1987 in compliance with letter Bei-Shi-She-II-Zi No. 43791 from the Taipei City Government. In past years, the appropriation and payment of pensions in the old system of the Labor Standards Act were handled according to the Labor Standards Act. In 2019, employees who may claim from the old system pension account accounts for approximately 51.2% of the employees of the Company (56.3% of Company employees are subject to both the new and old systems). The monthly appropriation rate of old system pensions has been increasing year by year since 2014 and has risen to 15% since January 2016, reaching the statutory limit. For employees who meet the retirement qualifications of the Labor Standards Act and whose retirement has taken effect, the responsible unit shall take the initiative to settle the pension, and shall apply to the local government for expenditure approval and reference or submit to the Taiwan Bank for payment application according to the relevant regulations of the government; it shall notify the employees to receive the payment once the check is produced. The deposit of pension reserve funds is supervised by the Labor Pension Reserve Supervisory Committee of the Company. The business unit regularly holds a pension supervision committee meeting every three months to report the use of the pension reserve funds to the members, including the estimated result of the next year's appropriation, number of retirements of each quarter, and designated pension reserve funds account balance, and exchange of retirement related issues.

(2) Labor Pension Act New Pension System

According to the Labor Pension Statutes promulgated by the government on June 30, 2004, in order Zong-Tong-Hua-Zong-(I)-Yi-Zi No. 09300121821, for employees who are subject to the statutes, new system pensions shall be appropriated on a monthly basis to the Bureau of Labor Insurance according to the statutes starting from July 2005. In 2019, employees who may claim from the new system pension account accounts for approximately 67.2% of the employees of the Company (37.8% of Company employees are subject to both the new and old systems). The new system pension appropriation rate is 6% per month, and is deposited into the employee's designated personal pension account at the Bureau of Labor Insurance. After the retirement conditions are met, the employee shall apply for payment to the Bureau of Labor Insurance.

C. Labor-Management Communications

(1) Units within the Company with a relatively large number of employees, such as the maintenance facility, Ground Services Division, Cabin Crew Division, Flight Operations Division, and Taipei and Kaohsiung branches hold regular communication meetings.

In addition, elected union representatives attend regular company-wide labor-management conferences to improve understanding and communication.

(2) Establish an employee complaint mechanism and channels to ensure proper response:

When employee rights have been violated or a situation is improperly handled, as stipulated in the Regulations Governing Employee Complaints, employees can lodge a complaint with the responsible operating unit or the Human Resources Division. If the employee objects to the response, he or she can file an appeal with the Human Resources Division. Use of employee complaint channels: a total of 9 written complaints were handled in 2019.

D. Benefits

(1) Employee care

Pension appropriation, labor and health insurance, employer liability insurance, group insurance, employee physical examination, and providing a nursing room.

(2) Employee stock ownership trust

In August 1998, the Company set up an employee stock ownership trust, in which employees are free to participate. The amount, depending on employee position, is deducted directly from their monthly salary. Through the end of 2019, a total of 2,063 employees participated.

(3) Profit sharing

As per the Company charter, if the Company posts a profit in a given year, it must allocate no less than three percent as employee bonuses. However, if the Company still has accumulated losses, it shall first retain a sum of money to make up the deficiency.

(4) Welfare system

The Company's Employee Welfare Committee was set up in December 1967. As stipulated by law, the Committee distributes benefits; handles the disbursement of wedding allowances, funeral allowances, disaster allowances, employee children excellence scholarships, birthday bonuses, and birth allowances; arranges visits to nursing homes, holds recreational sports activities, distributes meals and holiday gift certificates, and offers distress or purchase loans.

(5) Employee leisure

Employee group activity subsidies, employee group travel subsidies, discounted tickets for current and former employees.

(6) Working environment

Workplace compliance with occupational safety standards, gender equality.

E. Signing of Collective Agreement

In 2019, the Company and the Pilots Union Taoyuan signed a collective agreement for the first time, the effective period being 3 years and 6 months. Since signing the collective agreement with the China Airlines Corporate Union in 2002, the agreement is extended every 3 years. The two parties are currently negotiating the extension of the agreement, and the relevant negotiation records have been published on the Company's internal enterprise information network.

F. Counseling

To take care of our colleagues needs and participate in employee personal growth, the Company has employed professional counselors and psychiatrists to provide counseling services to employees. In 2019, there was a total of 58 counseling visits totaling 58 hours.

G. In addition to promoting employee education and training to enhance staff

knowledge and skills, we also continue to accumulate knowledge and encourage exchange within the Company to build an organization for learning. Through the management personnel training program and the "China Airlines Lecture Hall" training system, the Company holds courses to improve employees' strategic, management, professional, and general workplace skills.

- (1) To encourage employees to participate in various classes and self-study opportunities provided by the ROC Workforce Development Agency under the Ministry of Labor, the self-pay portions of the costs for such courses will be subsidized by the Company after work-related courses are successfully completed by an employee.
- (2) Obtained the ROC Ministry of Labor Workforce Development Agency's 2019 training subsidy of NT\$950,000.
- (3) Popularize and hold strategic work, management, professional and general skills courses.
 - Marketing training: including marketing strategies, customer operations, freight business and related OJT training, with a total of 174 in-person classes and 158 e-classes, and total of 17,745 people trained.
 - Professional technical classes: including enterprise safety/inspection work, flight services, joint management and EMO, with a total of 2,069 in-person classes and 265 e-classes, and a total of 72,479 people trained.
 - Service: including service quality assurance, introduction to public relations, service business, ground services operations, and in-flight products, with a total of 533 in-person classes and 316 e-classes, and a total of 26,109 people trained.
 - Other: including investment management unit business, law and insurance, financial, information technology, and human resources management, with a total of 182 in-person classes and 26 e-classes, and a total of 13,925 people trained.

5.5.2 CAL has established an employee code of conduct or ethical code and arranges pre-employment Employee Rights and Responsibilities classes for new hires. The main content of the Company's Employee Code of Conduct is as follows:

The Company's Employee Code of Conduct primarily consists of workplace ethics, privacy, occupational safety, discrimination and harassment, moral integrity, media and public image, conflict of interest avoidance, anti-trust and fair competition, exchanging gifts and anti-corruption, CAL asset and intellectual property protections, reporting responsibilities, respect for human rights, and commitment to environmental protection. The Company includes an assessment and consideration of the foregoing items of workplace behavior in its annual results; employees unable to respect or who violate the foregoing regulations governing workplace behavior are penalized based on the Company's regulations governing rewards and penalties, based on the severity of the offense.

5.5.3 Implementation of work environment and employee personal safety protection measures

The Company has established an Occupational Safety and Health Committee in accordance with law. The committee is tasked with the objective of preventing occupational hazards and protecting the safety and health of all employees by reviewing, coordinating, and making recommendations pertaining to safety and health related matters. The Chairman is served by the President. There is one vice chairman and one executive secretary under the Chairman. The Committee consists of the head of designated units, occupational safety and health personnel, engineering and technical personnel, medical personnel, and labor representatives appointed by the labor union as members. Formulate and follow the Occupational Safety and Health Management Manual; to adapt to trends of global international labor development, improve the efficiency of safety and health management, and promote systematic management measures, the Company established an independent safety and health management system and obtained ISO45001:2018 and TOSHMS certification on April 20, 2019, which serve as the management basis of occupational safety and health management system

certification. Self-management and preventive measures based on the PDCA cycle mode are used to effectively control occupational disaster risk, improve occupational disease preventive management, improve occupational safety and health management performance, and actively implement occupational safety policies; provide safe, healthy and comfortable working environment for employees, and promote industrial competitiveness; proactively promote the occupational safety and health management system; strengthen the promotion of safety and health education at all levels. Every three years, each person receives at least 3 hours of education and training. Education and training for supervisors is held depending on the promotion and transferring of the supervisors. The members of the Occupational Safety and Health Committee must complete at least three hours of safety and health education and training every three years to cultivate the correct attitude towards safety and health work; assist in the training of safety and health officers at all levels to implement safety and health work; initiate a safety and health hazard identification proposal system to extend the participation in safety and health to all personnel; regularly strengthen the on-the-job training for safety and health officers of various units, including how to identify hazards in the workplace, risk classification, how to compose management plans, and occupational accident identification process and operations; guide the risk assessment of units at all levels and conduct prevention and improvement to build the concept of corporate community.

5.5.4 Over the most recent year through the date of the publication of this report, the estimated value of any losses or potential future losses due to labor disputes

From 2019 to April 25, 2020, the Company was fined a total of NT\$3.12 million by the government labor authorities for labor disputes or imperfections after labor inspections. As for matters that the Company is not at fault for, the Company has proposed procedures for administrative remedies through appropriate channels to protect the Company's rights and interest. In addition, if labor disputes turn into petitions and protest activities, they will cause losses that cannot be estimated in the Company's operations and reputation. In regard to this matter, the Company will continue to maintain a genial interaction mechanism through diversified communication channels to achieve the goal of caring for employees' welfare and improving the quality of the work environment, and through comprehensive improvement of the satisfaction of employees in all categories, eliminating the issues that may arise from unnecessary labor disputes.

5.6 Major Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Lease	SASOFIV Aviation Ireland DAC	02/2006-02/2022	Aircraft Type:A330-300/No.:B-18351	-
Lease	SASOFIV Aviation Ireland DAC	02/2007-02/2023	Aircraft Type:A330-300/No.:B-18352	-
Lease	Zhong Hang Co., Ltd.	04/2007-04/2019	Aircraft Type:A330-300/No.:B-18315	-
Lease	AerCap Ireland Ltd.	05/2008-05/2024	Aircraft Type:A330-300/No.:B-18353	-
Lease	Bluesky Magical 1001 Leasing Co.	11/2010-11/2022	Aircraft Type:A330-300/No.:B-18355	-
Lease	MSN 1272&1278 Aircraft Leasing (Cayman) Ltd.	12/2011-12/2023	Aircraft Type:A330-300/No.:B-18356	-
Lease	MSN 1272&1278 Aircraft Leasing (Cayman) Ltd.	01/2012-01/2024	Aircraft Type:A330-300/No.:B-18357	-
Lease	AS Air Lease 83 Ireland Ltd.	10/2012-10/2024	Aircraft Type:A330-300/No.:B-18358	-
Lease	AS Air Lease 83 Ireland Ltd.	12/2012-12/2024	Aircraft Type:A330-300/No.:B-18359	-
Lease	Dianbao Aviation Leasing Ltd.	12/2013-12/2025	Aircraft Type:A330-300/No.:B-18360	-
Lease	Wilmington Trust SP Services (Dublin) Ltd.	04/2013-04/2021	Aircraft Type:737-800/No.:B-18651	-
Lease	Wilmington Trust SP Services (Dublin) Ltd.	05/2013-05/2021	Aircraft Type:737-800/No.:B-18652	-
Lease	Wilmington Trust SP Services (Dublin) Ltd.	06/2013-06/2021	Aircraft Type:737-800/No.:B-18653	-
Lease	Avolon Aerospace AOE 73 Ltd.	03/2014-03/2022	Aircraft Type:737-800/No.:B-18655	-
Lease	Avolon Aerospace AOE 78 Ltd.	05/2014-05/2022	Aircraft Type:737-800/No.:B-18656	-
Lease	SMBC Aviation Capital (UK) Ltd.	06/2014-06/2022	Aircraft Type:737-800/No.:B-18657	-
Lease	Jade Aviation (Ireland) AOE 5 Ltd.	06/2014-06/2026	Aircraft Type:A330-300/No.:B-18361	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Lease	FPG Amentum	10/2014-09/2026	Aircraft Type:777-300ER/No.:B-18051	-
Lease	Oriental Leasing 4 Company Ltd.	10/2014-10/2026	Aircraft Type:777-300ER/No.:B-18052	-
Lease	Zeus Aircraft Owner 1 Ltd.	11/2014-11/2026	Aircraft Type:777-300ER/No.:B-18053	-
Lease	Korea Investment & Securities (KIS)	01/2015-01/2027	Aircraft Type:777-300ER/No.:B-18055	-
Lease	Sky High XXXVII Leasing Company Ltd.	05/2015-05/2027	Aircraft Type:777-300ER/No.:B-18001	-
Lease	Sky High XXXVII Leasing Company Ltd.	06/2015-06/2027	Aircraft Type:777-300ER/No.:B-18002	-
Lease	Sky High XXXVII Leasing Company Ltd.	08/2015-08/2027	Aircraft Type:777-300ER/No.:B-18003	-
Lease	Wilmington Trust SP Services (Dublin) Ltd.	09/2015-09/2023	Aircraft Type:737-800/No.:B-18658	-
Lease	ALC Blarney Aircraft Ltd.	10/2015-10/2023	Aircraft Type:737-800/No.:B-18659	-
Lease	Sky High XXXVII Leasing Company Ltd.	10/2015-10/2027	Aircraft Type:777-300ER/No.:B-18005	-
Lease	Zeus Aircraft Owner 2 Ltd.	01/2016-01/2028	Aircraft Type:777-300ER/No.:B-18006	-
Lease	UMB Bank N.A.	03/2016-03/2024	Aircraft Type:737-800/No.:B-18660	-
Lease	Zeus Aircraft Owner 3 Ltd.	05/2016-05/2028	Aircraft Type:777-300ER/No.:B-18007	-
Lease	Chilli Leasing LLC	09/2016-09/2024	Aircraft Type:737-800/No.:B-18661	-
Lease	Pacific Triangle Leasing Ltd.	09/2016-09/2024	Aircraft Type:737-800/No.:B-18662	-
Lease	BOC Aviation Ltd.	10/2016-10/2024	Aircraft Type:737-800/No.:B-18663	-
Lease	BOC Aviation Ltd.	11/2016-11/2024	Aircraft Type:737-800/No.:B-18665	-
Lease	BOC Aviation Ltd.	01/2017-01/2025	Aircraft Type:737-800/No.:B-18666	-
Lease	BOC Aviation Ltd.	02/2017-12/2025	Aircraft Type:737-800/No.:B-18667	-
Lease	Altitude Aircraft CAL I Ltd.	09/2019-11/09	Aircraft Type:A330-300/No.:B-18301	-
Lease	Altitude Aircraft CAL I Ltd.	09/2019-11/09	Aircraft Type:A330-300/No.:B-18302	-
Lease	Altitude Aircraft CAL I Ltd.	09/2019-11/09	Aircraft Type:A330-300/No.:B-18303	-
Lease	Altitude Aircraft CAL I Ltd.	09/2019-11/09	Aircraft Type:A330-300/No.:B-18305	-
Lease	Altitude Aircraft CAL I Ltd.	09/2019-11/09	Aircraft Type:A330-300/No.:B-18306	-
Loan	First Commercial Bank	05/2007-05/2019	Aircraft Type:A330-300/No.:B-18316	-
Loan	Cathay United Bank	08/2007-08/2019	Aircraft Type:747-400F/No.:B-18725	-
Loan	Taiwan Cooperative Bank	02/2008-02/2020	Aircraft Type:A330-300/No.:B-18317	-
Loan	Taipei Fubon Commercial Bank	10/2012-10/2019	Aircraft Type:737-800/No.:B-18610&B18617	-
Loan	Bank of Taiwan	12/2014-12/2019	Aircraft Type:747-400F/No.:B-18701	-
Loan	Hua Nan Commercial Bank	03/2015-03/2020	Unsecured Loan	-
Loan	Mega International Commercial Bank	07/2015-07/2020	Aircraft Type:747-400F/No.:B-18711	-
Loan	Bank of America Corporation	01/2016-01/2019	Unsecured Loan	-
Loan	E.SUN Commercial Bank	06/2016-06/2019	Unsecured Loan	-
Loan	Hua Nan Commercial Bank	06/2016-06/2021	Unsecured Loan	-
Loan	E.SUN Commercial Bank	02/2020-02/2022	Unsecured Loan	-
Loan	KGI Bank	02/2020-02/2022	Unsecured Loan	-
Loan	Taishin International Bank	02/2020-02/2021	Unsecured Loan	-
Loan	Bank SinoPac	02/2020-02/2023	Unsecured Loan	-
Loan	Bank of Taiwan	10/2016-10/2028	Aircraft Type:A350-900/No.:B-18901	-
Loan	Bank of Communications	11/2016-11/2019	Unsecured Loan	-
Loan	Bank of Communications	01/2017-01/2029	Aircraft Type:A350-900/No.:B-18902	-
Loan	Agricultural Bank of Taiwan	04/2017-04/2029	Aircraft Type:A350-900/No.:B-18905	-
Loan	Taiwan Business Bank	04/2017-04/2029	Aircraft Type:A350-900/No.:B-18905	-
Loan	Mega International Commercial Bank	05/2017-08/2019	Unsecured Loan	-
Loan	Hua Nan Commercial Bank	06/2017-06/2029	Aircraft Type:A350-900/No.:B-18906	-
Loan	China Construction Bank Corporation	11/2017-11/2029	Aircraft Type:A350-900/No.:B-18903	-
Loan	Bank of Taiwan	04/2018-04/2030	Aircraft Type:A350-900/No.:B-18907	-
Loan	Bank of Taiwan	04/2020-10/2022	Partial Credit Guarantee Loan	-
Bills	International Bills Finance Corp. and syndicate	12/2015-03/2019	FRCP Joint Underwriting,	-
Bills	China Bills Finance Corporation	04/2016-04/2020	FRCP	-
Bills	Mega Bills	07/2016-07/2020	FRCP	-
Bills	International Bills Finance Corp.	09/2016-09/2020	FRCP	-
Bills	China Bills Finance Corporation	04/2020-04/2023	FRCP	-
Bills	International Bills Finance Corp.	03/2020-03/2025	FRCP	-
Bills	China Bills Finance Corporation and syndicate	12/2016-12/2020	FRCP Joint Underwriting,	-
Bills	China Bills Finance Corporation and syndicate	10/2017-04/2022	FRCP Joint Underwriting,	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Bills	Mega Bills and syndicate	11/2017-05/2021	FRCP Joint Underwriting,	-
Bills	International Bills Finance Corp. and syndicate	07/2019-8/2024	FRCP Joint Underwriting,	-
Surface Rights Registration Contract of Taipei CAL Building	Northern Region Branch of National Property Administration of the Ministry of Finance	2016/12/31-2026/12/30	According to the original contract, it was agreed that the contract would be renewed for 10 years (the third period); rent is adjusted according to the government assessed land value and government published land value of the land authority, and is collected at an annual rent rate of 5%.	-
Taipei CAL Building Lease Contract	FX Hotels Taiwan	99/09/01-2026/12/30	Leasing premises: Part of floor B1 of the CAL Building, which is located at No. 131, Sec. 3, Nanjing E. Rd., Taipei City, the area is 169.6 ping (approximately 561 square meters); 1st floor, an area of 142.5 ping (approximately 471 square meters); 4 floors from the 10th floor to 13th floor, a total area of 2,145 ping (approximately 7,091 square meters). The total area of the above-mentioned is 2,457.1 ping (approximately 8,123 square meters). Leasing of 11 parking spaces on the 1st floor and floor B1.	-
Taipei CAL Building Lease Contract	OEC Freight Worldwide Co., Ltd. of the OEC Group	2016/03/01-115/12/31	Leasing premises: Entire area of the 7th floor of the CAL Building, which is located at No.131, Sec. 3, Nanjing E. Rd., Taipei City; the total area is 543.54 ping (approximately 1,797 square meters); part of floor B1, an area of 15.25 ping (approximately 50 square meters); 1 parking space on floor B1 and 12 parking spaces on floor B2.	-
Nankan CAL Park Land Lease Contract	Costco President Taiwan Inc.	Inception of the lease: 2012/08/30 Period of leasing: 20 years since the leasing start date.	Leasing premises: One parcel of land at Jinzhong Section, Luzhu District, Taoyuan City with parcel number of 705, and one parcel of land used for road facing Nankan Road with parcel number 705-1 and total area of 8,382.05 ping (27,709.21 square meters).	In accordance with notarized text
Kaohsiung CAL Building Lease Contract	FX Hotels Taiwan	2012/12/31-2032/12/30	Leasing premises: CAL Building, which is located at No.81, Zhonghua 3rd Rd., Qianjin Dist., Kaohsiung City Floor B1, an area of 115.91 ping (approximately 471 square meters); 1st floor, an area of 101.89 ping (approximately 337 square meters); double layer of 24.07 ping (approximately 80 square meters); 11 floors from 2nd floor to 12th floor, total area of 1,083.94 ping (approximately 3,583 square meters); penthouse of 35.45 ping (approximately 117 square meters). The total area of the aforementioned is 1,361.26 ping (approximately 4,500 square meters).	-
CAL Park Building Lease Contract	CAL Park Co., Ltd.	2019/01/01-2021/12/31 The contract will be automatically renewed for 1 year upon expiration of this period and contract renewal shall be made every two years.	Leasing premises: Administration Center Building of the corporate headquarters, Crew Center Building, Flight Training Center Building, Basement (Parking Lot). The total area is 25,140 ping (approximately 83,107 square meters).	-
Engineering consulting company commissioned technical service category	T.Y.Lin Taiwan Consulting Engineers. inc.	2019/03/01-2020/11/30	Operating space requirements and interface management for China Airlines Group's stationing in the terminal 3 area of the Taoyuan International Airport.	-

Financial Information

6.1 Five-Year Financial Summary

6.2 Five-Year Financial Analysis

**6.3 Consolidated Financial Statements for the Years
Ending December 31, 2019 and 2018, and
Independent Auditors' Report**

**6.4 Parent Company Only Financial Statements for the
Years Ending December 31, 2019 and 2018 and
Independent Auditors' Report**

6.5 Audit Committee's Review Report

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Consolidated Condensed Balance Sheet – Based on IFRS

Unit: NT\$ thousands

Item	Year	Financial Summary for the Last Five Years (Note 1)					2020 (As of March 31)
		2015 (Note 3)	2016 (Note 4)	2017 (Note 5)	2018 (Note 6)	2019 (Note 7)	(Note 2)
Current assets		45,642,615	47,338,201	47,411,834	52,827,560	51,822,342	59,527,646
Property, plant and equipment		129,628,866	140,136,737	153,617,531	163,107,718	145,886,971	142,531,989
Intangible assets		1,009,678	1,137,115	1,019,345	1,210,796	1,182,692	1,151,247
Other assets		45,645,150	35,888,706	23,850,922	12,990,508	94,155,974	92,025,311
Total assets		221,926,309	224,500,759	225,899,632	230,136,582	293,047,979	295,236,193
Current liabilities	Before distribution	68,220,452	68,605,724	60,289,113	60,949,892	76,351,527	82,993,316
	After distribution	70,728,977	68,605,724	61,482,783	62,086,170	-	Not yet allocated
Non-current liabilities		93,149,314	98,027,837	106,453,000	109,139,606	156,564,335	156,248,299
Total liabilities	Before distribution	161,369,766	166,633,561	166,742,113	170,089,498	232,915,862	239,241,615
	After distribution	163,878,291	166,633,561	167,935,783	171,225,776	-	Not yet allocated
Equity attributable to shareholders of the parent		58,269,896	55,783,817	57,023,237	57,081,572	56,553,772	52,453,446
Capital stock		54,708,901	54,708,901	54,709,846	54,209,846	54,209,846	54,209,846
Capital surplus		798,415	799,932	799,999	1,241,214	2,488,907	2,484,998
Retained earnings	Before distribution	2,872,235	206,092	1,664,405	1,615,661	(1,297,842)	(5,072,909)
	After distribution	363,710	206,092	470,735	479,383	-	Not yet allocated
Other equity interest		(66,283)	112,264	(107,641)	58,223	1,196,233	862,386
Treasury shares		(43,372)	(43,372)	(43,372)	(43,372)	(43,372)	(30,875)
Non-controlling interest		2,286,647	2,083,381	2,134,282	2,965,512	3,578,345	3,541,132
Total equity	Before distribution	60,556,543	57,867,198	59,157,519	60,047,084	60,132,117	55,994,578
	After distribution	58,048,018	57,867,198	57,963,849	58,910,806	-	Not yet allocated

Note 1: 2015-2019 annual financial information was verified by Deloitte & Touche.

Note 2: As of the date of printing of this annual report, Q1 2020 financial information has not yet been reviewed by Deloitte & Touche.

Note 3: The 2015 Earnings Distribution Proposal resolution was passed by the Shareholders' General Meeting held on June 24, 2016. As required by law, the Company appropriated a legal reserve of NT\$287,224,000 and special reserve of NT\$76,486,000 and distributed cash dividends totaling NT\$2,508,525,000.

Note 4: The 2016 Deficit Compensation Proposal was passed at the shareholder meeting held on June 22, 2017, with legal reserve bonds of NT\$81,132,000 and reversal of special reserve of 76,486,000 making up the shortfall.

Note 5: For the matter of 2017 surplus earnings distribution, after approved by the resolution of the general meeting on June 27, 2018, the legal reserve appropriated was NT\$145,831,000, the special reserve appropriated was NT\$118,810,000 and the cash dividend distributed was NT\$1,193,670,000.

Note 6: For the matter of 2018 surplus earnings distribution, after approval by the resolution of the general meeting on June 25, 2019, the legal reserve appropriated was NT\$ 114,493,000, the cash dividend distributed was NT\$1,136,278,000, and reversal of special reserve of 105,843,000.

Note 7: The 2019 deficit make-up plan was approved by the resolution of the 10th meeting of the 21st Board of Directors on March 18, 2020, but has yet to be approved at the shareholders' general meeting.

6.1.2 Consolidated Condensed Statement of Comprehensive Income – Based on IFRS

Unit: NT\$ thousands; EPS (net) = NT\$

Item	Year	Financial Summary for the Last Five Years (Note 1)					2020 (As of March 31) (Note 3)
		2015	2016	2017	2018	2019	
Revenue		145,056,217	141,079,107	156,121,785	170,711,607	168,444,160	32,557,130
Gross profit		20,268,374	18,005,906	21,972,411	17,207,531	16,686,928	220,868
Operating profit		8,129,197	4,564,687	8,826,160	4,022,383	2,665,821	(2,970,856)
Non-operating income and expenses		(994,312)	(2,684,836)	(5,302,197)	(941,134)	(2,762,638)	(835,626)
Pretax profit (loss)		7,134,885	1,879,851	3,523,963	3,081,249	(96,817)	(3,806,482)
Income from operations of continued segments - after tax		5,926,210	710,940	2,490,792	2,272,684	(675,002)	(3,810,565)
Income from discontinued operations		-	-	-	-	-	-
Net income (loss)		5,926,210	710,940	2,490,792	2,272,684	(675,002)	(3,810,565)
Other comprehensive income (income/loss after taxes)		1,269,760	(681,669)	(1,113,176)	(578,363)	462,758	(333,828)
Total comprehensive gain (loss) for the year		7,195,970	29,271	1,377,616	1,694,321	(212,244)	(4,144,393)
Net income attributable to shareholders of the parent		5,763,714	571,540	2,208,066	1,790,361	(1,199,798)	(3,773,333)
Net income attributable to non-controlling interest		162,496	139,400	282,726	482,323	524,796	(37,232)
Comprehensive income attributable to Shareholders of the parent		7,072,042	26,103	1,240,677	1,258,035	(647,085)	(4,107,180)
Comprehensive income attributable to non-controlling interest		123,928	3,168	136,939	436,286	434,841	(37,213)
Earnings (Loss) per share		1.06	0.10	0.40	0.33	(0.22)	(0.70)

Note 1: 2015-2019 annual financial information was verified by Deloitte & Touche.

Note 2: As of the date of printing of this annual report, the Q1 2020 financial information has not yet been reviewed by Deloitte & Touche.

6.1.3 Condensed Balance Sheet – Based on IFRS (Parent Company Only)

Unit: NT\$ thousands

Item	Year	Financial Summary for the Last Five Years (Note 1)					2020 (As of March 31) (Note 2)
		2015 (Note 3)	2016 (Note 4)	2017 (Note 5)	2018 (Note 6)	2019 (Note 7)	
Current assets		34,477,533	37,904,039	39,908,492	37,933,696	42,932,859	-
Property, plant and equipment		131,178,428	118,446,472	129,121,632	142,265,548	149,029,054	-
Intangible assets		649,614	990,307	1,115,101	989,327	979,708	-
Other assets		51,594,035	51,802,032	41,394,218	30,729,421	21,972,600	-
Total assets		217,899,610	209,142,850	211,539,443	211,917,992	214,914,221	-
Current liabilities	Before distribution	59,079,846	64,725,525	64,339,805	54,925,364	55,179,834	-
	After distribution	59,079,846	67,234,050	64,339,805	56,119,034	-	-
Non-current liabilities		110,155,489	86,147,429	91,415,821	99,969,391	102,652,815	-
Total liabilities	Before distribution	169,235,335	150,872,954	155,755,626	154,894,755	157,832,649	-
	After distribution	169,235,335	153,381,479	155,755,626	156,088,425	-	-
Equity attributable to shareholders of the parent		48,664,275	58,269,896	55,783,817	57,023,237	57,081,572	-
Capital stock		52,491,666	54,708,901	54,708,901	54,709,846	54,209,846	-
Capital surplus		480,462	798,415	799,932	799,999	1,241,214	-
Retained earnings	Before distribution	(3,870,736)	2,872,235	206,092	1,664,405	1,615,661	-
	After distribution	(2,358,783)	363,710	206,092	470,735	-	-
Other equity interest		(1,905,698)	(66,283)	112,264	(107,641)	58,223	-
Treasury shares		(43,372)	(43,372)	(43,372)	(43,372)	(43,372)	-
Non-controlling interest		-	-	-	-	-	-
Total equity	Before distribution	48,664,275	58,269,896	55,783,817	57,023,237	57,081,572	-
	After distribution	48,664,275	55,761,371	55,783,817	55,829,567	-	-

Note 1: 2015-2019 annual financial information was verified by Deloitte & Touche.

Note 2: The Company has not prepared an individual financial statement for Q1 2020.

Note 3: The 2015 Earnings Distribution Proposal resolution was passed by the Shareholders' General Meeting held on June 24, 2016. As required by law, the Company appropriated a legal reserve of NT\$287,224,000 and special reserve of NT\$76,486,000 and distributed cash dividends totaling NT\$2,508,525,000.

Note 4: The 2016 Deficit Compensation Proposal was passed by the Shareholders' General Meeting held on June 22, 2017, using a legal reserve of NT\$81,132,000 and reversal of special reserve of 76,486,000 to cover the deficit.

Note 5: For the matter of 2017 surplus earnings distribution, after approved by the resolution of the general meeting on June 27, 2018, the legal reserve appropriated was NT\$145,831,000, the special reserve appropriated was NT\$118,810,000, and the cash dividend distributed was NT\$1,193,670,000.

Note 6: For the matter of 2018 surplus earnings distribution, after approval by the resolution of the general meeting on June 25, 2019, the legal reserve appropriated was NT\$ 114,493,000, the cash dividend distributed was NT\$1,136,278,000, and reversal of special reserve of 105,843,000.

Note 7: The 2019 deficit make-up plan was approved by the resolution of the 10th meeting of the 21st Board of Directors on March 18, 2020, but has yet to be approved at the shareholders' general meeting.

6.1.4 Condensed Statement of Comprehensive Income – Based on IFRS (Parent Company Only)

Unit: NT\$ thousands; EPS (net) = NT\$

Item	Year	Financial Summary for the Last Five Years (Note 1)					2020 (As of March 31) (Note 2)
		2015	2016	2017	2018	2019	
Revenue		133,441,725	127,524,864	139,815,211	150,264,792	146,372,401	-
Gross profit		17,623,801	15,275,980	17,966,397	12,649,836	11,364,235	-
Operating profit		7,885,097	4,475,707	7,358,114	1,847,567	80,235	-
Non-operating income and expenses		(1,047,275)	(2,938,456)	(4,269,911)	468,064	(1,267,561)	-
Pretax profit (loss)		6,837,822	1,537,251	3,088,203	2,315,631	(1,187,326)	-
Income from operations of continued segments - after tax		5,763,714	571,540	2,208,066	1,790,361	(1,199,798)	-
Income from discontinued operations		-	-	-	-	-	-
Net income (loss)		5,763,714	571,540	2,208,066	1,790,361	(1,199,798)	-
Other comprehensive income (income/loss after tax)		1,308,328	(545,437)	(967,389)	(532,326)	552,713	-
Total comprehensive gain (loss) for the year		7,072,042	26,103	1,240,677	1,258,035	(647,085)	-
Net income attributable to shareholders of the parent		1.06	0.10	0.40	0.33	(0.22)	-

Note 1: 2015-2019 annual financial information was verified by Deloitte & Touche.

Note 2: The Company has not prepared an individual financial statement for Q1 2020.

6.1.5 Condensed Balance Sheet – Based on ROC GAAP (Parent Company Only): Not Applicable.

6.1.6 Condensed Statement of Comprehensive Income – Based on ROC GAAP (Parent Company Only): Not Applicable.

6.1.7 Auditors' Opinions from 2015 to 2019

Year	Accounting Firm	Name of CPA	Audit Opinion
2015	Deloitte & Touche	Huang, Jui-chan; Chen, Li-Chi	Qualified Opinion (Note1)
2016	Deloitte & Touche	Yang, Chen-Hsiu; Chen, Li-Chi	Unqualified Opinion
2017	Deloitte & Touche	Yang, Chen-Hsiu; Chen, Li-Chi	Unqualified Opinion
2018	Deloitte & Touche	Yang, Chen-Hsiu; Huang, Jui-chan	Unqualified opinions and other matters (Note2)
2019	Deloitte & Touche	Huang, Jui-chan; Cheng, Shih-Ran	Unqualified opinions and other matters (Note2)

Note1: In 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission. Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous period's financial statement.

Note 2: The financial statements and related information of some subsidiaries have not been audited by Deloitte & Touche since 2018; they have been audited by other accountants. The information on how the Company's equity-accounted investments and overall gains are affected is explained in the paragraphs for "other matters".

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis – Based on IFRS

Item (Note 3)		Financial Summary for the Last Five Years (Note 1)					2020 (As of March 31) (Note 2)
		2015	2016	2017	2018	2019	
Financial structure (%)	Debt ratio	72.71	74.22	73.81	73.91	79.48	81.03
	Ratio of long-term capital to property, plant, and equipment	118.57	111.24	107.81	103.73	148.54	148.91
Solvency (%)	Current ratio	66.90	69.00	78.64	86.67	67.87	71.73
	Quick ratio	53.06	53.16	59.46	67.50	54.57	60.60
	Interest earned ratio (times)	496.25	265.40	369.02	338.05	103.79	(334.02)
Operating performance	Accounts receivable turnover (times)	16.98	17.67	18.40	18.30	18.13	16.71
	Average collection period	21.49	20.66	19.84	19.95	20.13	21.84
	Inventory turnover (times)	-	-	-	-	-	-
	Accounts payable turnover (times)	-	-	-	-	-	-
	Average days in sales	-	-	-	-	-	-
	Property, plant, and equipment turnover (times)	1.07	1.05	1.06	1.08	1.09	0.90
	Total assets turnover (times)	0.64	0.63	0.69	0.75	0.64	0.44
Profitability	Return on total assets (%)	3.28	0.80	1.60	1.48	0.76	(4.29)
	Return on stockholders' equity (%)	10.63	1.20	4.26	3.81	(1.12)	(26.25)
	Pre-tax income to paid-in capital (%)	13.04	3.44	6.44	5.68	(0.18)	(28.09)
	Profit ratio (%)	4.09	0.50	1.60	1.33	(0.40)	(11.70)
	Earnings per share (NT\$)	1.06	0.10	0.40	0.33	(0.22)	(0.70)
Cash flow	Cash flow ratio (%)	46.60	25.71	47.35	44.34	49.15	(32.48)
	Cash flow adequacy ratio (%)	233.25	303.17	351.58	366.94	518.35	399.31
	Cash reinvestment ratio (%)	10.56	4.83	8.82	8.17	12.24	(9.02)
Leverage	Operating leverage	3.21	4.99	3.16	6.00	14.20	(1.94)
	Financial leverage	1.28	1.40	1.18	1.52	(3.95)	0.78

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

- Degree of operating leverage: Mainly due to the decrease in the operating margin in 2019 compared with the same period of the previous year, IFRS 16 was implemented to recognize depreciation. This caused the decrease in variable costs, and in turn resulted in the increase in the degree of operating leverage.
- Degree of financial leverage: Mainly due to the decrease in the operating margin in 2019 compared with the same period of the previous year, IFRS 16 was implemented to recognize the increase in interest expenses. This resulted in the negative value of the degree of operating leverage.
- Due to the start of IFRS 16 Leases implementation in 2019, items such as right-of-use asset and lease liabilities were added. This increased the ratios related to the financial structure and cash flow from the previous year; the current ratio and quick ratio decreased from the previous year. Also, factors such as the China-US trade war, protests over the Hong Kong extradition bill, and limits on Chinese tour groups caused a decline in profits and affected profitability and ratios related to degrees of leverage. The reduction in interest protection multiples was also affected by IFRS 16 and the decrease in profits.

6.2.2 Financial Analysis – Based on IFRS (Parent Company Only)

Item (Note 3)	Year	Financial Summary for the Last Five Years (Note 1)					2020 (As of March 31) (Note 2)
		2015	2016	2017	2018	2019	
Financial structure (%)	Debt ratio	72.14	73.63	73.09	73.44	78.97	-
	Ratio of long-term capital to fixed assets	121.93	114.00	110.35	107.18	153.31	-
Solvency (%)	Current ratio	58.56	62.03	69.06	77.81	60.28	-
	Quick ratio	44.54	45.82	49.03	57.87	45.87	-
	Interest earned ratio (times)	495.43	246.03	350.56	292.02	60.78	-
Operating performance	Accounts receivable turnover (times)	15.56	15.92	16.62	16.57	16.72	-
	Average collection period	23.46	22.92	21.96	22.46	21.83	-
	Inventory turnover (times)	-	-	-	-	-	-
	Accounts payable turnover (times)	-	-	-	-	-	-
	Average days in sales	-	-	-	-	-	-
	Fixed assets turnover (times)	1.07	1.03	1.03	1.03	1.05	-
	Total assets turnover (times)	0.62	0.61	0.66	0.70	0.61	-
Profitability	Return on total assets (%)	3.36	0.75	1.54	1.33	0.51	-
	Return on stockholders' equity (%)	10.78	1.00	3.91	3.14	(2.11)	-
	Pre-tax income to paid-in capital (%)	12.50	2.81	5.64	4.27	(2.19)	-
	Profit ratio (%)	4.32	0.45	1.58	1.19	(0.82)	-
	Earnings per share (NT\$)	1.06	0.10	0.40	0.33	(0.22)	-
Cash flow	Cash flow ratio (%)	47.38	26.71	47.41	43.61	48.16	-
	Cash flow adequacy ratio (%)	232.93	309.01	357.86	381.09	557.30	-
	Cash reinvestment ratio (%)	10.74	4.94	8.48	7.68	11.34	-
Leverage	Operating leverage	3.15	4.85	3.46	11.25	372.72	-
	Financial leverage	1.28	1.38	1.21	3.45	(0.03)	-

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

- Degree of operating leverage: Mainly due to the decrease in the operating margin in 2019 compared with the same period of the previous year, IFRS 16 was implemented to recognize depreciation. This caused the decrease in variable costs, and in turn resulted in the increase in the degree of operating leverage.
- Degree of financial leverage: Mainly due to the decrease in the operating margin in 2019 compared with the same period of the previous year, IFRS 16 was implemented to recognize the increase in interest expenses. This resulted in the negative value of the degree of operating leverage.
- Due to the start of IFRS 16 Leases implementation in 2019, items such as right-of-use asset and lease liabilities were added. This increased the ratios related to the financial structure and cash flow from the previous year; the current ratio and quick ratio decreased from the previous year. Also, factors such as the China-US trade war, protests over the Hong Kong extradition bill, and limits on Chinese tour groups caused a decline in profits and affected profitability and ratios related to degrees of leverage. The reduction in interest protection multiples was also affected by IFRS 16 and the decrease in profits.

Note 1: 2015-2019 annual financial information was verified by Deloitte & Touche.

Note 2: As of printing of this annual report, Q1 2020 consolidated financial information has not yet been reviewed by Deloitte & Touche. The Company has not prepared an individual financial statement for Q1 2020.

Note 3: The calculations of the above financial ratios utilize the formulas listed below:

1. Financial structure

(1) Debt ratio = total liabilities / total assets

(2) Ratio of long-term capital to property, plant, and equipment = (total shareholders' equity + non-current liabilities) / net property, plant, and equipment

2. Solvency

(1) Current ratio = current assets / current liabilities

(2) Quick ratio = (current assets – inventory – prepaid expenses) / current liabilities

(3) Interest earned ratio (times) = earnings before interest and taxes / interest expenses

3. Operating performance

(1) Accounts receivable turnover (including accounts receivable and notes receivable arising from business activities) = net sales / average accounts receivable (including accounts receivable and notes receivable arising from business activities)

(2) Average collection period = 365 / average accounts receivable turnover

(3) Inventory turnover = cost of goods sold / average inventory

(4) Accounts payable turnover (including accounts payable and notes payable arising from business activities) = cost of goods sold / average accounts payable (including accounts payable and notes payable arising from business activities)

(5) Average inventory turnover days = 365 / inventory turnover ratio

(6) Property, plant, and equipment turnover = net sales / net property, plant, and equipment

(7) Total asset turnover = net sales / average total assets

4. Profitability

(1) Return on total assets = [net income + interest expense x (1 - effective tax rate)] / average total assets

(2) Return on stockholders' equity = net income / average stockholders' equity

(3) Net margin = net income / net sales

(4) Earnings per share = (net income attributable to owners of the parent – preferred stock dividends) / weighted average number of shares outstanding

5. Cash flow

(1) Cash flow ratio = net cash flows from operating activities / current liabilities

(2) Cash flow adequacy ratio = five year sum of net cash flows from operating activities / five year sum of (capital expenditures + increase in inventory + cash dividends)

(3) Cash flow cash reinvestment ratio = (net cash flows from operating activities – cash dividends) / (gross property, plant, and equipment + long-term investments + other non-current assets + working capital)

6. Leverage

(1) Operating leverage = (net sales – variable operating costs and expenses) / operating profit

(2) Financial leverage = operating profit / (operating profit – interest expenses)

6.2.3 Consolidated Financial Analysis – Based on ROC GAAP: Not Applicable.

6.2.4 Financial Analysis – Based on ROC GAAP (Parent Company Only): Not Applicable.

6.3 Consolidated Financial Statements for the Years Ended

December 31, 2019 and 2018, and Independent Auditors' Report:

Please refer to Appendix 1.

6.4 Parent Company Only Financial Statements for the Years Ended

December 31, 2019 and 2018, and Independent Auditors' Report:

Please refer to Appendix 2.

6.5 Audit Committee's Report

Audit Committee Report

The Board of Directors shall create and send (1) the 2019 consolidated financial statement and individual financial statement that have been jointly audited by Deloitte CPAs Huang, Jui-Chan and Cheng, Shiu-Ran, who released an official unqualified opinion by March 18, 2020, and (2) the 2019 business report and Earnings Distribution Statement, after having been found to have no discrepancies by this audit committee and, thereupon, issue a report in accordance with the items stipulated in Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

China Airlines

Convener of the audit committee: Chang, Hsieh Gen-Sen

March 18, 2020

Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

7.2 Analysis of Operation Results

7.3 Analysis of Cash Flow

7.4 Major Capital Expenditure Items

**7.5 Investment Policy in Last Year, Main Causes for Profits
or Losses, Improvement Plans and the Investment
Plans for the Coming Year**

7.6 Analysis of Risk Management

VII. Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status (Consolidated)

Analysis of changes in assets, liabilities, and equity over the past two years:

Unit: NT\$ thousands

Item	Year	2019	2018	Difference	
				Amount	%
Current assets		51,822,342	52,827,560	(1,005,218)	(1.90)
Property, plant and equipment		145,886,971	163,107,718	(17,220,747)	(10.56)
Intangible assets		1,182,692	1,210,796	(28,104)	(2.32)
Other assets		94,155,974	12,990,508	81,165,466	624.81
Total assets		293,047,979	230,136,582	62,911,397	27.34
Current liabilities		76,351,527	60,949,892	15,401,635	25.27
Non-current liabilities		156,564,335	109,139,606	47,424,729	43.45
Total liabilities		232,915,862	170,089,498	62,826,364	36.94
Capital stock		54,209,846	54,209,846	-	-
Capital surplus		2,488,907	1,241,214	1,247,693	100.52
Retained earnings		(1,297,842)	1,615,661	(2,913,503)	(180.33)
Other equity		1,196,233	58,223	1,138,010	(1,954.57)
Treasury shares		(43,372)	(43,372)	-	-
Non-controlling interests		3,578,345	2,965,512	612,833	20.67
Total equity		60,132,117	60,047,084	85,033	0.14

Analysis of changes in financial ratios:

1. Other assets: Mainly due to the start of IFRS 16 Leases implementation in 2019, a total of NT\$71.034 billion was added in right-of-use assets.
2. Liabilities: Mainly due to the start of IFRS 16 Leases implementation in 2019, a total of NT\$18.143 billion was added in lease liabilities. The lease agreement valued in US dollars is used as a hedging instrument to avoid future exchange rate fluctuations in passenger and cargo incomes; financial liabilities for hedging purposes increased by NT\$50.998 billion.
3. Capital surplus: In 2019, parts of the shares held by subsidiary company Tigerair Taiwan were sold. The relevant gain on disposal is recognized under capital reserves and non-controlling interest.
4. Other equity: Mainly due to the changes in the fair value of financial assets and hedging instruments measured by fair value through other comprehensive income.
5. Non-controlling interest: In 2019, parts of the shares held by subsidiary company Tigerair Taiwan were sold. The relevant gain on disposal is recognized under capital reserves and non-controlling interest.

Future response actions: The above changes do not significantly affect the Company.

7.2 Analysis of Financial Performance (Consolidated)

Financial Performance Analysis Table

Unit: NT\$ thousands

Item	Year	2019	2018	Difference	
				Amount	%
Revenue		168,444,160	170,711,607	(2,267,447)	(1.33)
Cost		151,757,232	153,504,076	(1,746,844)	(1.14)
Gross profit		16,686,928	17,207,531	(520,603)	(3.03)
Operating expenses		14,021,107	13,185,148	835,959	6.34
Operating income (loss)		2,665,821	4,022,383	(1,356,562)	(33.73)
Non-operating income and expenses		(2,762,638)	(941,134)	(1,821,504)	(193.54)
Pretax profit (loss)		(96,817)	3,081,249	(3,178,066)	(103.14)
Income tax expense		578,185	808,565	(230,380)	(28.49)
Net income (loss)		(675,002)	2,272,684	(2,947,686)	(129.70)
Other comprehensive income		462,758	(578,363)	1,041,121	180.01
Total comprehensive gain (loss) for the year		(212,244)	1,694,321	(1,906,565)	(112.53)

Analysis of changes in financial ratios:

1. Operating income, pretax profit, and net income for the period: All profits in 2019 decreased from the previous year mainly due to factors such as the China-US trade war, protests over the Hong Kong extradition bill, and limits on Chinese tour groups.
2. Non-operating income and expenses: In 2019, the implementation of IFRS 16 Leases started and interest expenses was added under lease liability. This caused an increase of NT\$1.96 billion in financial costs compared with the previous year.
3. Other comprehensive income (net): Mainly due to the changes in the fair value of financial assets and hedging instruments measured by fair value of other comprehensive profit and loss cases.
4. Total comprehensive income for the period: The combined effects of the above descriptions 1, 2, and 3.

7.3 Analysis of Cash Flow (Consolidated)

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT\$ thousands

Item	Year	2019	2018	Difference	
				Amount	%
Cash and Cash Equivalents, Beginning of Year		24,937,537	22,585,332	2,352,205	10.41
Net Cash Flow from Operating Activities		37,526,612	27,026,957	10,499,655	38.85
Net Cash Flow from Investing Activities		(16,053,122)	(20,279,612)	4,226,490	20.84
Net Cash Flow from Financing Activities		(17,614,558)	(4,386,909)	(13,227,649)	(301.53)
Exchange Rate Adjustment		(336,941)	(8,231)	(328,710)	3,993.56
Cash and Cash Equivalents, End of Year		28,459,528	24,937,537	3,521,991	14.12

Analysis of change in cash flow in the current year:

1. The difference in cash flow from operating activities was mainly due to the new implementation of IFRS 16 Leases in 2019. The "rights-of-use assets" item was added, causing the increase in depreciation compared with the previous year.
2. The difference in cash flow from investment activities was mainly due to factors such as the payments received from selling parts of the shares held by subsidiary company Tigerair Taiwan in 2019.
3. The reasons for the difference in cash flow from financing activities were mainly the issuance of corporate bonds and long-term loan amount in 2019, which were both lower than the previous year.

7.3.2 Remedy for Cash Deficit and Liquidity Analysis: None.

7.3.3 Cash Flow Analysis for the Coming Year

The cash balance at the beginning of the year was around NT\$20.6 billion and estimated net cash flow from operating activity for the year is NT\$23.6 billion. However, the Company's operations have been affected by the COVID-19 pandemic that started at the end of January 2020. Assuming that the pandemic will start to ebb in June, it is estimated that the financing needs of the year will increase by NT\$12 billion to NT\$35.6 billion. After the COVID-19 outbreak, the Company quickly used credit to increase cash levels, and simultaneously planned to apply for mortgage loans and obtain mid- and long-term funds from the issuance of corporate bonds. A total of NT\$45.3 billion (Note) has been used as funds to respond to the pandemic. Also, depending on the development of the pandemic, other financing tools will be used to obtain funds and keep the end-of-period cash balance at NT\$30.3 billion.

Note: In 2020, the Company was received additional NT\$20 billion loan with 80% credit guarantees from government.

7.4 Major Capital Expenditure Items (Parent Company Only)

Major capital expenditures primarily include purchases of new airplanes as part of operational expansion, which does not have a significant impact on the Company's financial operations.

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

In order to support our primary airline operations and enhance competitiveness of the CAL Group, investments are primarily in airline industry-related companies. Currently, these include air transport, ground services, logistics and warehousing, air cargo terminals, airline catering, laundry, information networks, aeronautics, tourism services, and investing and leasing industries to create a comprehensive air service network and wide-ranging services. Calculated under the equity method, reinvestment revenues for 2019 totaled NT\$1.812 billion.

In the coming year, the Company will continue to carry out NORDAM Asia's hangar construction. We will also evaluate various potential investment possibilities in aspects such as passenger transport, cargo transport, aircraft maintenance, and aviation training.

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

- A. Impact of changes in interest rates, foreign exchange rates, and inflation on Company income
Although changes in interest and foreign exchange rates do have a level of impact on Company income, effective control on the impact is limited.
- B. Response measures to changes in interest rates, foreign exchange rates, and inflation
To prevent changes in interest rates, foreign exchange rates, and inflation from creating risks to the Company's overall finances, we hold regular meetings of the Board of Directors Risk Committee, and remain aware of economic and financial developments both in Taiwan and overseas to develop a hedging strategy, evaluate performance of derivatives, and set an appropriate hedge ratio. These controls help prevent changes by utilizing financial hedging instruments in the financial environment and oil prices from creating systemic financial risks and enable CAL to achieve proper risk management.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

- A. The Company does not engage in high-risk, highly-leveraged investments.
- B. The Company has developed the Operational Procedures for Lending Funds to Others and Operational Procedures for Endorsements/Guarantees, and risks of such operations are controlled through strict assessment. Therefore, loans and endorsements/guarantees do not lead to profits or losses for the Company.
- C. Company derivative products include forward foreign exchange and foreign exchange options contracts and oil options contracts, which are primarily to hedge against the risk of fluctuations in oil prices, interest rates, and foreign exchange rates. Transactions are performed in accordance with the Company's Operational Procedures for Derivatives Trading and are regularly evaluated to ensure effective risk controls.

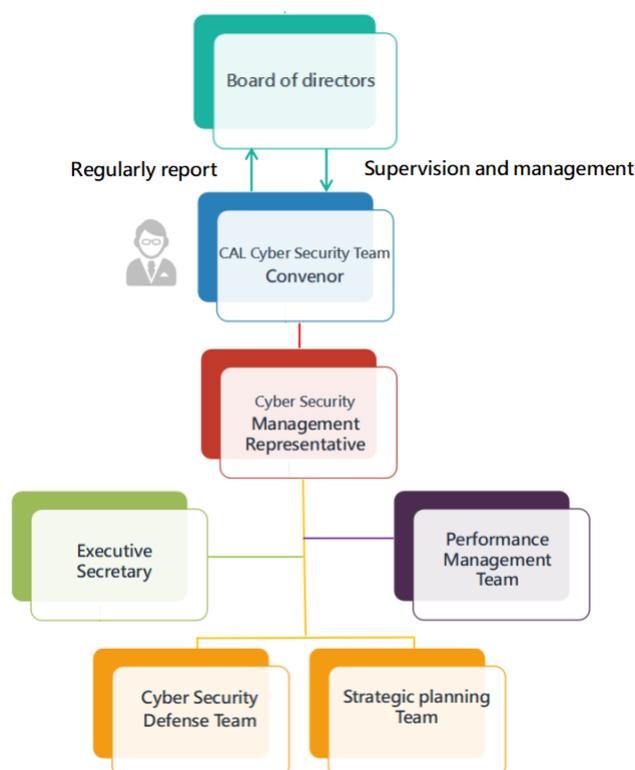
7.6.3 Future Research & Development Projects and Corresponding Budget: Please refer to page 96.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales: None.

7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales:

1. Information Security and Governance System

To continuously improve the information security governance system, strengthen protection capabilities, and cultivate a positive information security awareness among staff, all of the Company's information operations are to comply with international information security standards as well as Taiwan's information security law. Relevant security policies and operating procedures are formulated, and they are implemented in daily business operations. Also, information security management review meetings are held periodically to assess and reflect on the appropriateness of the relevant policies and procedures. In order to improve its information security governance system and organization operations, and to avoid being subjected to internal or external deliberate or accidental threats, an information security promotion team was established. The team is responsible for jobs including the formulation of the Company's information security policies, the implementation of information security training, assessing information and intelligence of information security, emergency notification/handling contingencies. In addition, the deputy general manager of the Information Management Department, who is also the convener, is responsible for supervising the Company's information security governance system planning, promotion, and implementation. The deputy general manager also reports the status of information security implementation to the Board of Directors every year.



2. Information Security Management Mechanism

The major directions of the Company's information security strategy have been focused on three aspects, including information security governance, daily maintenance and operation, and infrastructure protection, in which there are contained risk management, legal compliance, and corporate policies; the strategy fully enhances the Company's information security protection capabilities from internal systems to external regulations, and from the level of personnel to that of organization. In each stage of system development and maintenance, weakness identification and repair are performed with various testing technologies to ensure the safety of service usage. In

response to various external attack methods, such as DDoS, APT, and social engineering attacks, the Company has adopted relevant defense mechanisms. Every year, the Company commissions external information security experts to assist in penetration testing and information security assessment. The Company also regularly stays informed of information security issues and plans responses accordingly. In addition, the Company performs information security incident reporting and carries out response drills on its own. These are performed to examine the effectiveness of defense and the ability to respond to incidents, with the hope of being able to immediately detect incidents and complete the handling. Per examination by the Information Management Division in 2019, neither the monitoring or warning information from the defense system, which detects threats to information security, was confirmed to be a security incident caused by hacker intrusion or virus infection. In order to enhance employees' awareness of information security, every employee in the Company receives basic information security training so that they understand information security risks and the discipline and principles of self-management. Every year, information security policies and goals are promoted to every internal company employee through different methods, including education and training, internal meetings, and announcements.

3. Information Security Verification and Audit

The Company's core information system obtained the ISO/IEC 27001: 2013 certification for ISMS in 2019, and the credit card processing system obtained the PCI DDS certification in December 2018. In addition, in order to ensure the security of transaction data and transmission accuracy, message confidentiality, integrity, usability, and security design in data transmission and processing measures are strengthened. The Company also complies with the Cyber Security Management Act to strengthen security control mechanisms. The information security promotion team performs at least one internal audit every year to not only confirm that employees are complying with these standards and the Company's requirements for management procedures, but also to effectively apply and maintain the management system.

4. Personal Information Protection Management System

The Company places great importance on customer privacy and regards it as a basic service principle. In addition to complying with international laws and different foreign laws related to personal information, in 2014 the Company established the Personal Information Management Committee and established the personal information management system. The system explains the standards for the collection and usage of customer data, passengers' personal information rights, revision of privacy protection/declaration of security, and the commitment to maintaining data confidentiality. In order to comply with the General Data Protection Regulation (GDPR) put into effect by the European Union on May 25, 2018, the role of data protection officer (DPO) has been established in the Company. Externally, on the website of China Airlines, we publicly disclose relevant privacy protection policies and statements. Internally, we revise SOPs, hold personal data event drills on an annual basis, comprehensively strengthen employee data protection notions and code of conduct through education and training, finalize a personal data auditing system, and continue to take inventory of annual personal data work. Report the implementation results and improvement measures of the personal data management system to the Board of Directors every year, and maintain customer privacy in accordance with high standards.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

The Company continues to improve its navigational matters and aircraft maintenance, guard flight safety, and implement various service details in the SOP+ spirit; actively invest in social welfare and fulfill the responsibilities of corporate citizenship; incorporate environmental management into our operational focuses. If there is any untrue or negative news, message, or incident that affects the Company's image, we will respond immediately and explain and clarify to the public, and post explanations on our website or social media platform if necessary, to reduce the negative effects.

For example, in the ongoing case of the controversy over chartered flights carrying duty-free cigarettes, in the future, the Company will not allow the pre-sale of duty-free cigarettes but will operate in the same manner as that in ordinary flights. The number of cigarettes loaded will be limited to the total number of passengers who can carry them. We have also established a mechanism to control the number of duty-free products on chartered flights, to accurately carry out loading of duty-free goods within the limits of aircraft space and load, and complete the delivery of goods on board the aircraft.

7.6.7 Expected Benefits from, Risks Relating to, and Response to Merger and Acquisition Plans: None.

7.6.8 Expected Benefits from, Risks Relating to, and Response to Factory Expansion Plans: None.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration: None.

7.6.10 Effects of, Risks Relating to, and Response to Large Share Transfers or Changes in Shareholdings by Directors or Shareholders with Shareholdings of over 10%: None.

7.6.11 Effects of, Risks Relating to, and Response to the Changes in Management Rights: None.

7.6.12 Litigation or Non-litigation Matters

Any major litigation, non-litigation, or administrative disputes involving the Company that are already finalized or still pending.

No.	Case Name	Summary	Disputed Amount (NT\$)	Litigants	Current Status
1	Litigation for refunding overpayment on aircraft rental	<p>1. In 2002, the Civil Aeronautics Administration (CAA) unilaterally terminated an aircraft rental contract with the Company for six aircraft, resulting in early termination of the contract, which changed the nature of the lease and the rent calculation basis and resulted in rent overpayment by the Company.</p> <p>2. In 2010, the CAA resolved that the Civil Aeronautics Administration should pay the Company more than NT\$1.5 billion and in 2015 the Supreme Court revoked the arbitration judgment, which resulted in the Company filing a civil lawsuit against the CAA to recoup the aforementioned rent overpayment.</p>	More than 1.2 billion	Plaintiff: China Airlines Defendant: Civil Aeronautics Administration	This case has gone through the first and second instance trials. The court agreed that there was an overpayment of rent in this case and that the amount of overpayment is NT\$258,073,030. However, due to incorrect logic used in the calculation, it mistakenly recognized that the Company had offset NT\$363,027,179 in the final rent payment, so it was judged that the Company had no reason to request the CAAC to return the overpayment of rent. In order to fully protect the rights and interests of the Company and investors, the Company filed all appeals in the third instance on November 27, 2019. They are now being adjudicated.

7.6.13 Other Major Risks:

1. CAL fully understands the importance of risk management and the potential for interaction between different types of risk. We established the Risk Committee directly under the supervision of the Board of Directors to improve risk management and require subordinate units to control for each major risk category.

The CAL risk management organization and units responsible for implementation:

Type of Risk	Responsible Department	Risk Management Measures
Operating Risk	Corporate Development Office	The operating environment for the aviation industry is ever changing. Major political and economic events as well as unexpected internal or external incidents can have a huge impact on company operations. The Corporate Development Office analyses potential political, economic, aviation industry, and internal Company situations that could affect the Company and proposes concrete response plans to reduce their impact on China Airlines' strategic direction and annual business plan.
Safety Risk	Corporate Safety Office	Safety is the most basic principle and core value of China Airlines' business operation, as well as our responsibility and commitment to each customer. According to the Safety Management System (SMS), the Company constructs safety risk management. Aiming at internal and external operation risks, such as navigation, maintenance, air service, and ground operation, the Company maintains operational risk within the acceptable range through continuous hazard identification and risk management, and proposes improvement measures to effectively enhance the overall safety performance of the Company.
Financial Risk	Finance Div.	The domestic and global economy affects the operating results of the Company. Primary operating costs for airlines include interest rate, exchange rate, and fuel, and influence by outside factors can result in significant volatility. Therefore, the Finance Division utilizes financial hedging instruments to fix the above factors within a certain range, regularly monitors financial risk, and establishes relevant strategies and measures to effectively manage financial risk.

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

7.7 Other Important Matters: None.

Special Disclosure

8.1 Summary of Affiliated Companies

**8.2 Private Placement Securities in the Most Recent
Years**

**8.3 The Shares in the Company Held or Disposed of by
Subsidiaries in the Most Recent Years**

8.4 Special Notes

**8.5 Situations with Major Impacts on Shareholder
Equity or Share Prices**

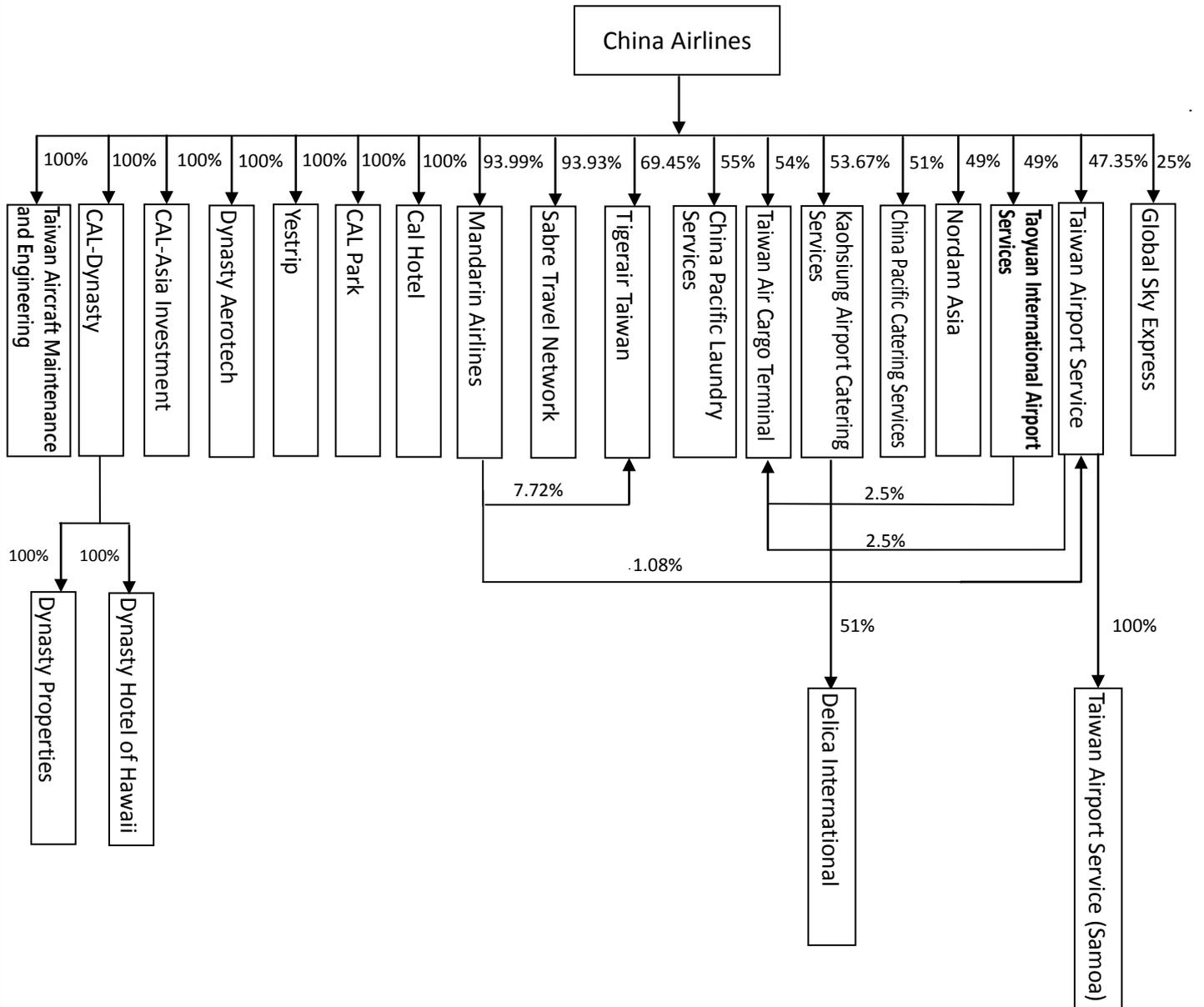
VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Basic information of Affiliated Companies

A. Affiliated Companies Chart

Dec 31, 2019



Note: The affiliates listed above are companies in which the company has invested and has a 50% or higher voting share, or the means to control, either directly or through a subsidiary company. China Pacific Laundry Services, China Pacific Catering Services, and Nordam Asia are joint ventures.

B. Basic information of Affiliated Company

Dec 31, 2019/Unit: NT\$ thousands

Company	Date Founded	Address	Capital (Note)	Principal Activities
1. CAL-Dynasty International, Inc.	07/01/1991	200 Continental Blvd. Suite #101 El Segundo, CA90245, U.S.A.	785,135	Holding & investing
1A Dynasty Properties Co., Ltd.	08/15/1973	200 Continental Blvd. Suite #101 El Segundo, CA90245, U.S.A.	15,015	Real estate investing, property leasing
1B Dynasty Hotel of Hawaii, Inc.	12/10/1973	1830 Ala Moana Blvd. Honolulu, Hawaii 96815, U.S.A.	120,120	Hotel service
2. CAL-Asia Investment Inc.	06/29/1995	Mandar House, 3rd Floor, P.O. Box 2196, Johnson's Ghut, Tortola, VG1110, Virgin Islands, British	215,386	Holding & investing
3. Dynasty Aerotech International Corp.	05/11/1989	No.6, Hangqin S. Rd., Dayuan District, Taoyuan City	77,270	Aviation ground handling service, cleaning service
4. Yestrip Co., Ltd.	01/18/2001	10F, No.9, Section 3, Nanjing E Rd., Zhongshan District, Taipei City	16,000	Travel service
5. CAL Park Co., Ltd.	09/06/2006	No.1, Hangzhan S. Rd., Dayuan District, Taoyuan City	1,500,000	Real estate leasing, parking lot management
6. CAL Hotel Co., Ltd..	01/03/2007	No.1-1, Hangzhan S. Rd., Dayuan District, Taoyuan City	465,000	Hotel business
7. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	01/16/2015	No.15, Hangqin S. Rd., Dayuan District, Taoyuan City	1,350,000	Aircraft maintenance and repair
8. Mandarin Airlines, Ltd.	04/29/1991	No.3, Alley 123, Lane 405, Dunhua N. Rd., Songshan District, Taipei City	2,001,825	Civil air transport
9. Sabre Travel Network (Taiwan) Ltd.	10/09/1990	15F, No.57, Fuxing N. Rd., Songshan District, Taipei City	138,618	IT service & GDS
10. Tigerair Taiwan Co., Ltd.	04/21/2014	No.1, Hangzhan S. Rd., Dayuan District, Taoyuan City	2,000,000	Civil air transport
11. China Pacific Laundry Services Ltd.	09/08/1997	No.7, Lane 54, Sande Street, Luzhu District, Taoyuan City	250,000	Laundry service
12. Taiwan Air Cargo Terminal Ltd.	12/22/1999	No.10-1, Hangqin N. Rd., Dayuan District, Taoyuan City	2,500,000	Air cargo and storage service
13. Kaohsiung Airport Catering Services Ltd.	09/27/1999	No.2-10, Zhongshan 4th Rd., Xiaogang District, Kaohsiung City	400,500	Catering service
13A Delica International Co., Ltd.	05/24/2016	No.2-10, Zhongshan 4th Rd., Xiaogang District, Kaohsiung City	20,000	Catering service
14. China Pacific Catering Services Ltd.	08/19/1994	No.22, Lane 156, Section 2, Haishan Rd., Luzhu District, Taoyuan City	861,000	Catering service
15. NORDAM Asia Ltd.	12/07/2017	No.15, Hangqin S. Rd., Dayuan Dist., Taoyuan City	77,500	Aircraft maintenance and repair
16. Taoyuan International Airport Services Co., Ltd.	11/08/1978	No.15, Hangqin N. Rd., Dayuan District, Taoyuan City	700,000	Aviation ground handling service
17. Taiwan Airport Service Co., Ltd.	07/19/1966	3F, No.340, Dunhua N. Rd., Songshan District, Taipei City	435,600	Aviation ground handling service
17A Taiwan Airport Service (Samoa) Co., Ltd.	03/22/2004	TrustNet Chambers, Lotemau Centre, P. O. Box 1225, Apia, Samoa	176,486	Holding & investing
18. Global Sky Express Ltd.	09/29/1994	8F-3, No.186, Section 4, Nanjing East Rd., Songshan District, Taipei City	10,000	Air freight forwarder

Note: Capital was calculated using the exchange rate at the end of 2019: 1TWD=0.0333 USD, 3.6156 JPY, 0.2323 CNY.

C. Overall Description of the Industries in which Affiliated Companies (Including Subsidiaries and Other Invested Companies) Operate

China Airlines' affiliated companies can be divided into seven categories, each of which is highly dependent on the Company's operations, and include airlines, ground services, air transport support, aerospace technology, logistics and warehousing, tourism and leisure, and investment holdings and leasing. The categories are described below:

Classification	Description
Airlines	Mandarin Airlines provides domestic and international passenger and cargo air transport services to further capitalize on our competitive advantage in the cross-strait market. Tigerair Taiwan is tasked with operating in the Asian low-cost carrier market to develop new business opportunities.
Ground Handling Services	Ground services at Taiwan Taoyuan and Taitung Airports are provided by Taoyuan International Airport Services Co., Ltd., while those for Kaohsiung Airport and all other domestic airports are serviced by Taiwan Airport Service Co., Ltd. Overseas, the Company has invested in Jardine Aviation Services in Hong Kong, which serves as China Airlines' ground handling agent in Hong Kong. Cleaning and repair ground services are provided by Dynasty Aerotech International Corp.
Air Transport Support	The Company has invested in domestic airline reservation system operations and maintenance provider Sabre Travel Network (Taiwan) Ltd. Overseas, the Company has invested in Singapore's Everest Company. In-flight catering services are provided for northern Taiwan by China Pacific Catering Services Ltd. and by Kaohsiung Airport Catering Services in the South. Delica International Co., Ltd. is the subsidiary of Kaohsiung Airport Catering Services. China Pacific Laundry Services Ltd. provides laundry services for textiles and clothing used aboard aircraft and general laundry services for the hospitality industry.
Logistics and Warehousing	Domestically, Taiwan Air Cargo Terminal Ltd. is responsible for providing warehousing services at Taiwan Taoyuan Airport and Kaohsiung International Airport. In Mainland China, the Company made indirect investments in Airport Air Cargo Terminal (Xiamen) Co., Ltd. and Airport Air Cargo Service (Xiamen) Co., Ltd. Logistics services are provided domestically by invested companies Global Sky Express Ltd. and Chung Hwa Express Corp. Overseas, the Company has indirectly invested in Hong Kong's Eastern United International Logistics.
Aerospace Technology	In the aerospace technology industry in Taiwan, the Company has invested in Taiwan Aircraft Maintenance and Engineering Ltd., which is responsible for all aspects of maintenance and repair services for Boeing 777 and 737 and Airbus A320 and A350 models; NORDAM Asia provides thrust reverser and composite material maintenance services in the Asian region; overseas, the Company invests in Xiamen Taiko Landing Gear Co. in Mainland China, which provides and maintains landing gear, and HAECO Composite Structures (Jinjiang) Co. Ltd., which provides composite material maintenance. In Hong Kong, the Company invests in the China Aircraft Services Ltd., which provides aircraft maintenance capacity.
Tourism and Leisure	Domestic investments include Yestrip and CAL Hotel Co., Ltd.. Overseas investments include an indirect investment in Dynasty Hotel of Hawaii, Inc. in the USA and investment in Japan's Dynasty Holidays.
Investment Holdings and Leasing Business Group	Established CAL-Dynasty International, Inc., which makes indirect investments in Chinese and American companies engaged in real estate investments and leasing management. CAL-Asia Investment Inc. and Taiwan Airport Service (Samoa) Co., Ltd. are engaged in general investment holdings.

D. Directors, Supervisors, and Presidents of Affiliated Companies

Dec 31, 2019
Units: Shares; %

Company	Title	Name	Shareholding	
			Shares	%
1. CAL-Dynasty International, Inc.	Chairman	Hsieh, Su-Chien (Note 1)	2,614,500 (USD10, share)	100
	Director	Wang, Chen-Min (Note 1)		
	Director (President)	Lee, Hsien-Kuang (Note 1)		
1A Dynasty Properties Co., Ltd.	Chairman (President)	Lee, Hsien-Kuang (Note 2)	5,000 (USD100, share)	100
	Director	Hsieh, Su-Chien; Chang, Cheng-Hao (Note 2)		
1B Dynasty Hotel of Hawaii, Inc.	Chairman	Lee, Hsien-Kuang (Note 2)	400,000 (USD10, share)	100
	Director	Chang, Cheng-Hao (Note 2)		
	Director (President)	Pan, Wen-Tsung (Note 1)		
2. CAL-Asia Investment Inc.	Chairman	Hsieh, Su-Chien (Note 1)	7,172,346 (USD1, share)	100
	Director	Chang, Young (Note 1)		
	Director (President)	Wang, Chen-Min (Note 1)		
3. Dynasty Aerotech International Corp. (Note 3)	Chairman	Chao, Lin (Note 1)	77,270	100
	Director	Liu, Der-Chuan; Sun, Jia-Min; Chen, Wei-Tau (Note 1)		
	Supervisor	Chen, I-Chieh (Note 1)		
	Director (President)	Lu, Yung-Nan (Note 1)		
4. Yestrip Co., Ltd.	Chairman	Chou, Ling-wen (Note 1)	1,600,000	100
	Director	Tong, Huai-Ming; Peng, Pao-Chu (Note 1)		
	Supervisor	Huang, Hui-Na (Note 1)		
	President	Lo, Chun-Ying (Nominated by China Airlines)		
5. CAL Park Co., Ltd.	Chairman	Hsieh, Su-Chien; (Note 1)	150,000,000	100
	Director	Chen, Wei-Tau (Note 1)		
	Supervisor	Fang, Juo-Ling (Note 1)		
	Director (President)	Chang, Young (Note 1)		
6. CAL Hotel Co., Ltd.	Chairman	Hsieh, Su-Chien; (Note 1)	46,500,000	100
	Director	Wang, Chen-Min; Kao, Shing-Hwang; Wang, Houng; Hong, Tsu-Kuang (Note 1)		
	Supervisor	Fang, Juo-Ling; Chen, I-Chieh (Note 1)		
	President	Eric Rimbeuf		
7. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Chairman	Wang, Houng (Note 1)	135,000,000	100
	Director	Chang, Young; Sun, Jia-Min; Lee, Jung-Hu; Wang, Chen-Min (Note 1)		
	Supervisor	Fang, Juo-Ling; Yen, Yang (Note 1)		
	President	Tsai, Chih Hung (Nominated by China Airlines)		
8. Mandarin Airlines, Ltd.	Chairman	Hsieh, Su-Chien (Note 1)	188,154,025	93.99
	Director	Chang, Young; Kao, Shing-Hwang; Wang, Houng; Wang, Chen-Min; Peng, Pao-Chu (Note 1)		
	Supervisor	Chen, I-Chieh		
	Director (President)	Tsao, Jyh-Fen (Note 1)		
9. Sabre Travel Network (Taiwan) Ltd.	Chairman	Wu, Wen-Kuo (Note 1)	13,021,042	93.93
	Director	Chung, Ming-Jyh; Tong, Huai-Ming; Peng, Pao-Chu (Note 1)		
	Director	Alan Chen (Representing Sabre Travel Network Asia Pacific)	609,000	4.39
	Supervisor	Ho, Hui-Fen		
	President	Ouyang, Yinchi (Nominated by China Airlines)		
10. Tigerair Taiwan Co., Ltd.	Chairman	Chang, Horng-Jong (Note 1)	138,906,275	69.45
	Director	Chang, Young; Wang, Chen-Min; Chang, Cheng-Hao; Chen, I-Chieh; Chen, Han-Ming (Note 1)		
	Director	Hsiao, Po Jen; Hsu, Yang Che; Jao, Shih-Chen; Yen, Sin-Hui		
	Independent Director	Chen, I-Heng (Independent director undertaking public welfare); Fan, Hung-Shu; Yang, David		
	President	Chang, Horng-Jong		
11. China Pacific Laundry Services Ltd.	Chairman	Hong, Tsu-Kuang (Acting) (Note 1)	13,750,000	55
	Director	Chu, Te-Hsiu; Chung, Wan-Chun (Note 1)		
	Director	Chan, Derrick (Representing Hendriz Holding)	3,750,000	15
	Director	Yeung, Maggie (Representing Heathlee Int'l)		
	Supervisor	Xu, Martin (Representing Merton Lake)	3,750,000	15
	Supervisor	Chen, I-Chieh		
	President	Lo, Tao-Wei (Nominated by China Airlines)		
12. Taiwan Air Cargo Terminal Ltd.	Chairman	Chen, Chong-Yi (Note 1)	135,000,000	54
	Deputy Chairman	Chen, Charles C.Y. (Representing Eyon Industrial Co.)		
	Director	Wang, Chen-Min; Chang, Cheng-Hao; Liu, Der-Chuan (Note 1)	6,000,000	2.40
	Director	UPS		
			20,000,000	8

Company	Title	Name	Shareholding	
			Shares	%
	Director	Michael Shea (Representing Hsin Feng Corp.)	7,000,000	2.80
	Supervisor	Ho, Hui-Fen	15,000,000	6
	Supervisor	Chen, Jyi-Fu (Representing Express Container Terminal Corp.)		
	President	Lin, Hsiao-Feng (Nominated by China Airlines)		
13. Kaohsiung Airport Catering Services Ltd.	Chairman	Chang, Young (Note 1)	21,494,637	53.67
	Director	Chung, Wan-Chun; Wang, Wei (Note 1)	16,178,945	40.40
	Director	Lin, Jyh-Jong; Tsai, Ta-Wei (Nominated by Uni Airways Corporation)		
	Supervisor	Han, Lan-Ping (Nominated by Evergreen International Corporation)	10,000	0.02
	Supervisor	Yen, Yang		
	President	Lee, Ho-Yuan		
13A. Delica International Co., Ltd	Chairman	Lee, Ho-Yuan (Nominated by Kaohsiung Airport Catering Services)	1,020,000	51
	Director	Lin, Jyh-Jong (Nominated by Kaohsiung Airport Catering Services)	980,000	49
	Director	Tokuyama, Keiichi; Tokuyama, Keisuke (Nominated by F. TEC Co., Ltd)		
	Supervisor	Lai, Li-Chao; Araki, Osamu		
	President	Eguchi, Kenichi		
14. China Pacific Catering Services Ltd.	Chairman	Yeh, Chu-Lan (Note 1)	43,911,000	51
	Director	Hong, Tsu-Kuang; Chung, Wan-Chun (Note 1)	21,045,500	24.50
	Director	Wong, Andy; Yau Algernon (Representing Aldeburgh Limited)		
	Supervisor	Fang, Juo-Ling	21,045,500	24.50
	Supervisor	Xu, Martin (Representing Deli Holdings Limited)		
	President	An, Long-Chi (Nominated by China Airlines)		
15. NORDAM Asia Ltd.	Chairman	T. Hastings Siegfried (Nominated by The NORDAM Group)	3,952,500	51
	Deputy Chairman	Wang, Houng (Note 1)	3,797,500	49
	Director	Li, Chih-Wei (Note 1)		
	Director	J.Terrell Siegfried, Jamie Lane (Nominated by the NORDAM Group)		
	Supervisor	Ralph McDavid		
	Supervisor	Wang, Wei		
16. Taoyuan International Airport Services Co., Ltd.	Chairman	Kuo June-Tsung (Representing Motc)	31,500,000	45
	Director (President)	Lee, Chih-Chiang (Note 1)	34,300,000	49
	Director	Hsieh, Su-Chien; Chang, Young; Wang, Houng; Chu, Te-Hsiu (Note 1)		
	Director	Chen, Yen-Po; Chang, Chang-Chi; Li, Hung-Sheng; Lee, Chun-Hsiung (Representing Motc)		
	Director	Hung, Ngai (Representing UPS)	4,200,000	6
	Supervisor	Li, Mi; Li, Shen-Yi		
17. Taiwan Airport Service Co., Ltd.	Chairman	Chang, Young (Note 1)	20,626,644	47.35
	Director (President)	Peng, Long-Min (Note 1)		
	Director	Chang, Cheng-Hao (Note 1)		
	Director	Chung, Ting-Chun (Representing juridical person shareholder Rih Hsin Asset Management Company)	9,405,300	21.59
	Director	Chang, Chieh-Tang (Representing Goldsun Building Materials)	7,405,200	17
	Supervisor	Fang, Juo-Ling		
Supervisor	Chen, Yao-Ming			
17A Taiwan Airport Service (Samoa) Co., Ltd.	Authorized Signatory	Chang, Young (Representing Taiwan Airport Service Co.)	5,876,976 (USD1, share)	100
18. Global Sky Express Ltd.	Chairman	Li, Chung-Hui	50,000	5
	Director	Liu, Der-Chuan; Shann, Da-Sin; Chang, Cheng-Hao (Note 1)	250,000	25
	Director	Pao, Hsueh-Chao	40,000	4
	Director	Huang, Nan-Sheng	50,000	5
	Director	Wei, Ching-Li	20,000	2
	Director	Hsiao, Yu-Hsin	20,000	2
	Director	Chung, Mei-Chih (Representing Leader Mutual Freight System)	20,000	2
	Supervisor	Huang, Hui-Na		
	Supervisor	Yeh, Chien-Tien	10,000	1
	Supervisor	Chiang, Ming-Fang (Representing Morrison Express)	50,000	5
	President	Hwang, Chun-Chyuan (Nominated by China Airlines)		

Note 1: Representative of juridical person shareholder China Airlines.

Note 2: Representative of juridical person shareholder CAL-Dynasty International, Inc.

E. Affiliated Company Business Overview

Dec 31, 2019

Unit: NT\$ thousands; EPS=NT\$

Company	Capital	Total Assets	Total Liabilities	Total Equity	Operating Revenue	Operating Income (Loss)	Profit(Loss)	EPS (Dollars)
1. CAL-Dynasty International, Inc.	785,135	1,451,427	174,881	1,276,546	363,339	51,974	41,262	15.78
1A Dynasty Properties Co., Ltd.	15,015	745,297	238,802	506,496	101,661	28,191	19,468	3,893.54
1B Dynasty Hotel of Hawaii, Inc.	120,120	524,683	96,567	428,116	262,051	20,698	14,204	35.51
2. CAL-Asia Investment Inc.	215,386	559,562	0	559,562	0	(1,189)	30,820	4.30
3. Dynasty Aerotech International Corp.	77,270	210,237	114,567	95,670	400,060	22,089	17,008	220.12
4. Yestrip Co., Ltd.	16,000	67,653	42,480	25,173	31,652	(684)	(480)	(0.30)
5. CAL Park Co., Ltd.	1,500,000	5,429,229	3,923,450	1,505,779	345,569	66,268	1,163	0.008
6. CAL Hotel Co., Ltd.	465,000	769,916	291,890	478,026	617,826	22,166	16,787	0.36
7. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	1,350,000	3,515,478	2,593,492	921,986	31,717	(178,019)	(206,151)	(1.53)
8. Mandarin Airlines, Ltd.	2,001,825	7,557,633	5,948,601	1,609,032	8,607,182	118,378	204,018	1.02
9. Sabre Travel Network (Taiwan) Ltd.	138,618	612,793	122,840	489,953	388,315	236,096	195,347	14.09
10. Tigerair Taiwan Co., Ltd.	2,000,000	13,337,093	10,534,749	2,802,344	9,513,321	1,087,316	808,718	4.04
11. China Pacific Laundry Services Ltd.	250,000	383,410	76,962	306,448	257,661	33,761	27,327	1.09
12. Taiwan Air Cargo Terminal Ltd.	2,500,000	4,980,713	2,169,708	2,811,005	2,030,229	361,916	271,552	1.09
13. Kaohsiung Airport Catering Services Ltd.	400,500	1,419,764	476,446	943,318	2,186,765	360,827	292,632	7.31
13A Delica International Co., Ltd.	20,000	15,646	219	15,427	0	(1)	(4)	0.003
15. China Pacific Catering Services Ltd.	861,000	2,995,989	1,425,262	1,570,727	3,072,795	632,111	511,121	5.94
16. NORDAM Asia Ltd.	77,500	77,314	145	77,169	0	(152)	(144)	(0.02)
17. Taoyuan International Airport Services Co., Ltd.	700,000	2,890,698	1,386,116	1,504,582	3,430,485	342,970	291,522	4.16
18. Taiwan Airport Service Co., Ltd.	435,600	1,415,951	832,774	583,177	1,117,038	158,607	156,861	3.60
18A Taiwan Airport Service (Samoa) Co., Ltd.	176,486	347,551	0	347,551	0	(11)	23,107	3.93
19. Global Sky Express Ltd.	10,000	36,442	7,266	29,176	121,543	7,987	6,392	6.39

Note 1: Capital, total assets, total liabilities, total equity were calculating using the exchange rate at the end of 2019.

Note 2: Operating revenue, operating profit, and income for the period were calculated using the 2019 quarterly average exchange rates.

Note 3: Exchange rates at the end of 2019 were 1TWD=0.0333 USD, 3.6156 JPY, 0.2323 CNY.

Note 4: Quarterly average exchange rates in 2019 were as following:

Q1: 1TWD=0.0325USD, 3.5784JPY, 0.2196CNY.

Q2: 1TWD=0.0321USD, 3.5542JPY, 0.2183CNY.

Q3: 1TWD=0.0321USD, 3.4490JPY, 0.2235CNY.

Q4: 1TWD=0.0326USD, 3.5453JPY, 0.2304CNY.

(2) Affiliated Company Consolidated Financial Statements: Information required to be disclosed regarding affiliated company consolidated financial statements is included in Appendix 1 Consolidated Financial Statements. The Company will no longer prepare a separate consolidated financial statement for affiliated companies.

(3) Relationship Report: China Airlines is not the subsidiary of any company, so a relationship report is not required.

8.2 Private Placement Securities in the Most Recent Years: None.

8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years:

APR 25, 2020
Units: NT\$; shares; %

Company	Capital	Source of Funds	Stake in Subsidiary(%)	Date of Acquisition or Disposal	Number of Shares and Value of Stocks Acquired	Number of Shares and Value of Stocks Disposed of	Investment Gain/Loss	Number of Shares and Value of Stock Held as of the Printing Date of this Report	Amount of Company Endorsement /Guarantee of Subsidiary
Dynasty Aerotech International Corp.	77,270,000	Equity Fund	100%	02/20/2020	-	152	220	0 shares 0	-
				02/21/2020	-	300,000	485,539		
				02/25/2020	-	300,000	398,925		
				02/26/2020	-	214,000	270,365		
Mandarin Airlines, Ltd.	2,001,825,000	Equity Fund	93.99%	-	-	-	-	2,074,628 shares 14,585,000	-

Note: No subsidiary has a Company stock pledge nor has the Company lent money to any subsidiary.

8.4 Special Notes: None.

8.5 Situations with Major Impact on Shareholder Equity or Share Prices:

8.5.1 Change in the chairman of the board, general manager, or one-third or more of the directors of the Company.

On April 2, 2019, the Company dismissed Mr. Ho, Nuan-Hsuan as juridical person director representative of the China Aviation Development Foundation in the Company. The Board of Directors of the Company elected Mr. Hsieh, Su-Chien as the new Chairman and concurrently as the President.

8.5.2 Signing of major memoranda, strategic alliances or other plans for business cooperation or major contracts

A. On January 21, 2019, the Company approved the listing plan of its subsidiary, Tigerair Taiwan, by a resolution of the Board of Directors. Since its establishment in 2014, Tigerair Taiwan has developed into a Low Cost Carrier (LCC) with a stable business model and sound financial structure. Considering the benefits of convenient fund raising in the future, financial autonomy and equity value enhancement, the Board of Directors resolved to carry out the listing plan of Tigerair Taiwan.

In order to meet the requirements of listing review standards, the Board of Directors deliberated and resolved on May 8, 2019 to sell equity shares of Tigerair Taiwan held by the Company, and submitted it to the Shareholders' Annual General Meeting for deliberation and resolution on June 25 of the same year.

B. On June 19, 2019, the Company began negotiations with Airbus (France) to purchase A321neo aircrafts. In order to lock-in the delivery time, the Company signed a memorandum of agreement and continued to discuss business conditions.

C. On December 31, 2019, the Company renewed its housing and land lease contract with Taiwan Air Cargo Terminal Ltd.

8.5.3 Lawsuits, non-contentious matters, administrative actions, administrative disputes, injunctive procedures, or compulsory enforcement matters

- A. The Taoyuan Union of Pilots announced that it would go on strike at 6:00 a.m. on February 8 and that the strike would last until February 14. Under the witness of the Executive Yuan, the Ministry of Labor, the Ministry of Transportation and Communications, and the Taoyuan City Government, the Company reached an agreement with the Taoyuan Union of Pilots through the labor-management conference and signed the collective agreement. The union immediately announced the termination of the strike. The compensation for customers' losses and various derivative expenses was preliminarily estimated to be around NT\$154 million. According to the fifth appeal of the Agreement between the two parties, it was promised that the full salary of the 13th month will be changed to a flight safety bonus. The amount of the bonus was agreed to at the negotiation meeting on February 21. It was estimated that the annual expenditure will increase by around NT\$190 million.
- B. The Department of Labor of the Taoyuan City Government performed a labor inspection. On February 25, 2019, June 21, 2019, and December 4, 2019, the Company was fined NT\$1 million in each instance because female worker nighttime work had not been approved by the labor union, which was in violation of Article 49, Paragraph 1 of the Labor Standards Act.
- C. On October 2, 2019, the Department of Finance of the Taoyuan City Government imposed a fine of NT\$6 million on the Company for violating Article 46, Paragraph 1 of the Tobacco and Alcohol Administration Act. The Company will implement and follow relevant laws and regulations and strengthen the legal education of its employees

8.5.4 Lawsuits, non-contentious matters, administrative actions, administrative disputes, injunctive procedures, or compulsory enforcement matters

- A. On July 26, 2019, the Company cooperated with the inspection and investigation unit to conduct investigation on the sale of duty-free cigarettes on chartered flights of the Company.
- B. In response to the COVID-19 pandemic, the Company and its group members have improved their pandemic prevention measures and adjusted the service content of catering and supplies for mainland-Taiwan air routes and Hong Kong-Macau-Taiwan air routes starting from January 28, 2020; The main consideration is to reduce personnel contact and reduce the unnecessary use of re-used products and use disposable products instead. At the same time, we also encourage passengers to bring their own products, such as environmental protection cups, to reduce the risk of infection. And in addition to the normal disinfection procedures for all cross-strait, Hong Kong and Macao flights arrival to Taiwan, the disinfection of the dining trays, handrails and overhead luggage cabinets in the cabin are carried out to maintain the health of passengers and crew members.

(Appendix 1)

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2019 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

CHINA AIRLINES, LTD.

By

Hsieh, Su-Chien

March 18, 2020

INDEPENDENT AUDITORS’ REPORT

The Board of Directors and Shareholders
China Airlines, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of China Airlines, Ltd. and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies. (collectively referred to as the “consolidated financial statements”)

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the audit of the consolidated financial statements of the Group are stated below:

Passenger Revenue Recognition

In accordance with IFRS 15 "Revenue from Contracts with Customers", passenger sales are accounted for as contract liabilities before relevant transportation services are provided. After providing the related services, contract liabilities are reclassified to passenger revenue. For the year ended December 31, 2019, passenger revenue was NT\$11,413,435 thousand. Refer to Notes 4 and 27 to the accompanying consolidated financial statements for related detailed information.

Since relevant sales can only be recognized as passenger revenue when passengers actually boarded, confirmation from each passenger holding the ticket who actually boarded involves a complicated process; therefore, we identified passenger revenue recognition as a key audit matter.

The main audit procedures that we performed included the following:

1. We understood and tested the internal control related to the process of revenue from passenger, including manual and automatic control.
2. We understood and tested the effectiveness of the information system related to the process of passenger revenue.
3. We sampled several flight tickets, which were flown and recognized as revenue, to verify whether the boarding date matched the date recorded on the tickets, from advanced sales tickets.

Initial Application of IFRS 16 (Leases) - Aircraft

In accordance with IFRS 16 "Leases", aircraft leases initially classified as finance leases under IAS 17 should be recognized as Right-of-use assets and lease liabilities in the consolidated balance sheet. As of December 31, 2019, the carrying amount of Right-of-use assets and lease liabilities (including financial liabilities for hedging) relating to aircraft leases are NT\$62,052,701 thousand and NT\$60,114,778 thousand, respectively. Refer to Notes 4 and 21 to the accompanying consolidated financial statements for related detailed information.

China Airlines, Mandarin Airlines and Tigerair Taiwan leased ten 777-300ER planes, fifteen A330-300 planes, fifteen 737-800 planes, ten A320-200 planes, six ERJ190 planes and three ART72-600 planes for operation. Because the lease term of aircraft is higher and the amount of rental is higher, the percentage of right-of-use assets and lease liabilities of the aircraft in the consolidated balance sheets is high. The parameters and lease terms are determined by the management, and the calculation of the lease liabilities will affect the carrying amount and depreciation expense of the right-of-use assets and lease liabilities (including financial liabilities for hedging) relating to aircrafts. Therefore, we identified initial application of IFRS 16 - Aircrafts as a key audit matter.

The main audit procedures that we performed included the following:

1. We understood and tested the effectiveness of the information system related to the calculation of lease liabilities.

2. We selected one of the rental payments schedule of the aircraft from the lease calculation system, to recalculate amount of the lease liabilities balance and financial cost and amortization of right-of-use, and related carrying amount. Also, we selected several aircraft lease contracts from the carrying amounts of aircraft lease liability, and checked if there was any difference between rental in the aircraft rental payment schedule and lease term in the contracted rentals. And we checked if the lease term used the rental payment schedule was consistent with the contract.

Other Matter Audit by Other Independent Auditors

We did not audit some subsidiaries which were included in the consolidated financial statements. The financial statements and disclosed information were audited by other independent auditors, and our audit opinion is based solely on the audit report of other independent auditors.

As of December 31, 2019, total assets of these subsidiaries amounted to NT\$13,337,093 thousand dollars, representing 4.55% of the total assets. For the year ended December 31, 2019, revenue from these subsidiaries amounted to NT\$9,513,321 thousand dollars, representing 5.65% of the total revenue.

Other Matter Parent Company Only Financial Statements

We have also audited the parent company only financial statements of China Airlines, Ltd. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for 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 Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee and supervisors, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 18, 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 audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' 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' report and consolidated financial statements shall prevail.

CHINA AIRLINES, L.T.D. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

ASSETS	2019	2018	2019	2018
	Amount	Amount	%	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 19 and 33)	\$ 28,459,528	\$ 24,937,537	10	11
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 32)	512,192	206,001	2	2
Financial assets at amortized cost (Notes 9 and 32)	2,355,095	3,856,660	1	2
Financial assets for hedging - current (Notes 4 and 32)	1,000,000	1,000,000	4	4
Notes and accounts receivable - related parties (Notes 32 and 33)	8,579,334	10,038,529	3	4
Other receivables (Notes 4 and 32)	10,348	9,043	-	-
Current tax assets (Notes 4 and 29)	774,206	879,191	-	-
Inventory, net (Notes 4 and 11)	54,689	18,948	-	-
Non-current assets held for sale (Notes 4, 5 and 12)	8,470,113	8,654,710	3	4
Other assets - current (Notes 6 and 18)	2,655,711	4,147,882	-	-
Total current assets	51,822,342	52,827,560	18	23
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 8 and 32)	209,221	132,191	-	-
Investments accounted for using the equity method (Notes 4 and 14)	105,586	1	-	-
Property, plant and equipment (Notes 4, 5, 15 and 35)	2,223,793	2,200,149	1	1
Investment properties (Notes 4 and 16)	145,886,971	163,107,718	71	71
Other intangible assets (Notes 4 and 16)	2,075,068	2,075,345	24	24
Other intangible assets (Notes 4 and 16)	1,182,692	1,210,796	1	1
Deferred income tax asset (Notes 4, 5 and 29)	5,337,626	5,152,070	2	2
Other assets - non-current (Notes 18, 21, 32 and 34)	13,171,063	3,430,753	4	1
Total non-current assets	241,225,637	177,309,022	82	77
TOTAL	\$ 293,047,979	\$ 230,136,582	100	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term debt (Note 19)	\$ 380,000	\$ -	-	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	11,749	221	-	-
Financial liabilities for hedging - current (Notes 4, 21 and 32)	8,618,506	560	3	1
Notes and accounts payable (Note 32)	1,495,606	1,594,487	1	1
Accounts payable - related parties (Notes 32 and 33)	542,015	532,815	1	1
Other payables (Notes 22 and 32)	13,187,972	14,146,198	6	6
Current tax liabilities (Notes 4 and 29)	374,178	164,181	-	-
Lease liabilities - current (Notes 3, 4 and 21)	2,340,873	321,075	1	-
Provisions - current (Notes 4 and 24)	66,499	19,546,455	-	9
Deferred tax liabilities (Notes 4 and 29)	21,060,773	4,445,900	7	2
Bonds payable and put option of convertible bonds - current portion (Notes 4, 20, 27 and 32)	10,000,000	10,000,000	3	4
Loans and debts - current portion (Notes 19, 32 and 35)	14,148,892	15,709,487	5	7
Capital lease obligations - current portion (Notes 4, 21, 32 and 35)	-	633,398	-	-
Other current liabilities (Note 33)	3,830,520	3,855,115	1	2
Total current liabilities	76,351,527	60,949,892	26	27
NON-CURRENT LIABILITIES				
Derivative financial liabilities for hedging - non-current (Notes 3, 4, 21 and 33)	42,420,205	-	15	-
Bonds payable - non-current (Notes 4, 20, 27 and 32)	22,052,625	28,473,710	8	12
Loans and debts - non-current (Notes 19, 32 and 35)	53,514,891	60,686,148	18	26
Contract liabilities - non-current (Notes 4 and 23)	2,236,311	1,903,665	1	1
Provisions - non-current (Notes 4 and 24)	10,017,464	8,473,464	3	4
Deferred tax liabilities (Notes 4 and 29)	5,471,242	188,447	-	-
Capital lease obligations - non-current (Notes 4, 21 and 35)	15,801,724	2,945	5	-
Accrued pension costs (Notes 4, 5 and 25)	9,435,035	8,803,382	3	4
Other non-current liabilities (Note 32)	534,938	607,845	-	-
Total non-current liabilities	156,564,333	109,139,606	53	47
Total liabilities	232,915,862	170,089,498	79	74
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)				
Share capital	54,209,846	54,209,846	19	24
Capital surplus	2,489,507	1,241,214	1	-
Retained earnings	466,416	351,923	-	-
Legal reserve	18,610	18,610	-	-
Special reserve	(1,277,255)	1,148,820	-	1
Unappropriated retained earnings (accumulated deficits)	(1,207,842)	1,615,663	-	1
Treasury shares	1,196,233	58,223	-	-
Other equity	(43,372)	(43,372)	-	-
Total equity attributable to owners of the Company	56,553,772	57,081,572	20	25
NON-CONTROLLING INTERESTS (Note 26)	3,578,345	2,965,512	-	1
Total equity	60,132,117	60,047,084	21	26
TOTAL	\$ 293,047,979	\$ 230,136,582	100	100

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

CHINA AIRLINES, L.T.D. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019	2018	2019	2018
	Amount	Amount	%	%
REVENUE (Notes 4, 27 and 34)	\$ 1,68,444,160	\$ 170,711,607	100	100
COSTS (Notes 4, 9, 11, 17, 24, 25, 27 and 34)	<u>151,757,232</u>	<u>153,504,076</u>	<u>90</u>	<u>90</u>
GROSS PROFIT	16,686,928	17,207,531	10	10
OPERATING EXPENSES (Notes 4, 25 and 27)	<u>14,021,107</u>	<u>13,185,148</u>	<u>8</u>	<u>8</u>
OPERATING PROFIT	<u>2,665,821</u>	<u>4,022,383</u>	<u>2</u>	<u>2</u>
NON-OPERATING INCOME AND LOSS				
Other income (Notes 4, 8 and 27)	718,988	606,453	-	1
Other gains and losses (Notes 10, 12, 14, 15, 27 and 31)	(473,812)	(534,848)	-	-
Finance costs (Notes 9, 27 and 32)	(3,340,119)	(1,379,985)	(2)	(1)
Share of the profit of associates and joint ventures (Note 14)	<u>332,305</u>	<u>367,246</u>	<u>-</u>	<u>-</u>
Total non-operating income and loss	<u>(2,762,638)</u>	<u>(941,134)</u>	<u>(2)</u>	<u>-</u>
PRETAX PROFIT (LOSS)	(96,817)	3,081,249	-	2
INCOME TAX EXPENSE (Notes 4, 5 and 29)	<u>578,185</u>	<u>808,565</u>	<u>-</u>	<u>1</u>
NET (LOSS) INCOME	<u>(675,002)</u>	<u>2,272,684</u>	<u>-</u>	<u>1</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
(Loss) gain on hedging instruments subject to basis adjustment (Notes 4, 27 and 33)	(17,705)	23,884	-	-
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income (Note 8)	79,392	930	-	-
Remeasurement of defined benefit plans (Notes 4 and 26)	(781,793)	(851,866)	-	-
Share of other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4, 15 and 31)	(32,102)	(33,242)	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 28)	<u>145,166</u>	<u>187,881</u>	<u>-</u>	<u>-</u>
Total other comprehensive income (loss)	<u>(607,042)</u>	<u>(672,413)</u>	<u>-</u>	<u>-</u>
TOTAL				
				(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019	%	2018	%
	Amount	-	Amount	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 27)	\$ (72,952)	-	\$ 26,567	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 27 and 33)	1,411,623	-	85,341	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 28)	<u>(268,871)</u>	-	<u>(17,858)</u>	-
	<u>1,069,800</u>	-	<u>94,050</u>	-
Other comprehensive gain (loss) for the year, net of income tax	<u>462,758</u>	-	<u>(578,363)</u>	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	<u>\$ (212,244)</u>	-	<u>\$ 1,694,321</u>	1
NET INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ (1,199,798)	(1)	\$ 1,790,361	1
Non-controlling interests	<u>524,796</u>	1	<u>482,323</u>	-
	<u>\$ (675,002)</u>	-	<u>\$ 2,272,684</u>	1
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ (647,085)	-	\$ 1,258,035	1
Non-controlling interests	<u>434,841</u>	-	<u>436,286</u>	-
	<u>\$ (212,244)</u>	-	<u>\$ 1,694,321</u>	1
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 30)				
Basic	<u>\$ (0.22)</u>		<u>\$ 0.33</u>	
Diluted	<u>\$ (0.22)</u>		<u>\$ 0.32</u>	

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company													
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings	Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Other Equity Items on Financial Assets	Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2018	\$ 54,709,846	\$ 799,999	\$ 206,092	\$ -	\$ -	\$ 1,458,313	\$ (34,986)	\$ 1,774	\$ -	\$ -	\$ (43,372)	\$ 57,023,237	\$ 2,134,282	\$ 59,157,519
Effect of retrospective application and retrospective restatement	-	-	-	60	-	(60)	-	(1,774)	42,351	(74,429)	-	40,657	-	40,657
BALANCE AT JANUARY 1, 2018, AS RESTATED	54,709,846	799,999	206,092	-	-	1,458,373	(34,986)	-	42,351	(74,429)	(43,372)	57,063,874	2,134,282	59,198,156
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978	-	409,978
Basic adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	12,118	-	12,118	-	12,118
Appropriation of 2017 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	148,831	-	-	(148,831)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	118,810	-	(118,810)	-	-	-	-	-	-	-	-
Cash dividends - \$0.2181820086 per share	-	-	-	-	-	(1193,670)	-	-	-	-	-	(1,193,670)	-	(1,193,670)
Changes in capital surplus from dividends distributed to subsidiaries	-	630	-	-	-	-	-	-	-	-	-	630	-	630
Net income for the year ended December 31, 2018	-	-	-	-	-	1,790,361	-	-	-	-	-	1,790,361	482,323	2,272,684
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(645,025)	25,322	-	268	87,579	-	(532,326)	(46,037)	(578,363)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	1,144,866	25,322	-	268	87,579	-	1,238,035	436,286	1,674,321
Gain or loss on non-controlling interest	-	-	-	-	-	-	-	-	-	-	(469,393)	565,963	-	96,570
Treasury shares acquired	-	-	-	-	-	-	-	-	-	-	469,393	(469,393)	-	(469,393)
Treasury shares retired	(500,000)	30,607	-	-	-	-	-	-	-	-	469,393	-	-	-
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(171,019)	(171,019)
BALANCE AT DECEMBER 31, 2018	54,209,846	1,241,214	351,923	118,810	1,144,928	1,144,928	(9,664)	-	42,619	25,268	(43,372)	57,081,572	2,965,512	60,047,084
Basis adjustment to loss on hedging instruments	-	-	-	-	-	-	-	-	-	(603)	-	(603)	-	(603)
Appropriation of 2018 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	114,493	-	-	(114,493)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(106,843)	-	106,843	-	-	-	-	-	-	-	-
Cash dividends - \$0.20660737 per share	-	-	-	-	-	(1,136,278)	-	-	-	-	-	(1,136,278)	-	(1,136,278)
Changes in capital surplus from dividends distributed to subsidiaries	-	606	-	-	-	-	-	-	-	-	-	606	-	606
Actual disposal of interests in subsidiaries	-	1,247,087	-	-	-	-	-	-	-	-	-	1,247,087	7,546	1,254,633
Net profit (loss) for the year ended December 31, 2019	-	-	-	-	-	(1,199,798)	-	-	-	-	-	(1,199,798)	524,796	(675,002)
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	657,452	(53,411)	-	64,538	1,119,013	-	552,713	(89,955)	462,758
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	(1,777,225)	(53,411)	-	64,538	1,119,013	-	(647,085)	434,841	(212,244)
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	611,841	611,841
Loss of control of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(416,438)	(416,438)
BALANCE AT DECEMBER 31, 2019	54,209,846	2,488,907	466,416	12,967	(1,777,225)	(1,777,225)	(54,707)	-	107,262	1,143,678	(43,372)	56,553,772	3,578,345	60,132,117

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) Income before income tax	\$ (96,817)	\$ 3,081,249
Adjustments for operating activities:		
Depreciation expenses	32,601,400	19,325,083
Amortization expenses	198,237	191,979
Expected credit loss recognized on trade receivables	24,096	49,824
Net gain on fair value changes of financial assets and liabilities held for trading	(27,580)	(11,168)
Dividend income	(417,446)	(330,710)
Share of profit of associates and joint ventures	(21,422)	(9,603)
(Gain) loss on disposal of property, plant and equipment	(332,305)	(367,246)
Gain on disposal of investments accounted for using the equity method	(32,460)	270,597
Loss on disposal of non-current assets held for sale	(7,656)	(450,195)
Impairment loss on non-current assets held for sale	10,462	368,992
Impairment loss recognized on property, plant, equipment	-	75,437
Loss on inventories and property, plant and equipment	572,026	623,022
Net (gain) loss on foreign currency exchange	(59,987)	298,787
Finance costs	3,340,119	1,379,985
Recognition of provisions	4,608,924	3,386,052
Amortization of unrealized on sale - leasebacks	103,775	-
Others	(1,484)	-
Amortization of unrealized gain on sale-leasebacks	-	(13,888)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(278,741)	269,682
Financial liabilities mandatorily classified as at fair value through profit or loss	11,528	(9,359)
Notes and accounts receivable	1,564,298	(1,304,948)
Accounts receivable - related parties	66,538	253,540
Other receivables	(49,138)	(100,400)
Inventories	(118,317)	(288,941)
Other current assets	548,156	15,763
Notes and accounts payable	(14,326)	993,434
Accounts payable - related parties	(224,931)	(97,753)
Other payables	(832,288)	535,211
Contract liabilities	1,847,286	3,256,101
Provisions	(2,799,314)	(3,310,089)
Other current liabilities	202,815	73,958
Accrued pension liabilities	(149,678)	(205,340)
Other liabilities	(5,155)	2,698
Cash generated from operations	40,230,615	28,001,754
Interest received	401,190	301,465
Dividends received	355,311	228,636
	<u>40,230,615</u>	<u>28,001,754</u>
	(5,155)	2,698
	<u>35,075,460</u>	<u>28,004,452</u>

CHINA AIRLINES, LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018
Interest paid	\$ (3,124,960)	\$ (1,319,690)
Income tax paid	(335,544)	(185,208)
Net cash generated from operating activities	<u>37,526,612</u>	<u>27,026,957</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of amortized cost financial assets	(2,089,871)	(3,460,496)
Disposal of amortized cost financial assets	3,447,202	1,621,546
Proceeds from disposal of non-current assets held for sale	35,692	688,427
Payments for property, plant and equipment	(3,316,078)	(4,608,600)
Proceeds from disposal of property, plant and equipment	71,194	333,284
Increase in refundable deposits	(440,443)	(265,335)
Decrease in refundable deposits	218,547	391,487
Increase in prepayments for equipment	(15,658,898)	(14,991,412)
Increase in long-term lease receivable	-	(785)
Increase in computer software costs	(172,639)	(184,223)
Decrease in restricted assets	38,636	59,726
Proceeds from disposal of associates accounted for using the equity method	1,866,474	-
Proceeds from acquisition of joint ventures accounted for using the equity method	(35,525)	-
Net cash outflow on disposal of subsidiaries (Note 31)	(17,413)	-
Acquisition of subsidiaries (Note 30)	-	<u>136,769</u>
Net cash used in investing activities	<u>(16,053,122)</u>	<u>(20,279,612)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for buy-back of ordinary shares	-	(469,393)
Decrease in short-term debts	380,000	(120,000)
Proceeds from issuance of bonds payable	3,500,000	10,512,000
Repayments of bonds payable	(4,445,900)	(2,700,000)
Proceeds from long-term borrowings	9,078,690	18,285,457
Repayments of long-term borrowings and capital lease obligations	(17,819,750)	(28,587,288)
Repayments of the principal portion of lease liabilities	(11,692,310)	-
Proceeds from guarantee deposits received	180,360	126,578
Refunds of guarantee deposits received	(149,198)	(70,204)
Proceeds from sale - leasebacks	4,905,660	-
Dividends paid to owners of the Company	(1,135,672)	(1,193,040)
Cash dividends paid to non-controlling interests	(416,438)	(171,019)
Net cash used in financing activities	<u>(17,614,558)</u>	<u>(4,386,909)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(336,941)</u>	<u>(8,231)</u>
	<u>(8,231)</u>	<u>(8,231)</u>

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 3,521,991	\$ 2,352,205
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>24,937,537</u>	<u>22,585,332</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 28,459,528</u>	<u>\$ 24,937,537</u>

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 primarily provides air transport services for passengers and cargo. Its other operations include (a) mail services; (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, equipment and the entire aircraft; and (f) leasing of aircraft.

The major shareholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of December 31, 2019 and 2018, CADF and NDF both held 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 Company's board of directors on March 18, 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 (FSC) and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the 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 material impact on the Group's accounting policies:

IFRS 16 "Leases"

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a Lease

The Group elected to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not be reassessed and accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

Lease liabilities were recognized on January 1, 2019 for leases classified as operating leases under IAS 17. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group applies IAS 36 to all right-of-use assets.

For leases classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 was determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

If the Group determines that a sale and leaseback transaction does not satisfy the requirements of IFRS 15 to be accounted for as a sale of an asset, it is accounted for as a financing transaction. If it satisfies the requirements to be accounted for as a sale of an asset, the Group recognizes only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor. Prior to the application of IFRS 16, the leaseback portion is classified as either a finance lease or an operating lease and accounted for differently.

The Group does not reassess sale and leaseback transactions entered into before January 1, 2019 to determine whether the transfer of an underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. Upon initial application of IFRS 16, the aforementioned transitional provision for a lessee is applied to the leaseback portion. In addition, for asset accounted for as a sale and a finance lease under IAS 17, the Group continues to amortize any gains on sales over the lease term.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 2.58%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	<u>\$ 78,030,370</u>
Undiscounted amount on January 1, 2019	<u>\$ 78,030,370</u>
Discounted amount using the incremental borrowing rate on January 1, 2019	\$ 67,420,164
Add: Finance lease payable on December 31, 2018	633,775
Add: Adjustments as a result of a different treatment of extension and termination options	8,191,127
Add: Other	1,970,829
Less: Derivative financial instruments for hedging	<u>(41,919,508)</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 36,296,387</u>

The Group as lessor

The Group does not make any adjustments to leases in which it is a lessor and accounts for those leases under IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments for leases	\$ 861,045	\$ (861,045)	\$ -
Refundable deposits	1,089,690	(25,617)	1,064,073
Right-of-use assets	-	78,499,374	78,499,374
Property, plant and equipment	<u>163,107,718</u>	<u>(30,682)</u>	<u>163,077,036</u>
Total effect on assets	<u>\$ 165,058,453</u>	<u>\$ 77,582,030</u>	<u>\$ 242,640,483</u>
Lease liabilities - current	\$ -	\$ 3,924,776	\$ 3,924,776
Lease liabilities - non-current	-	32,371,611	32,371,611
Finance lease payables	633,775	(633,775)	-
Accrued rent payable	90	(90)	-
Financial liabilities for hedging - current	560	5,947,449	5,948,009
Financial liabilities for hedging - non-current	-	<u>35,972,059</u>	<u>35,972,059</u>
Total effect on liabilities	<u>\$ 634,425</u>	<u>\$ 77,582,030</u>	<u>\$ 78,216,455</u>

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

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 "Definition of Business"	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Materiality"	January 1, 2020 (Note 3)

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

Note 2: Business combinations that began after January 1, 2020 and acquisition of assets after the aforesaid date are subjected to the amendment.

Note 3: The amendment is applied for the annual period beginning after January 1, 2020.

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.

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Clarify the Classification of Liabilities as Current or Non-current"	January 1, 2022

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

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

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

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

Current and Non-current Assets and Liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

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.

Foreign Currencies

In preparing the consolidated financial statements of the Group, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

- a. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- b. Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Business Combinations

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gains on bargain purchases. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date.

When a business combination is achieved in stages, the Group's previously held equity interest in an acquiree is remeasured to fair value at the acquisition date, and the resulting is recognized in profit or loss or other comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized on the same basis as would be required if those interests were directly disposed of by the Group.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sales and are stated at the lower of cost or net realizable value. The costs of inventories sold or consumed are determined using the weighted-average method.

Non-current Assets Held for Sale

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement and the rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of equity of associates and joint venture attributable to the Group.

Any excess of the cost of acquisition over the Group's share of net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates and joint ventures. If the Group's ownership interest is reduced due to the subscription of additional new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used for more than one period. The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Property, plant and equipment are stated at cost less recognized accumulated depreciation and recognized accumulated impairment loss.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. Assets are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rentals or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method. The estimated useful lives and residual values are reviewed at the end of each reporting period.

Any gain or loss arising on the derecognition of investment properties is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis; otherwise, corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent allocation basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Group uses the estimated cash flows discounted by the future pre-tax discount rate, and the discount rate reflects the current market time value of money and the specific risks to the asset for estimated future cash flows not yet adjusting to the market.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

a. Financial assets

All regular purchases or sales of financial assets are recognized and derecognized on a trade date basis. All regular purchases or sales of financial assets are buy or sell of financial assets in the period set by regulation or market convention.

1) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 33.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if an equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of an investment.

2) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), as well as contract assets.

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables and other receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

3) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Debt and equity instruments issued by the Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Except for financial liabilities at FVTPL, all financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

e. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and fuel price risks, including foreign exchange forward contracts, interest rate swaps, currency options swaps and fuel swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset, when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Company enters into some derivative transactions that aim to manage interest rates, foreign exchange rates, fuel prices, and other factors affecting gains or losses on assets and liabilities. The hedging transactions are defined as cash flow hedges. When entering into hedging transactions, the Company has prepared official documents that describe the hedging relationship between hedging instruments and items which have been hedged, the objective of risk management, the hedging strategy, and the way to evaluate the effectiveness of the hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period as when the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Starting from 2018, the Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period in which the hedge was effective remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

The Group recognizes provisions when the Group has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Aircraft lease contracts

When an aircraft lease contract expires and the leased item will be returned to the lessor, the Group will assess if there are existing obligations exist and if it is required to recognize a provision when signing the lease contract.

Revenue Recognition

When applying IFRS 15 during 2018, the Group recognizes revenue by applying the following steps:

- Identifying the contract with the customer,
- Identifying the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contract, and
- Recognize revenue when the Group satisfies a performance obligation.

Shipping service revenue

Passenger and cargo revenue are recognized as revenue when the passengers and goods are actually carried. When the tickets are sold, due to the fact that the fulfillment obligations of the shipment have not been met, the relevant amount of revenue is first recorded as contract liabilities until passengers actually board.

Leasing

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

The Group as Lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Group by the end of the lease terms or if the costs of right-of-use assets reflect that the Group will exercise a purchase option, the Group depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives payable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. Lease liabilities are presented on a separate line in the consolidated balance sheets.

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.

For sale and leaseback transactions, if the transfer of an asset satisfies the requirements of IFRS 15 to be accounted for as a sale, the Group recognizes only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor, and adjusts the off-market terms to measure the sale proceeds at fair value. If the transfer does not satisfy the requirements of IFRS 15 to be accounted for as a sale, it is accounted for as a financing transaction.

2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. Financial leases

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability to the lessee is included in the balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case, they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

b. Sales and leasebacks

For a sale and leaseback transaction, if it meets the condition whereby all the risks and rewards of ownership of the leased asset are essentially transferred to the lessee, the sale and leaseback transaction is classified as a finance lease. If part of the significant risks and rewards of ownership of the leased asset remain with the lessor (i.e. the buyer), the sale and leaseback transaction is classified as an operating lease.

1) Financial leases

This transaction does not actually dispose of the assets. The accounting treatment used is to treat the transaction as if it did not occur, and the assets are continuously recognized at the book value of the asset before sale.

2) Operating leases

If the selling price is equal to the fair value, the transaction gain or loss should be recognized immediately. If the selling price is above fair value, the difference between the fair value and the book value of the gain or loss should be recognized immediately, only the part of the selling price which is above fair value shall be deferred and amortized over the period of the lease.

c. Operating leases

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2) The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as expenses in the period in which they are incurred.

In the event that lease incentives are received when entering into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

b. Retirement benefits

Payments to the defined contribution retirement benefit plan are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined contribution retirement benefit plan are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit in the Group's defined benefit plans.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets which are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Frequent Flyer Programs

The Company has a "Dynasty Flyer Program" through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member rewards and operates a "Tigerclub Member Privilege Program" to provide members with accumulated ticket reward bonuses, which can be used to offset the payments for airfare, luggage fees, priority check-ins, and ordering of meals in flight cabins. A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The Company should recognize this deferred revenue as revenue only when the Company has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired.

Share-based Payment Arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the granted share options are vested immediately.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

a. Current tax

The current tax liabilities are based on current taxable profit. Since part of the income and expenses are taxable or deductible in other periods, or in accordance with the relevant tax laws are taxable or deductible, current taxable profit differs from net profit reported in the consolidated statements of comprehensive income.

The Group's current tax liabilities are calculated by the tax rate was legislated or substantially legislated at the balance sheet date.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve the retention of these earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Maintenance and Overhaul Costs

Routine maintenance costs are recognized in profit or loss in the period in which they are incurred.

The overhaul costs of an owned or leased aircraft that meet the criteria for fixed asset capitalization are capitalized as replacements for aircraft and engines and are depreciated on a straight-line basis over the expected annual overhaul cycle.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies as disclosed in Note 4, management is required to make judgments, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Depreciation of Property, Plant and Equipment - Flight Equipment

Flight equipment is depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Group on the basis of past experience and fleet operation performance in the industry. Due to changes in the fleet plan, the board of directors of the Company has decided to change the expected useful lives of four 747-400 (GE) from 20 to 16-17 years since January 1, 2018 in order to meet the economic benefits and number of years of consumption. It is estimated that the depreciation expense will increase by approximately NT\$770 million annually.

Defined Benefit Obligations

The present value of defined benefit obligations at the end of the reporting period are calculated using actuarial assumptions. Those assumptions, which are based on management's judgment and estimates, comprise the discount rate and expected return on plan assets. Changes in actuarial assumptions may have a material impact on the amount of defined benefit obligations.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand and revolving funds	\$ 483,951	\$ 413,139
Checking accounts and demand deposits	7,206,938	7,770,200
Cash equivalents		
Time deposits with original maturities of less than three months	16,565,821	15,784,323
Repurchase agreements collateralized by bonds	<u>4,202,818</u>	<u>969,875</u>
	<u>\$ 28,459,528</u>	<u>\$ 24,937,537</u>

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

	December 31	
	2019	2018
Bank balance	0%-1.9%	0%-1.9%
Time deposits with original maturities of less than three months	0.59%-3.55%	0.59%-3.55%
Repurchase agreements collateralized by bonds	0.47%-0.7%	0.63%-3.30%

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets - current</u>		
Financial assets mandatorily classified at FVTPL		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	\$ 434	\$ -
Non-derivative financial assets	<u>511,758</u>	<u>206,001</u>
Beneficial certificates	<u>512,192</u>	<u>206,001</u>
<u>Financial liabilities held for trading</u>		
Derivative financial instruments (not under hedge accounting) - foreign exchange forward contracts	<u>11,749</u>	<u>221</u>

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

<u>December 31, 2019</u>	<u>Currency</u>	<u>Maturity Date</u>	<u>Notional Amount (In Thousands)</u>
Buy forward contracts	NTD/USD	2020.01.15-2020.07.31	NTD570,571/USD19,000
<u>December 31, 2018</u>			
Buy forward contracts	NTD/USD	2019.01.02-2019.01.31	NTD30,923/USD1,000

8. FINANCIAL ASSETS AT FVTOCI

Investments in Equity Instruments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Non-current</u>		
Foreign investments		
Unlisted shares	\$ 182,356	\$ 110,445
Domestic investments	<u>26,865</u>	<u>21,746</u>
Unlisted shares	<u>209,221</u>	<u>132,191</u>

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

9. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Time deposits with original maturities of more than 3 months	<u>2,355,095</u>	<u>3,856,660</u>
<u>Non-current</u>		
Time deposits with original maturities of more than 1 year	<u>105,586</u>	<u>-</u>

The interest rates for time deposits with original maturities of more than 3 months ranged from 0.60% to 1.30% and 0.40% to 1.36% as of 2019 and 2018.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Notes receivable</u>	<u>299,245</u>	<u>598,824</u>
<u>Accounts receivable</u>		
Accounts receivable	8,440,254	9,667,010
Less: Allowance for impairment loss	<u>(218,665)</u>	<u>(227,306)</u>
	<u>8,221,589</u>	<u>9,439,704</u>
	<u>8,520,834</u>	<u>10,038,528</u>

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

The Group applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss allowance for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience with the debtors and an analysis of the debtors' current financial position, adjusted for general economic 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.

and Global Sky Express, the others are investees that the Company had more than 50% of their voting shares. The above financial information of the subsidiaries for the years ended December 31, 2019 and 2018 of these subsidiaries was reported according to reports that were not reviewed by independent auditors.

The Group paid \$243,743 thousand on March 7, 2018 to acquire an additional 18% of the issued share capital of Kaohsiung Catering, Ltd. (Kaohsiung Catering). The Group's holding of the issued share capital of Kaohsiung Catering exceeds 50%; therefore, Kaohsiung Catering is listed as a subsidiary because the Group has control over the investee. For the disclosure of the Group's acquisition of Kaohsiung Catering, please refer to Note 30.

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

In order to prepare the listing of Tigerair Taiwan Co., Ltd. and comply with the rules relating to the examination for public listing, the release of the shares of Tigerair Taiwan Co., Ltd. held by the Company and Mandarin Airlines was resolved in the shareholders' meeting of the Company on June 25, 2019, and in the shareholders' meeting of Mandarin Airlines on June 27, 2019. The shares shall be subscribed by all shareholders of the Company and Mandarin Airlines on the basis of the percentage of shareholdings. For the subscribed shares that the original shareholders waived or for the undersubscribed portion, the chairman was authorized to contact specific persons to subscribe. The subscription price was set at \$41 per share. In October 2019, the stock price was fully paid and the shares were completely delivered and transferred. The proceeds from disposal were \$1,866,474 thousand, and the related gain on disposal was \$1,254,633 thousand and recognized in the capital surplus account.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	2018
Investments in associates	\$ 1,208,495	\$ 1,217,863
Investments in jointly controlled entities	<u>1,015,298</u>	<u>982,286</u>
	<u>\$ 2,223,793</u>	<u>\$ 2,200,149</u>

a. The amount of investment in associates were as follows:

	December 31	2018
<u>Unlisted companies</u>		
China Aircraft Services	\$ 461,263	\$ 497,362
Kaohsiung Catering Services	10,004	-
Airport Air Cargo Terminal (Xiamen)	446,161	442,891
Airport Air Cargo Service (Xiamen)	248,350	233,417
Eastern United International Logistics (Holdings) Ltd.	<u>42,717</u>	<u>44,193</u>
	<u>\$ 1,208,495</u>	<u>\$ 1,217,863</u>

At the end of the reporting period, the proportion of ownership and voting rights in associates held by

the Group were as follows:

Name of Associate	Proportion of Ownership and Voting Rights	
	December 31	2018
China Aircraft Services	20%	20%
Dynasty Holidays (Note)	20%	51%
Airport Air Cargo Terminal (Xiamen)	28%	28%
Airport Air Cargo Service (Xiamen)	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%

Note: Dynasty Holidays was list as an associate on January 1, 2019.

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

	2019	2018
China Aircraft Services	\$ 10,365	\$ 6,402
Kaohsiung Catering Services	-	15,113
Dynasty Holidays	15	-
Airport Air Cargo Terminal (Xiamen)	21,535	22,571
Airport Air Cargo Service (Xiamen)	25,146	32,196
Eastern United International Logistics (Holdings) Ltd.	<u>3,387</u>	<u>6,895</u>
	<u>\$ 60,448</u>	<u>\$ 83,177</u>

Other comprehensive income of associates accounted for using the equity method in 2019 and 2018 are both losses in the amounts of \$0 thousand.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2019 and 2018 were all independently audited, except those of China Aircraft Services and Eastern United International Logistics (Holding) Ltd. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	2018
China Pacific Catering Services	\$ 801,071	\$ 805,157
China Pacific Laundry Services	168,547	166,901
NORDAM Asia Ltd.	37,813	2,358
Delica International Co., Ltd.	<u>7,867</u>	<u>7,870</u>
	<u>\$ 1,015,298</u>	<u>\$ 982,286</u>

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

	Proportion of Ownership and Voting Rights	
	2019	2018
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%
NORDAM Asia Ltd.	49%	49%
Delica International Co., Ltd.	51%	51%

The Group entered into a joint venture agreement with the Taikoo Group to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both parties have the majority power in the board of directors to pose a motion for veto, and therefore the Group does not have control.

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

To expand the Group's catering business, Kaohsiung Catering entered into a joint venture agreement 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.

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

	2019	2018
China Pacific Catering Services	\$ 256,899	\$ 267,413
China Pacific Laundry Services	15,030	16,695
NORDAM Asia Ltd.	(70)	(41)
Delica International Co., Ltd.	(2)	2
	<u>\$ 271,857</u>	<u>\$ 284,069</u>

Other comprehensive income of associates accounted for using the equity method in 2019 and 2018 are losses in the amounts of \$(32,101) thousand and \$(33,242) thousand, respectively.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2019 and 2018 were all independently audited, except of NORDAM Asia Limited. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

For details on services, major business offices and the country where the above associates and jointly controlled entities are registered, refer to Table 6, "Names, Locations, And Other Information of Investees Over Which the Company Exercises Significant Influence", and Table 7, "Investments In Mainland China", following these notes to consolidated financial statements.

15. PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Balance at January 1, 2018	\$ 922,626	\$ 13,698,308	\$ 263,427,144	\$ 26,187,556	\$ 16,230,011	\$ 320,465,645
Additions	-	57,998	2,684,337	-	1,868,212	4,610,547
Disposals	-	(11,805)	(20,307,375)	(1,811,222)	(313,727)	(22,444,127)
Reclassification	-	(227)	13,661,640	1,428,463	103,296	15,193,172
Net exchange difference through business combinations	16,234	28,991	-	211	3,003	48,439
Balance at December 31, 2018	<u>76,704</u>	<u>220,318</u>	<u>229,384</u>	<u>-</u>	<u>26,985</u>	<u>553,391</u>
Accumulated depreciation and impairment	<u>1,015,564</u>	<u>13,993,585</u>	<u>259,695,130</u>	<u>25,805,008</u>	<u>17,917,780</u>	<u>318,427,067</u>
Balance at January 1, 2018	-	\$ (6,137,495)	\$ (136,594,765)	\$ (14,142,872)	\$ (9,972,982)	\$ (166,848,114)
Depreciation expense	-	(433,450)	(15,960,477)	(2,023,924)	(906,953)	(19,324,804)
Disposals	-	10,049	19,814,544	1,532,046	292,136	21,648,775
Impairment loss	-	-	(50,000)	-	-	(50,000)
Reclassification	-	-	9,283,041	-	(11,655)	9,271,386
Net exchange difference	-	(13,977)	-	(72)	(2,343)	(16,892)
Balance at December 31, 2018	<u>-</u>	<u>(6,574,873)</u>	<u>(123,507,657)</u>	<u>(14,634,822)</u>	<u>(10,601,997)</u>	<u>(155,319,349)</u>
Balance at December 31, 2018, net value	<u>1,015,564</u>	<u>7,418,712</u>	<u>136,187,473</u>	<u>1,117,0186</u>	<u>7,315,783</u>	<u>163,107,718</u>
Cost						
Balance at January 1, 2019	\$ 1,015,564	\$ 13,993,585	\$ 259,695,130	\$ 25,805,008	\$ 17,917,780	\$ 318,427,067
Additions	-	209,413	2,248,856	-	864,223	3,322,492
Disposals	-	(1,130)	(20,698,042)	(668,721)	(395,058)	(21,760,951)
Reclassification	-	1,906,078	30,831,748	(25,131,813)	(1,537,494)	6,068,519
Net exchange difference	(13,065)	(23,883)	-	-	(2,458)	(39,406)
Loss of control of subsidiaries	-	-	-	(4,474)	(2,158)	(6,632)
Balance at December 31, 2019	<u>1,002,499</u>	<u>16,084,063</u>	<u>272,077,692</u>	<u>-</u>	<u>16,846,835</u>	<u>306,011,089</u>
Accumulated depreciation and impairment						
Balance at January 1, 2019	-	\$ (6,574,873)	\$ (123,507,657)	\$ (14,634,822)	\$ (10,601,997)	\$ (155,319,349)
Depreciation expense	-	(466,943)	(18,571,992)	(741,852)	(921,246)	(20,702,033)
Disposals	-	1,014	14,899,562	79,866	355,222	15,335,664
Reclassification	-	-	(14,706,083)	15,294,696	(45,103)	543,510
Net exchange difference	-	12,262	-	-	1,989	14,251
Loss of control of subsidiaries	-	-	-	2,112	-	3,839
Balance at December 31, 2019	<u>-</u>	<u>(7,028,540)</u>	<u>(141,886,170)</u>	<u>-</u>	<u>(11,209,408)</u>	<u>(160,124,118)</u>
Balance at December 31, 2019, net value	<u>1,002,499</u>	<u>9,055,523</u>	<u>130,191,522</u>	<u>-</u>	<u>5,637,427</u>	<u>145,886,971</u>

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

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

Regarding changes in fleet composition, current and forecasted market value, and other technical factors, the Group recognized impairment losses on aircraft equipment in 2018 of \$50,000 thousand. The fair value was determined based on aircraft conditions and market estimates.

Refer to Note 3.5 for the carrying amounts of property, plant and equipment pledged by the Group.

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

The Group generated the following non-cash investment activities related to the purchase of property, plant and equipment in 2019 and 2018:

	2019	December 31 2018
Increase in property, plant and equipment	\$ 3,322,492	\$ 4,610,547
Capitalized interest paid	<u>(6,414)</u>	<u>(1,947)</u>
Purchase of property, plant and equipment paid	<u>\$ 3,316,078</u>	<u>\$ 4,608,600</u>

16. INVESTMENT PROPERTIES

Carrying amount	
Investment properties	<u>\$ 2,075,068</u> <u>\$ 2,075,345</u>

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

The fair value of the investment properties held by the Group was \$2,506,230 thousand as of both December 31, 2019 and 2018, respectively. In addition, management assessed that there is no significant difference in the fair value of December 31, 2019 and 2018.

The above fair value valuation was performed by independent qualified professional valuers, and the future income evaluated by management was based on market transactions.

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

	Cost	Accumulated	Net Value
Balance at January 1, 2018	\$ 2,082,390	\$ (6,766)	\$ 2,075,624
Depreciation expense	<u>-</u>	<u>(279)</u>	<u>(279)</u>
Balance at December 31, 2018	<u>\$ 2,082,390</u>	<u>\$ (7,045)</u>	<u>\$ 2,075,345</u>
Balance at January 1, 2019	\$ 2,082,390	\$ (7,045)	\$ 2,075,345
Depreciation expense	<u>-</u>	<u>(277)</u>	<u>(277)</u>
Balance at December 31, 2019	<u>\$ 2,082,390</u>	<u>\$ (7,322)</u>	<u>\$ 2,075,068</u>

17. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Relationship Between Clients	Accumulated Amortization	Net Value
Balance at January 1, 2018	\$ 2,039,602	\$ -	\$ (1,020,257)	\$ 1,019,345
Additions	184,223	-	-	184,223
Amortization expenses	-	-	(181,943)	(181,943)
Acquisitions through business combinations	686	186,197	(10,036)	176,847
Reclassification	12,871	-	(540)	12,331
Effects of exchange rate changes	<u>-</u>	<u>-</u>	<u>(7)</u>	<u>(7)</u>
Balance at December 31, 2018	<u>\$ 2,237,382</u>	<u>\$ 186,197</u>	<u>\$ (1,212,783)</u>	<u>\$ 1,210,796</u>
Balance at January 1, 2019	\$ 2,237,382	\$ 186,197	\$ (1,212,783)	\$ 1,210,796
Additions	172,639	-	-	172,639
Amortization expenses	-	-	(198,237)	(198,237)
Disposal of subsidiaries	(3,858)	-	1,357	(2,501)
Effects of exchange rate changes	<u>-</u>	<u>-</u>	<u>(5)</u>	<u>(5)</u>
Balance at December 31, 2019	<u>\$ 2,406,163</u>	<u>\$ 186,197</u>	<u>\$ (1,409,668)</u>	<u>\$ 1,182,692</u>

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

18. OTHER ASSETS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Temporary payments	\$ 296,759	\$ 556,860
Prepayments	1,690,368	3,028,808
Restricted assets	14,618	18,623
Others	<u>653,966</u>	<u>543,591</u>
	<u>\$ 2,655,711</u>	<u>\$ 4,147,882</u>
<u>Non-current</u>		
Prepayments for aircraft	\$ 8,863,861	\$ 529,963
Prepayments - long-term	2,819,575	1,603,400
Refundable deposits	1,261,611	1,089,690
Restricted assets	64,213	100,141
Other financial assets	19,103	19,335
Others	<u>142,700</u>	<u>88,224</u>
	<u>\$ 13,171,063</u>	<u>\$ 3,430,753</u>

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A350-900, ATR72-600, A321neo, A320neo and B777F aircrafts. For details on the aircraft purchase contracts, refer to Note 36.

19. BORROWINGS

a. Short-term debts

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Bank loans - unsecured	\$ 380,000	\$ -
Interest rates	0.95%-1.07%	-

b. Long-term borrowings

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Unsecured bank loans	\$ 1,929,827	\$ 9,354,457
Secured bank loans	34,064,099	36,330,211
Commercial paper	31,730,000	30,770,000
Proceeds from issue	<u>60,143</u>	<u>59,033</u>
Less: Unamortized discount	67,663,783	76,395,635
	<u>14,148,892</u>	<u>15,709,487</u>
Less: Current portion	<u>\$ 53,514,891</u>	<u>\$ 60,686,148</u>
Interest rates	0.55%-1.73%	0.92%-1.46%

For information on secured bank loans which were secured by buildings, machinery equipment and flight equipment, refer to Note 35.

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Periods	2008.2.26- 2030.4.25	2007.5.24- 2030.4.25

The Group has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until December 2021, were used by the Group to guarantee commercial papers issued. As of December 31, 2019 and 2018, the commercial papers were issued at discount rates of 1.1300%-1.3380% and 1.0693%-1.2960%, respectively.

20. BONDS PAYABLE

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Unsecured corporate bonds first-time issued in 2013	\$ 2,750,000	\$ 5,500,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	4,700,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	2,350,000
Unsecured corporate bonds second-time issued in 2017	3,500,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	4,500,000
Unsecured corporate bonds first-time issued in 2019	3,500,000	-
Convertible bonds - fifth-time issues	-	1,695,900
Convertible bonds - sixth-time issues	<u>5,752,625</u>	<u>5,673,710</u>
	<u>32,052,625</u>	<u>32,919,610</u>
	<u>10,000,000</u>	<u>4,445,900</u>
	<u>\$ 22,052,625</u>	<u>\$ 28,473,710</u>
Less: Current portion and put option of convertible bonds		

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually.	2013.01.17- 2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually.	1.60
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually.	2013.01.17- 2020.01.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually.	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually.	2016.05.26- 2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually.	1.19

(Continued)

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. The holders can request that the Company repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise selling rights on December 26, 2016, the Company reclassified the bonds payable to "current portion of bonds payable" in December 2015. The Company paid \$994,705 thousand to the holders of the bonds payable who exercised the put options, and the difference between the payment amount and carrying amount recognized was a loss on the bonds payable buy back of \$41,943 thousand, for which the Company reclassified the remaining face value to non-current assets.
- c. The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 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\$12.24, 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 August 14, 2018, there was adjustment the conversion price to NT\$11.38, corporate bonds with a face value of \$3,316,800 thousand had been converted to 270,985 thousand units of ordinary shares.
- e. The convertible bonds has expired on December 26, 2018, the Company has fully repayable in January 8, 2019, the related capital surplus - share option has reclassified as capital surplus - other.

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 1.8245% per annum on initial recognition.

Proceeds from issuance	\$ 6,000,000
Equity component	<u>(518,621)</u>
Liability component at the date of issuance	<u>\$ 5,481,379</u>

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. The holders can request that the Company repurchase their bonds at face value on the third anniversary of the offering date. The holders can exercise the right to sell on January 30, 2021.
- c. The Company may redeem the bonds at face value between April 30, 2018 and December 20, 2022 under certain conditions.

d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's ordinary shares. The initial conversion price was set at NT\$13.2, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 29, 2019, the conversion price was adjusted to NT\$12.6.

Category	Period	Conditions	Rate (%)
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually.	2016.09.27-2021.09.27	Principal repayable in September of 2020 and 2021; interest p.a. payable annually.	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually.	2017.05.19-2020.05.19	Principal repayable on due date; indicator rate; payable annually.	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually.	2017.05.19-2024.05.19	Principal repayable on due date; indicator rate; payable annually.	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually.	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually.	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually.	2017.10.12-2022.10.12	Principal repayable in October of 2021 and 2022; indicator rate; payable annually.	1.45
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually.	2018.11.30-2023.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually.	1.32
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually.	2018.11.30-2025.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually.	1.45
Five-year private unsecured bonds - issued at par in June 2019; repayable in June 2023 and 2024; 1.10% interest p.a., payable annually.	2019.06.21-2024.06.21	Principal repayable in June of 2023 and 2024; indicator rate; payable annually.	1.10
Seven-year private unsecured bonds - issued at par in June 2019; repayable in June 2025 and 2026; 1.32% interest p.a., payable annually.	2019.06.21-2026.06.21	Principal repayable in June of 2025 and 2026; indicator rate; payable annually.	1.32
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Except for converting to share capital or buying back, principal repayable in December of 2018.	-
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.01.30-2023.01.30	Except for converting to share capital or buying back, principal repayable in December of 2023.	-

(Concluded)

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 Co., Ltd. and Sabre Travel Network (Taiwan) Co., Ltd., which held a face value of \$300,000 thousand, and the amount was eliminated in the consolidated financial statements.

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 Equity component	\$ 6,012,000 <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.

21. LEASING

2019

a. Right-of-use assets - 2019

Carrying amounts	
Land	\$ 8,153,382
Buildings	824,955
Flight equipment	62,052,701
Other equipment	<u>2,579</u>
	<u>\$ 71,033,617</u>

For Year Ended December 31, 2019

Additions to right-of-use assets	<u>\$ 5,863,625</u>
Depreciation for right-of-use assets	
Land	\$ 376,425
Buildings	798,933
Flight equipment	10,721,575
Other equipment	<u>2,157</u>
	<u>\$ 11,899,090</u>

b. Lease liabilities - 2019

Carrying amounts	
Current	<u>\$ 2,340,873</u>
Non-current	<u>\$ 15,801,724</u>

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

	December 31, 2019
Land	1.09%-1.65%
Buildings	0%-3.56%
Flight equipment	2.49%-3.34%
Other equipment	1.06%-1.50%

c. Financial liabilities under hedge accounting

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

	Maturity Date	Subject	Carrying Value
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

Influence of comprehensive income

For the year ended December 31, 2019

	\$1,457,058	\$ (24,029)
	Recognized in Other Comprehensive Income	Reclassified to Income

d. As lessees, 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 ARJ72-600 planes for operation, lease period are 6 to 12 years from February 2006 to May 2028. The rental pricing method is partly a fixed amount of funds, and some of them are floating rents. floating rents are according to benchmark ratio, the rent is revised every half year. When the lease expires, the lease agreements have no purchase rights.

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

	December 31, 2019
Refundable deposits	\$ 737,895
Credit guarantees	1,717,953

CAL Park, and Taoyuan International Airport Service signed a BOT contract with a land lease agreement, for the details for the lease agreement, please 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 is included in the lease liability, the lease liability will increase by \$873,293 thousand on December 31, 2019.

Taiwan Air Cargo Terminal Co. and CAA signed a BOT contract with a land lease agreement. For details, please refer to Note 36.

e. The Company signed a rental contract for six A321neo with Air Lease Corporation, which is expected to be introduced between 2021 and 2022.

f. The Company signed a rental letter of intent for eight A321neo with CALC Lease Corporation, which is expected to be introduced in 2022.

Tigerair Taiwan Co., Ltd. signed a rental letter of intent for eight A321neo with IBCB Lease Corporation, which is expected to be introduced in 2021.

f. In order to revitalize assets and strengthen the financial structure, the Company sold five of its own A330-300 aircraft to Alhavair L.P. in September 2019 by sale-and-leaseback for \$4,905,660 thousand. The lease term was 5 to 6 years and a loss of \$103,775 thousand was incurred. The lease agreement had no terms for lease renewal or offtake rights. The annual lease payments for each aircraft are US\$5,389 thousand to US\$5,437 thousand.

g. Other lease information

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

	For the Year Ended December 31, 2019
Short-term and low price lease payment	<u>\$ 52,675</u>
Total of lease cash outflow	<u>\$ (13,884,367)</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.

2018

1) Sale-leaseback finance leases

Minimum lease payments - flight equipment

Within one year	\$ 596,000
Beyond one year and within five years	-
Present value of minimum lease payments	<u>\$ 596,000</u>
Interest rates	1.0680%

The Group had leased one A330-300 aircraft under sale-leaseback finance leases as of December 31, 2018. The lease terms started from June 2006 to April 2019. During the lease terms, the Group retained all risks and rewards attached to the aircraft and engines and enjoyed the same substantive rights as those prior to the transactions. The interest rates underlying all obligations under these finance leases were floating. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts do not include interest expenses.

2) Finance leases

Taiwan Air Cargo Terminal Co. ("TACT") entered into a terminal construction contract. Refer to Note 36 for the terms of the contract. Dynasty Holiday Co., Ltd. signed a long-term equipment lease contract, and the lease contract is a finance lease contract.

December 31, 2018

Minimum lease payments - cargo terminal and other

Within one year	\$ 37,998
Beyond one year and within five years	<u>2,974</u>
Less: Finance costs	<u>(629)</u>
Present value of minimum lease payments	<u>\$ 40,343</u>

Present value of minimum lease payments - cargo terminal and other

Within one year	\$ 37,398
Beyond one year and within five years	<u>2,945</u>
Discount rate	<u>\$ 40,343</u>
	4.756%

Total amount of present value of minimum lease payments

Current	\$ 633,398
Noncurrent	<u>2,945</u>
	<u>\$ 636,343</u>

3) Operating lease arrangements (include sale-leaseback operating leases)

For the operating lease arrangements, please refer to the consolidated financial statements for the year ended December 31, 2018.

As of December 31, 2018, the refundable deposits paid by the Group under operating lease contracts were \$693,466 thousand. Some of the guarantees were secured by credit guarantees, and outstanding credit guarantees as of December 31, 2018 were \$1,682,774 thousand.

The future minimum lease payments for the non-cancelable operating lease commitments were as follows:

December 31, 2018

Up to 1 year	\$ 11,785,442
Over 1 year to 5 years	44,559,429
Over 5 years	<u>21,685,499</u>
	<u>\$ 78,030,370</u>

The lease payments recognized in expense for the current period were as follows:

	For the Year Ended December 31, 2018
Minimum lease payments	<u>\$ 11,735,495</u>

22. OTHER PAYABLES

	December 31 2019	December 31 2018
Fuel costs	\$ 3,723,213	\$ 3,822,018
Ground service expenses	1,262,878	1,167,214
Repair expenses	1,208,875	1,031,700
Interest expense	219,660	266,268
Short-term employee benefits	2,040,718	2,237,409
Terminal surcharges	1,122,532	1,151,578
Commission expenses	509,520	484,341
Others	<u>3,100,576</u>	<u>3,985,670</u>
	<u>\$ 13,187,972</u>	<u>\$ 14,146,198</u>

23. CONTRACT LIABILITIES/DEFERRED REVENUE

	December 31	
	2019	2018
	Contract Liabilities	Contract Liabilities
Frequent flyer programs	\$ 2,895,535	\$ 2,493,551
Advance ticket sales	<u>20,401,549</u>	<u>18,956,569</u>
	<u>\$ 23,297,084</u>	<u>\$ 21,450,120</u>
Current	\$ 21,060,773	\$ 19,546,455
Non-current	<u>2,236,311</u>	<u>1,903,665</u>
	<u>\$ 23,297,084</u>	<u>\$ 21,450,120</u>

24. PROVISIONS

	December 31	
	2019	2018
Operating leases - aircraft	<u>\$ 10,371,857</u>	<u>\$ 8,794,539</u>
Current	\$ 360,393	\$ 321,075
Non-current	<u>10,011,464</u>	<u>8,473,464</u>
	<u>\$ 10,371,857</u>	<u>\$ 8,794,539</u>

Aircraft Lease Contract

Balance at January 1, 2018	\$ 8,489,308
Additional provisions recognized	3,386,052
Usage	(3,310,089)
Effect of exchange rate changes	<u>229,268</u>
Balance at December 31, 2018	<u>\$ 8,794,539</u>
Balance at January 1, 2019	\$ 8,794,539
Additional provisions recognized	4,608,924
Usage	(2,799,314)
Effect of exchange rate changes	<u>(232,292)</u>
Balance at December 31, 2019	<u>\$ 10,371,857</u>

The Group 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 revolutions. The Group had existing obligations to recognize provisions when signing a lease or during the lease term. Tigerair Taiwan Co., Ltd. also leased flight equipment under operating lease agreements. In accordance to the contract, Tigerair must pay maintenance reserves monthly according to the actual number of flight hours.

25. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Employees based in the United States and Japan of China Airlines Co., Ltd. and subsidiaries are members of the United States and Japan government retirement benefit plans. Subsidiaries should appropriate a specific portion to retirement benefit plans. The obligation to the government retirement benefit plans of China Airlines Co., Ltd. and subsidiaries is to appropriate a specific portion amount.

b. Defined benefit plans

The defined benefit plan adopted by the Company and in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and subsidiary contribute amounts equal to 2%-15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	2018
Present value of funded defined benefit obligation	\$ 18,457,304	\$ 17,464,856
Fair value of plan assets	<u>(9,022,269)</u>	<u>(8,661,474)</u>
Deficit (net defined benefit liabilities)	<u>\$ 9,435,035</u>	<u>\$ 8,803,382</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	\$ 16,149,382	\$ (8,047,817)	\$ 8,101,565
Service cost	1,384,213	-	1,384,213
Current service cost	163,283	(82,595)	80,688
Net interest expense (income)	1,547,496	(82,595)	1,464,901
Recognized in profit or loss			
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(236,287)	(236,287)
Actuarial (gain) loss - changes in demographic assumptions	15,538	-	15,538
Actuarial (gain) loss - changes in financial assumptions	344,716	-	344,716
Actuarial (gain) loss - experience adjustments	727,899	-	727,899
Recognized in other comprehensive income	1,088,153	(236,287)	851,866
Contributions from the employer	-	(1,486,550)	(1,486,550)
Benefits paid	(1,210,839)	1,210,839	-
Others	(109,336)	(19,064)	(128,400)
Balance at December 31, 2018	17,464,856	(8,661,474)	8,803,382
Current service cost	1,321,600	-	1,321,600
Net interest expense (income)	161,808	(86,234)	75,574
Recognized in profit or loss	1,483,408	(86,234)	1,397,174
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(308,223)	(308,223)
Actuarial (gain) loss - changes in demographic assumptions	15,959	-	15,959
Actuarial (gain) loss - changes in financial assumptions	440,374	-	440,374
Actuarial (gain) loss - experience adjustments	633,683	-	633,683
Recognized in other comprehensive income	1,090,016	(308,223)	781,793
Contributions from the employer	-	(1,418,970)	(1,418,970)
Benefits paid	(1,452,632)	1,452,632	-
Others	(128,344)	-	(128,344)
Balance at December 31, 2019	\$ 18,457,304	\$ (9,022,269)	\$ 9,435,035

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	2018
Discount rate(s)	0.63%-1.10%	0.86%-1.35%
Expected rate(s) of salary increase	1.00%-2.50%	1.00%-2.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	2018
Discount rate(s)	\$ (939,308)	\$ (777,193)
0.5% increase	1,000,771	841,488
0.5% decrease		
Expected rate(s) of salary increase	969,324	811,485
0.5% increase	(927,180)	(760,793)
0.5% decrease		

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	2018
The expected contributions to the plan for the next year	\$ 930,963	\$ 916,927
The average duration of the defined benefit obligation	8-11 years	8-12 years

26. EQUITY

a. Share capital

Ordinary shares

	December 31	2018
	2019	
Numbers of authorized shares (in thousands)	<u>7,000,000</u>	<u>6,000,000</u>
Amount of authorized shares	<u>\$ 70,000,000</u>	<u>\$ 60,000,000</u>
Amount of issued shares	<u>\$ 54,209,846</u>	<u>\$ 54,209,846</u>

b. Capital surplus

	December 31	2018
	2019	
Issuance of convertible bonds in excess of par value and conversion premium	\$ 315,114	\$ 315,114
Dividend distributed to subsidiaries	3,909	3,303
Retirement of treasury shares	33,513	33,513
Expired employee share options	11,747	11,747
Long-term investments	118,962	955
Bonds payable equity component	409,978	409,978
Difference in sale price of shares of subsidiaries and book value	1,129,080	-
Others	<u>466,604</u>	<u>466,604</u>
	<u>\$ 2,488,907</u>	<u>\$ 1,241,214</u>

The capital surplus from shares issued in excess of par (including additional paid-in capital from 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 Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (but limited to a certain percentage of the Company's paid-in capital on yearly basis).

The capital surplus from long-term investments, employee share options expired, dividends distributed to subsidiaries and retirement of treasury shares may not be used for any purpose. Besides, capital surplus from conversion of employee shares and convertible bonds payable may not be used for any purpose.

c. Appropriation of earnings and dividend policy

According to 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 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 demand, 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 making good the 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 2017

The appropriation of earnings for 2017 was resolved in the shareholders' meeting on June 27, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 145,831	
Special reserve	118,810	
Cash dividends	1,193,670	\$0.2181820086

2) Appropriation of earnings in 2018

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

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

Company reversed special reserve of \$105,843 thousand.

3) Offsetting deficits in 2019

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

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

d. Other equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance at January 1, 2018	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$ (107,641)
Adjustments on initial application of IFRS 9	-	(1,774)	42,351	74,429	(74,429)	40,577
Balance at January 1, 2018 after IFRS 9 adjustments	(34,986)	-	42,351	-	(74,429)	(67,064)
Exchange differences on translating foreign operations	29,897	-	-	-	-	29,897
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	77,435	77,435
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	-	-
Unrealized gain on financial assets at FVTOCI	-	-	930	-	-	930
Effect of change in tax rate	1,198	-	(1,209)	-	2,530	2,519
Effects of income tax	(5,773)	-	547	-	(24,117)	(29,343)
Other comprehensive income (loss) recognized in the period	25,322	-	268	-	87,579	113,169
Transfers of initial carrying amount of hedged items	-	-	-	-	12,118	12,118
Balance at December 31, 2018	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ 58,223
Balance at January 1, 2019	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ 58,223
Exchange differences on translating foreign operations	(65,246)	-	-	-	-	(65,246)
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	1,378,603	1,378,603
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	20,014	20,014
Unrealized gain on financial assets at FVTOCI	11,835	-	79,392	-	(279,604)	79,392
Effects of income tax	-	-	(14,854)	-	-	(14,854)
Other comprehensive income (loss) recognized in the period	(53,411)	-	64,538	-	1,119,013	1,130,140
Disposal of subsidiaries	8,368	-	105	-	-	8,473
Transfers of initial carrying amount of hedged items	-	-	-	-	(602)	(602)
Balance at December 31, 2019	\$ (54,707)	\$ -	\$ 107,262	\$ -	\$ 1,143,678	\$ 1,196,233

e. Non-controlling interests

The movement of other equity items is as follows:

	2019	2018
Beginning balance	\$ 2,965,512	\$ 2,134,282
Net income attributable to non-controlling interests	524,796	482,323
Foreign exchange differences	(7,706)	(3,330)
Actuarial gains and losses on defined benefit plans	(100,136)	(69,654)
Cash flow hedge on changes in fair value of hedging instruments	(13,227)	(46)
Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss	8,528	105
Effect on income tax	22,586	26,888
Disposal of subsidiaries	(89,955)	(72,925)
Disposal of part equity of subsidiaries	(24,957)	-
Acquisition of non-controlling interests in subsidiaries	619,387	-
Dividends paid by subsidiaries	(416,438)	565,963
Ending balance	\$ 3,578,345	\$ 2,965,512

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of December 31, 2019 and 2018 were as follows:

Purpose of Treasury Shares	Buy Back to Write off	Company's Shares Held by Its Subsidiaries	Total
Number of shares, January 1, 2018	-	2,889	2,889
Addition during the year	50,000	-	50,000
Reduction during the year	(50,000)	-	(50,000)
Number of shares, December 31, 2018	-	2,889	2,889
Number of shares, January 1, 2019	-	2,889	2,889
Addition during the year	-	-	-
Reduction during the year	-	-	-
Number of shares, December 31, 2019	-	2,889	2,889

(Shares in Thousands)

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2019			
Mandarin Airlines	2,075	\$ 18,796	\$ 18,796
Dynasty Aerotech International Corp.	814	7,376	7,376
		\$ 26,172	\$ 26,172

(Continued)

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>December 31, 2018</u>			
Mandarin Airlines	2,075	\$ 22,821	\$ 22,821
Dynasty Aerotech International Corp.	814	<u>8,956</u>	<u>8,956</u>
		<u>\$ 31,777</u>	<u>\$ 31,777</u>
			(Concluded)

The above acquisitions by subsidiaries of the Company's shares in previous years was due to investment planning.

The shares of the Company held by its subsidiaries were treated as treasury shares. The subsidiaries can exercise shareholders' right on these treasury shares, except for the right to subscribe for the Company's new shares and voting rights.

To maintain the Company's credit standing and shareholders' rights and interests, the board of directors decided to buy back shares of the Company from Taiwan Stock Exchange at a price from \$9 to \$14 per share. The expected period of purchase is from August 10, 2018 to October 9, 2018. As of 50,000 thousand shares had been repurchased. The treasury shares held by the Company has retired on December 18, 2018, share capital decreases \$500,000 thousand, additional paid-in capital in excess of par-ordinary share decreases \$2,906 thousand and additional paid-in capital - treasury share increases \$33,513 thousand. Under the Securities Exchange Act, the treasury shares held by the Company cannot be pledged and are not entitled to dividends distribution and voting rights, etc.

27. NET INCOME

a. Revenue			
		<u>For the Year Ended December 31</u>	<u>2018</u>
Passenger	\$ 111,413,435	\$ 108,345,648	
Cargo	43,793,256	49,847,065	
Others	<u>13,237,469</u>	<u>12,518,894</u>	
		<u>\$ 168,444,160</u>	<u>\$ 170,711,607</u>
b. Other income		<u>For the Year Ended December 31</u>	<u>2018</u>
Interest income	\$ 417,446	\$ 330,710	
Subsidy income	38,621	11,200	
Dividend income	21,422	9,603	
Others	<u>241,499</u>	<u>254,940</u>	
	<u>\$ 718,988</u>	<u>\$ 606,453</u>	

c. Other gains and losses

	<u>For the Year Ended December 31</u>	<u>2018</u>
(Loss) gain on disposal property, plant and equipment	\$ 32,460	\$ (270,597)
(Loss) gain on non-current assets held for sale	(10,462)	(368,992)
Net gain (loss) on financial assets at FVTPL	27,580	11,168
Gain (loss) on disposal of investments	7,656	450,195
Gain (loss) on foreign exchange, net	(141,611)	41,843
Impairment loss on non-current assets held for sale	-	(75,437)
Impairment loss on property, plant and equipment	-	(50,000)
Loss on sale and - leaseback	(103,775)	-
Others	<u>(285,660)</u>	<u>(273,028)</u>
	<u>\$ (473,812)</u>	<u>\$ (534,848)</u>

d. Finance costs

	<u>For the Year Ended December 31</u>	<u>2018</u>
Interest expense	\$ 429,457	\$ 412,422
Bonds payable	771,280	949,483
Bank loans	-	18,080
Interest on obligations under financial leases	-	-
Loss on derivatives designated as hedging instruments in cash flow hedge accounting relationships reclassified from equity to profit or loss	<u>2,139,382</u>	<u>-</u>
	<u>\$ 3,340,119</u>	<u>\$ 1,379,985</u>
Capitalization interest	\$ 46,528	\$ 41,925
Capitalization rate	1.01%-1.35%	1.16%-1.45%

e. Depreciation and amortization expense

	<u>For the Year Ended December 31</u>	<u>2018</u>
Property, plant, equipment	\$ 20,702,033	\$ 19,324,804
Right of use assets	11,899,090	-
Investment properties	277	279
Intangible assets	<u>198,237</u>	<u>191,979</u>
	<u>\$ 32,799,637</u>	<u>\$ 19,517,062</u>
An analysis of depreciation by function		
Operating costs	\$ 30,927,997	\$ 18,648,142
Operating expenses	<u>1,673,403</u>	<u>676,941</u>
	<u>\$ 32,601,400</u>	<u>\$ 19,325,083</u>

(Continued)

28. INCOME TAX

a. Income tax expense recognized in profit or loss

The major components of tax expense were as follows:

	<u>For the Year Ended December 31</u> <u>2019</u>	<u>2018</u>
Current tax	\$ 523,670	\$ 264,527
Current year Prior year adjustment	(5,546)	10,592
Income tax on unappropriated earnings	378	35
Deferred tax		
Current year	35,149	1,465,482
Adjustments to deferred tax attributable to changes in tax rates and laws	24,534	1,861
Effect of income tax	-	(933,932)
Income tax expense recognized in profit or loss	<u>\$ 578,185</u>	<u>\$ 808,565</u>

A reconciliation of accounting profit and income tax expense is as follows:

	<u>For the Year Ended December 31</u> <u>2019</u>	<u>2018</u>
Profit before tax	<u>\$ (96,817)</u>	<u>\$ 3,081,249</u>
Income tax expense calculated at the statutory rate (% for 2019, 20% for 2018)	\$ (19,362)	\$ 616,250
Effect on different tax of subsidiaries govern by other region	1,680	7,391
Effect on adjustment to income tax		
Non-deductible expenses in determining taxable income	16,936	20,662
Tax-exempt income	(45,861)	(25,730)
Income tax on unappropriated earnings (5%)	378	35
Income basic tax	8,468	-
Oversea income tax expense	11,157	22,786
Unrecognized loss carryforwards, investment tax credits and temporary difference	586,135	1,088,650
Adjustments for prior years' tax	(5,546)	10,592
Adjustments to deferred tax attributable to changes in tax rates and laws	24,534	1,861
Adjustments to changes in tax rates and laws	-	(933,932)
Other	<u>(334)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 578,185</u>	<u>\$ 808,565</u>

The Income Tax Law of the ROC was amended and, starting from 2018, the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to unappropriated earnings was reduced from 10% to 5%.

For the Year Ended December 31 2019 2018

An analysis of amortization by function		
Operating costs	\$ 12,380	\$ 10,597
Operating expenses	<u>185,857</u>	<u>181,382</u>
	\$ 198,237	\$ 191,979
		(Concluded)

f. Employee benefits expense

	<u>For the Year Ended December 31</u> <u>2019</u>	<u>2018</u>
Post-employment benefits		
Defined contribution plan	\$ 574,809	\$ 538,915
Defined benefit plan	<u>1,397,174</u>	<u>1,464,901</u>
	<u>\$ 1,971,983</u>	<u>\$ 2,003,816</u>
Other employee benefits		
Salary expenses	\$ 20,813,757	\$ 20,910,604
Personnel service expenses	<u>5,506,867</u>	<u>5,791,627</u>
	<u>\$ 26,320,624</u>	<u>\$ 26,702,231</u>

An analysis of employee benefits expense by function

Operating costs	\$ 23,699,685	\$ 23,857,265
Operating expenses	<u>4,592,922</u>	<u>4,848,782</u>
	<u>\$ 28,292,607</u>	<u>\$ 28,706,047</u>

According to the Company's articles, the Company accrued employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation, and accrued profit bonus at a certain rate of profit before tax on the basis of the collective agreement signed with the China Airlines Employees Union. The employees' compensation and profit bonus for the year ended December 31, 2018 was \$51,656 thousand and \$594,810 thousand. For the year ended December 31, 2019, the Company has experienced a deficit, and therefore, no employee's compensation is estimated.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date that the annual consolidated financial statements are authorized for issue are adjusted in the year that the bonuses and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements were 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 in 2019 and 2018 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

b. Income tax recognized in other comprehensive income

Deferred tax

Recognized in other comprehensive income
 Translation of foreign operations
 Fair value changes of financial assets at FVTOCI
 Hedging instruments fair value revaluation for cash flow
 hedging
 Actuarial gain or loss on defined benefit plan
 Effect of income tax

Total income tax recognized in other comprehensive income

c. Deferred tax assets and liabilities

For the year ended December 31, 2019

	2019	2018
Beginning Balance	\$ 13,454	\$ (4,657)
Recognized in Profit or Loss	(14,854)	547
Recognized in Other Comprehensive Income	(278,664)	(24,128)
Exchange Difference	156,359	187,368
Ending Balance	<u>\$ 10,893</u>	<u>\$ 170,023</u>

Deferred tax assets

Temporary differences	\$ 1,765,052	\$ (29,560)	\$ 1,891,851
Defined benefit plans	510,060	82,917	592,977
Frequent flyer programs	1,811,848	428,155	2,240,003
Maintenance reserves	335,711	(38,854)	296,857
Allowance for reduction of inventory	729,392	(429,580)	315,938
Others	-	-	-
	<u>\$ 5,152,070</u>	<u>\$ 13,078</u>	<u>\$ 8,337,626</u>

Deferred tax liabilities

Temporary differences	\$ 17	\$ 81,760	\$ 81,777
Unrealized foreign exchange gains	188,430	(8,999)	179,431
Others (Note)	188,447	72,761	261,208
	<u>\$ 385,914</u>	<u>\$ 145,522</u>	<u>\$ 542,416</u>

For the year ended December 31, 2018

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Acquisition Consolidated	Ending Balance
<u>Deferred tax assets</u>						
Temporary differences	\$ 1,381,538	\$ 180,560	\$ 195,742	\$ -	\$ 7,212	\$ 1,765,052
Defined benefit plans	426,106	83,954	-	-	-	510,060
Frequent flyer programs	1,507,285	304,563	-	-	-	1,811,848
Maintenance reserves	239,115	96,596	-	-	-	335,711
Allowance for reduction of inventory	1,143,871	(397,832)	(18,546)	479	1,427	729,392
Others	821,417	(821,417)	-	-	-	-
Loss carryforwards	-	-	-	-	-	-
	<u>\$ 5,519,332</u>	<u>\$ (553,576)</u>	<u>\$ 177,196</u>	<u>\$ 479</u>	<u>\$ 8,639</u>	<u>\$ 5,152,070</u>

Deferred tax liabilities

Temporary differences	\$ 915	\$ (898)	\$ -	\$ -	\$ -	\$ 17
Unrealized foreign exchange gains	31,010	(31,010)	-	-	-	-
Depreciation difference from fixed assets	165,650	11,743	7,173	3,884	-	188,430
Others (Note)	-	-	-	-	-	-
	<u>\$ 197,555</u>	<u>\$ (20,165)</u>	<u>\$ 7,173</u>	<u>\$ 3,884</u>	<u>\$ -</u>	<u>\$ 188,447</u>

Note: Included adjustments on initial application due to tax rate changes \$6,873 thousand from IFRS 9.

Deductible temporary differences, and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets.

	2019	2018
Loss carryforwards		
2019	\$ -	\$ 11,790,770
2021	2,899,496	2,899,496
2022	619,799	620,769
2025	18,124	18,124
2026	546,899	818,198
2027	68,415	68,415
2028	1,706,913	1,513,001
2029	955,250	-
	<u>\$ 6,814,896</u>	<u>\$ 17,728,773</u>
Difference in depreciation	<u>\$ 1,348,096</u>	<u>\$ 90,350</u>

d. Unused tax loss carryforwards as of December 31, 2019 were as follows:

	Expiry Year	Unused Amount
<u>China Airlines, Ltd.</u>		
2021		\$ 2,899,496
2022		619,799
2026		202,699
2028		1,519,941
2029		760,157
		<u>\$ 6,002,092</u>
<u>Mandarin Airline Co., Ltd.</u>		
2026		\$ 312,724
2028		83,821
		<u>\$ 396,545</u>
<u>Taiwan Aircraft Maintenance And Engineering Co., Ltd.</u>		
2025		\$ 18,124
2026		31,476
2027		68,415
2028		103,151
2029		195,093
		<u>\$ 416,259</u>

e. Income tax assessment

The income tax returns for 2017 of the Company and its subsidiaries have been examined by the tax authorities.

29. EARNING PER SHARE

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

	2019	2018
Basic earnings per share	\$ (0.22)	\$ 0.33
Diluted earnings per share	\$ (0.22)	\$ 0.32
Earnings used in the computation of basic earnings per share	\$ (1,199,798)	\$ 1,790,361
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	-	81,463
Earnings used in the computation of diluted earnings per share	\$ (1,199,798)	\$ 1,871,824

For the Year Ended December 31

	2019	2018
<u>Thousand unit</u>		
Weighted average number of ordinary shares in computation of basic earnings per share	5,418,096	5,453,579
Effect of potentially dilutive ordinary shares:		
Convertible bonds	-	457,481
Employees' compensation or bonuses issued to employees	-	8,821
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>5,418,096</u>	<u>5,919,881</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 per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

30. BUSINESS COMBINATIONS

As stated in Note 14, the other disclosures of the Group's acquisition of Kaohsiung Catering on March 7, 2018 are as follows:

- Acquisition-related cash amounting to \$243,743 thousand.
- Assets acquired and liabilities assumed at the date of acquisition.

Assets		
Current assets (included cash and cash equivalents of \$380,512)	\$ 918,033	
Property, plant and equipment	553,390	
Intangible assets	186,883	
Other assets	49,479	
Total assets	<u>1,707,785</u>	
Liabilities	<u>(486,356)</u>	
Identifiable net assets	<u>\$ 1,221,429</u>	

- The Company acquired the control of Kaohsiung Catering (the date of acquisition), and the 35.78% equity held by the equity method was remeasured at the fair value of the acquisition date and the difference recognized in gain on disposal of investment is \$69,671 thousand.
- The non-controlling interest of Kaohsiung Catering (46.33% of equity) was valued \$565,888 thousand; at the fair value of the identifiable net assets attributed to the non-controlling interest on the date of acquisition.
- The bargain purchase benefit of \$26,615 thousand of Kaohsiung Catering (the date of acquisition) was measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Impact of acquisitions of the Group

From the acquisition date, the operating results from the acquired Company, which are included in the consolidated statements of comprehensive income, are as follows:

	Kaohsiung
	Catering
Revenue	\$ 1,823,950
Profit	<u>\$ 229,665</u>

Had these business combinations been in effect at the beginning of the annual reporting period, the Group's revenue from continuing operations would have been \$171,039,102 thousand and the profit from continuing operations would have been \$2,310,159 thousand. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

31. DISPOSAL OF SUBSIDIARIES

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

- a. Consideration received from disposals
- Consideration received in cash and cash equivalents \$ 34,036
- b. Analysis of assets and liabilities on the date control was lost

Current assets	
Cash and cash equivalents	\$ 51,449
Other current assets	47,510
Non-current assets	17,035
Current liabilities	(49,742)
Non-current liabilities	<u>(15,318)</u>
Net assets disposed of	<u>\$ 50,934</u>

- c. Gain on disposals of subsidiaries

Consideration received	\$ 34,036
Net assets disposed of	(50,934)
Fair value of equity	10,187
Non-controlling interests	24,957
Reclassification of other comprehensive income in respect of subsidiaries	<u>(10,590)</u>

Gain on disposal

\$ 7,656

- d. Net cash inflow on disposal of subsidiaries

Consideration received in cash and cash equivalents	\$ 34,036
Less: Cash and cash equivalent balances disposed of	<u>(51,449)</u>
	<u>\$ (17,413)</u>

32. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Group needs to maintain sufficient capital. Therefore, the goal of capital management is to ensure financial resources and operating plan is able to support the future working capital, capital expenditures, debt repayment and dividend expenses and other needs.

33. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments

- 1) Financial instruments not evaluated at fair value

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

	December 31	
	2019	2018
	Carrying Amount	Fair Value
Financial liabilities		
Bonds payable	\$ 32,052,625	\$ 32,062,874
Loans and debt	67,663,783	67,663,783
	\$ 33,919,610	\$ 31,651,865
	76,395,635	74,404,225

Some long-term borrowings and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. As of December 31, 2019 and 2018, the fair values of long-term borrowings and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.67% and 0.68%, respectively, prevailing in the market for long-term borrowings (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

- 2) Fair value measurements recognized in the balance sheets

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:

- a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b) 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

c) 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).

	December 31, 2019				
	Level 1	Level 2	Level 3	Total	
Financial assets at FVTPL					
Domestic money market funds	\$ 511,758	\$ -	\$ -	\$ 511,758	
Foreign exchange agreement	<u> -</u>	<u> 434</u>	<u> -</u>	<u> 434</u>	
	<u>\$ 511,758</u>	<u>\$ 434</u>	<u>\$ -</u>	<u>\$ 512,192</u>	
Financial assets at FVTOCI					
Investments in equity instruments					
United shares - domestic	\$ -	\$ -	\$ 26,865	\$ 26,865	
Unlisted shares - foreign	<u> -</u>	<u> -</u>	<u> 182,356</u>	<u> 182,356</u>	
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,221</u>	<u>\$ 209,221</u>	
Financial liabilities at FVTPL					
Derivative instruments	<u>\$ -</u>	<u>\$ 11,749</u>	<u>\$ -</u>	<u>\$ 11,749</u>	
Financial assets for hedging	<u>\$ -</u>	<u>\$ 147</u>	<u>\$ 9,479</u>	<u>\$ 9,626</u>	
Financial liabilities for hedging	<u>\$ 50,997,687</u>	<u>\$ 37,069</u>	<u>\$ 3,955</u>	<u>\$ 51,038,711</u>	
	<u>\$ 206,001</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,001</u>	

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 21,746	\$ 21,746
Unlisted shares - foreign	<u> -</u>	<u> -</u>	<u> 110,445</u>	<u> 110,445</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,191</u>	<u>\$ 132,191</u>
Financial liabilities at FVTPL				
Derivative instruments	<u>\$ -</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 221</u>
Financial assets for hedging	<u>\$ -</u>	<u>\$ 28,005</u>	<u>\$ 4,901</u>	<u>\$ 32,906</u>
Financial liabilities for hedging	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ -</u>	<u>\$ 560</u>

(Concluded)

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

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign exchange forward contracts and interest rate swaps	Discounted cash flows. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

e) 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 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 are as follows:

	Multiplicator	Liquidity Discount
December 31, 2019	0.75-13.23	80%
December 31, 2018	0.74-15.29	80%
	Derivative Instruments	Equity Instruments
Balance at January 1, 2019	\$ 4,901	\$ 132,191
Recognized in other comprehensive income	<u>623</u>	<u>77,030</u>
Balance at December 31, 2019	\$ <u>5,524</u>	\$ <u>209,221</u>
Balance at January 1, 2018	\$ -	\$ 84,075
Adjustments on initial application of IFRS 9	-	47,510
Other comprehensive income recognized during the period	<u>4,901</u>	<u>606</u>
Balance at December 31, 2018	\$ <u>4,901</u>	\$ <u>132,191</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.

b. Categories of financial instruments

	December 31 2019	December 31 2018
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 512,192	\$ 206,001
Financial assets for hedging	9,626	32,906
Financial assets at amortized cost (Note 1)	41,479,556	40,496,618
Financial assets at FVTPCI - equity instrument investment	209,221	132,191
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	11,749	221
Financial liabilities for hedging	51,038,711	560
Financial liabilities at amortized cost (Note 2)	134,240,993	127,271,892

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

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

c. 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 rates, in exchange rates and in fuel prices, the Group has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by the Group shareholders to reduce the impact of market price changes on earnings. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

In addition, the Group has a risk management 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 foreign exchange 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 US dollar.

The following details the Group's sensitivity to a one dollar increase or decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies (i.e. the US dollar). This is the sensitivity rate 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 a one US dollars increase/decrease against the New Taiwan dollar.

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be a increase in pre-tax profit and increase in pre-tax other comprehensive income gain and losses for the year ended December 31, 2019 of \$105,266 thousand and \$1,612,256 thousand and a decrease in pre-tax profit and decrease in pre-tax other comprehensive income gain and loss for the year ended December 31, 2018 of \$91,397 thousand and \$13,620 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.

December 31, 2019

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount Asset	Carrying Amount Liability
Cash flow hedge Aircraft rentals - exchange contracts	NTD/USD	NTD\$9,507/ USD16,907	2020.12.15 - 2020.12.24	29.5-30.8	Financial assets for hedging - current	\$ 38	\$ 8,491
Aviation fuel - forward exchange contracts	NTD/USD	NTD\$60,661/ USD22,000	2020.2.27 - 2020.11.30	29.7-30.7	Financial assets for hedging - current	32	10,193
Aircraft prepayments - forward exchange contracts	NTD/USD	NTD1,411,411/ USD477,000	2020.11.4	29.6-30.5	Financial assets for hedging - current	77	18,385

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

December 31, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount Asset	Carrying Amount Liability
Cash flow hedge Aircraft rentals - forward exchange contracts	NTD/USD	NTD2,265,231/ USD1,620	2019.1.7 - 2019.12.26	28.3-30.9	Financial assets for hedging/liabilities for hedging	\$ 28,005	\$ 560

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals in U.S. dollars and Aircraft prepayment) are \$27,445 thousand.

For the year ended December 31, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedge	\$ (35,897)	\$ 9,137 (Note)
Aircraft rentals	(10,161)	(53)
Aviation fuel	(17,705)	
Aircraft prepayments		
		<u>\$ 9,084</u>

Note: Increase in operating costs or exchange loss.

And the amount of gains and losses on hedging instruments for the year ended December 31, 2019 reclassified from profit or loss to prepayments for equipment was \$(603) thousand.

For the year ended December 31, 2018

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedge	\$ 80,440	\$ (22,415) (Note)
Aircraft rentals	23,884	
Aircraft prepayments		
	<u>\$ 104,324</u>	<u>\$ (22,415)</u>

Note: Increase in operating costs.

And the amount of gains and losses on hedging instruments for the year ended December 31, 2018 reclassified from profit or loss to prepayments for equipment was \$12,118 thousand.

b) Interest rate risk

The Group enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

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

	2019	2018
Fair value interest rate risk	\$ 91,414,806	\$ 34,919,610
Cash flow interest rate risk	77,821,887	75,031,978

Sensitivity analysis

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

Had interest rates increased one yard (25 basis) points higher and had all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2019 would have decreased by \$194,555 thousand.

Had interest rates increased one yard (25 basis) points higher and had all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2018 would have decreased by \$187,580 thousand.

c) Other price risk

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

December 31, 2019

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount Asset	Carrying Amount Liability
Cash flow hedges - Fuel Options	USD	NT\$5,524	2020.3.31-2020.12.31	US\$4965-US\$8675	Financial assets for hedging	\$ 9,479	\$ 3,955

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

December 31, 2018

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount Asset	Carrying Amount Liability
Cash flow hedges - Fuel Options	USD	NT\$4,901	2019.1.31-2019.12.31	US\$72-US\$88	Financial assets for hedging	\$ 4,901	\$ -

Hedge accounting is continued to be applied to the abovementioned hedging instruments continue to be applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is \$4,901 thousand.

For the year ended December 31, 2019

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedges - fuel options	\$ 623	\$ (13,597) (Note)

Note: Increase in operating costs.

For the year ended December 31, 2018

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedges - fuel options	\$ 4,901	\$ (9,421) (Note)

Note: Increase in operating costs.

Sensitivity analysis

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

	For the Year Ended December 31	
	2019	2018
	Pre-tax Profit Increase (Decrease)	Other Comprehensive Income Increase (Decrease)
Fuel price increase of 5%	\$ -	\$ 7,973
Fuel price decrease of 5%	-	-
2) Credit risk		
	Pre-tax Profit Increase (Decrease)	Other Comprehensive Income Increase (Decrease)
	\$ -	\$ -

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk, primarily comes from accounts receivable generated from operating activities and bank deposits generated from investing activities, fixed investment income and other financial instruments, operation related credit risk and financial credit risk are managed separately.

Operation - related credit risk

The Group has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Group consider into the financial condition of the customers, the credit rating, agency rating, the Group's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Group uses certain credit enhancement tools to reduce the credit risk of specific customers. Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Group's finance department. The Group's trading partners and other parties were well-performing banks and financial institutions, corporations, and government agencies, and so the risk of counterparties failing to discharge an obligation is low; therefore, there is no significant credit risk.

3) Liquidity risk

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

Liquidity and interest risk rate table

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

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

December 31, 2019

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
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
Derivative instruments	3.1131	10,060,822	39,729,062	6,373,333
Bonds payable	2.2573	10,823,905	19,871,174	3,383,401
	-	<u>\$ 39,497,410</u>	<u>\$ 106,496,473</u>	<u>\$ 35,491,592</u>

December 31, 2018

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Lease liabilities	1.3104	\$ 641,524	\$ 3,024	\$ -
Floating interest rate liabilities	1.8105	14,853,360	42,143,959	20,810,464
Fixed interest rate liabilities	0.1034	2,000,517	-	-
Hedging instruments	-	239,138	-	-
Bonds payable	1.3905	5,999,321	30,835,449	1,051,418
		<u>\$ 23,733,860</u>	<u>\$ 72,982,432</u>	<u>\$ 21,861,882</u>

Loan commitments

	December 31	
	2019	2018
Unused bank loan limit (unsecured)	\$ 18,422,000	\$ 17,337,000

34. RELATED-PARTY TRANSACTIONS

The transactions, accounts balances, income and expenses between related parties were eliminated from the consolidated report and, therefore, were not disclosed in this note. Except for the disclosures stated in other notes, transactions between the Group and its related parties are disclosed below:

a. Related parties' names and relationships

Name	Relationship with the Company
Dynasty Holidays	Associate (become associate in January 2019)
Kaohsiung Catering Services	Subsidiary (become subsidiary in March 2018)
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
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
NORDAM Asia Ltd.	Joint venture investment
Delica International Co., Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Group, spouse and second-degree relative

b. Operating income

Account Items	Related Party Type	For the Year Ended December 31	For the Year Ended December 31
		2019	2018
Other income	Major shareholder of the Company	\$ 25,457	\$ 28,670
	Associate	\$ 1,239	\$ 523
	Joint venture investment	\$ 42,457	\$ 41,410

c. Purchases

Related Party Type	For the Year Ended December 31	For the Year Ended December 31
	2019	2018
Major shareholder of the Company	\$ 56,474	\$ 64,188
Associate	\$ 414,106	\$ 501,609
Joint venture investment	\$ 1,911,091	\$ 1,912,995

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

Related Party Type	December 31	
	2019	2018
Joint venture investment	\$ 7,760	\$ 7,589
Major shareholder of the Company	<u>2,588</u>	<u>1,454</u>
	\$ <u>10,348</u>	\$ <u>9,043</u>

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

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

Related Party Type	December 31	
	2019	2018
Associate	\$ 51,333	\$ 54,948
Joint venture investment	484,700	474,499
Major shareholder of the Company	<u>5,982</u>	<u>3,368</u>
	\$ <u>542,015</u>	\$ <u>532,815</u>

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

f. Leases of properties (operating leases)

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, the Company paid the rental on usage hours. In 2019 and 2018, the Company had paid rentals of about \$56,474 thousand and \$64,188 thousand, respectively.

g. Endorsements and guarantees

	December 31			
	2019		2018	
The Company	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
CAL Park	\$ 3,850,000	\$ 2,129,400	\$ 3,850,000	\$ 2,339,700
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	-
Tigerair Taiwan	3,012,668	685,444	1,081,792	418,491
Taiwan Air Craft Maintenance	2,000,000	1,279,827	2,000,000	605,457

h. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 39,693	\$ 44,551
Post-employment benefits	<u>2,362</u>	<u>3,295</u>
	\$ <u>42,055</u>	\$ <u>47,846</u>

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

35. PLEDGED ASSETS

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

	December 31	
	2019	2018
Property, plant and equipment	\$ 31,260,801	\$ 42,066,242
Right-of-use assets	71,033,617	-
Restricted assets - non-current		
Pledged certificate deposits	<u>130,052</u>	<u>169,925</u>
	\$ <u>102,424,470</u>	\$ <u>42,236,167</u>

36. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2019, except for the disclosures stated in other notes, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

- For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract to buy six ATR72-600 aircraft, and the total list price of the six aircraft was \$120,000 thousand. The expected delivery period ranges from June 2018 to June 2020, as of December 31, 2019, four of the aircraft has been handed over to the company, and the total list price of the lefts two aircraft was \$40,000 thousand, which has been paid in the amount of US\$8,314 thousand (recognized as prepayments for aircraft).
- Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board of directors in 2003. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

The original total expenditure of the previous main construction project was \$8,490,000 thousand. However, TACT filed an arbitration for the total amount of expenditure in 2012 to revise the total amount to \$6,840,000 thousand.

As of December 31, 2019, 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 Contract	\$ 552,285

As of December 31, 2019, the cumulated consultant service expense and construction equipment had amounted to \$481,776 thousand (VAT included) and \$5,212,622 thousand (VAT included), respectively. Upon completion of the projects, the amount of \$468,755 thousand (VAT included) and \$5,200,780 thousand (VAT included) were reclassified to property, plant, and equipment. The remaining cumulative payments were recognized under construction in progress.

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

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

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

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

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

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

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

d. The Company failed to mediate labor disputes with the labor union. After obtaining the right to strike, the labor union went on strike on February 8, 2019, and the flights resumed normal operation on February 14, 2019. A total of 214 flights was cancelled and the accumulated revenue loss was about \$500 million. The initial estimated compensation for customer losses and other expenditures were about \$54 million (recognized as operating cost).

e. In October 2019, the Company signed a contract with Airbus S.A.S. to purchase eleven A321neo aircraft and an option to purchase five A321neo aircraft. The total list price of the eleven aircraft is US\$1,676,413 thousand, and the list price of the option to purchase five aircraft is US\$769,922 thousand. The expected delivery period of the eleven aircraft ranges from 2024 to 2026. As of December 31, 2019, the list price has been paid in the amount of US\$17,014 thousand (recognized as prepayments for aircraft). In October 2019, the Company signed a contract with International Aero Engines Company to purchase four backup engines of A321neo. The total list price of the four engines is US\$60,289 thousand.

f. In July and August 2019, the Company signed a contract with the Boeing Company to purchase three B777F aircraft and exercised the option to purchase three B777F aircraft. The total list price of the six aircraft is US\$2,320,315 thousand, and the expected delivery period is from 2020 to 2023. As of December 30, 2019, the list price has been paid in the amount of US\$241,650 thousand (recognized as prepayments for aircraft).

g. In September 2019, Tigerair Taiwan Co., Ltd. signed a contract with Airbus S.A.S. to purchase seven A320neo aircraft and an option to purchase two A320neo aircraft. The total list price of the seven aircraft is US\$729,746 thousand, and the list price of the option to purchase two aircraft is US\$208,499 thousand. The expected delivery period of the seven aircraft ranges from 2025 to 2028. As of December 30, 2019, the list price has been paid in the amount of US\$9,324 thousand (recognized as prepayments for aircraft). In addition, in December 2019, Tigerair Taiwan Co., Ltd. signed a contract with International Aero Engines Company to purchase two backup engines of A320neo aircraft. The total list price of the two engines is US\$27,345 thousand.

37. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

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

38. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2019

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 658,407	30.0300	\$ 19,771,957
EUR	18,401	33.6700	619,571
HKD	228,234	3.8595	880,868
JPY	6,262,272	0.2766	1,732,130
CNY	425,343	4.3048	1,831,012
<u>Financial liabilities</u>			
Monetary items			
USD	2,480,896	30.0300	74,501,305
EUR	7,638	33.6700	257,155
HKD	74,651	3.8595	288,117
JPY	6,584,434	0.2766	1,821,237
CNY	153,196	4.3048	659,478

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 532,196	30.7692	\$ 16,375,237
EUR	20,519	35.2113	722,514
HKD	302,930	3.9231	1,188,425
JPY	6,479,942	0.2778	1,800,967
CNY	394,503	4.4803	1,767,491
<u>Financial liabilities</u>			
Monetary items			
USD	441,798	30.7692	13,593,777
EUR	7,806	35.2113	274,873
HKD	79,716	3.9231	310,978
JPY	5,586,337	0.2778	1,552,067
CNY	150,536	4.4803	674,446

For the years ended December 31, 2019 and 2018, the Group's net foreign exchange gain (losses) were \$(141,611) thousand and \$41,843 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

39. ADDITIONAL DISCLOSURES

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

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019

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

No.	Endorsement/ Guarantee Provider	Counterparty		Limit on Each Counterparty's Endorsement/ Guarantee Amount (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 Taiwan Air Cargo Terminal Tigerair Taiwan Co., Ltd.	100% subsidiary 54% subsidiary 77.17% subsidiary by direct and indirect holdings	\$ 11,310,754 11,310,754 11,310,754	\$ 3,850,000 1,080,000 3,055,475	\$ 3,850,000 1,080,000 3,012,668	\$ 2,129,400 - 685,444	\$ - - -	6.81 1.91 5.33	\$ 28,276,886 28,276,886 28,276,886	Y Y Y	N N N	N N N
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,310,754	2,000,000	2,000,000	1,279,827	-	3.54	28,276,886	Y	N	N

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

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

CHINA AIRLINES, LTD. AND INVESTEEs

MARKETABLE SECURITIES HELD
DECEMBER 31, 2019

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

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			Note	
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)		Market Value or Net Asset Value
China Airlines ("Parent company")	Shares Everest Investment Holdings Ltd. - ordinary shares	-	Financial assets at FVTOCI - non-current	1,359,368	\$ 73,628	13.59	\$ 80,991	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets at FVTOCI - non-current	135,937	7,363	-	-	
	Chung Hua Express Co.	-	Financial assets at FVTOCI - non-current	1,100,000	26,865	11.00	26,865	
	Jardine Air Terminal Services	-	Financial assets at FVTPL - current	12,000,000	-	15.00	-	
	The Grand Hi Lai Hotel	-	Financial assets at FVTPL - current	4,021	-	0.02	-	
Mandarin Airlines	Shares China Airlines	Parent company	Financial assets at FVTOCI - non-current	2,074,628	18,796	-	18,796	-
	Shares Taikoo (Xiamen) Landing Gear Services HAECO Composite Structures (Jinjiang)	- -	Financial assets at FVTPL - current Financial assets at FVTOCI - non-current	- -	- 101,365	2.59 5.45	- 101,365	Note 2 Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	7,816,048	81,124	-	81,124	-
	FSITC Money Market Fund	-	Financial assets at FVTPL - current	497,740	89,145	-	89,145	-
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	6,444,010	81,065	-	81,065	-
	Capital Money Market Fund	-	Financial assets at FVTPL - current	2,842,146	46,035	-	46,035	-
Taiwan Airport Services	Shares TransAsia Airways	-	Financial assets at FVTPL - current	2,277,786	-	0.4	-	-
	Beneficial certificates Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at FVTPL - current	1,671,657	20,253	-	20,253	-
Dynasty Aerotech International Corp.	Fuh Hwa Global Bond Fund	-	Financial assets at FVTPL - current	1,233,211	18,045	-	18,045	-
	Shares China Airlines	Parent company	Financial assets at FVTOCI - non-current	814,152	7,376	-	7,376	-
	Beneficiary certificates Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	349,523	4,748	-	4,748	-

(Continued)

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	
Kaohsiung Catering Services	Beneficiary certificates	-	Financial assets at FVTPL - current	5,407,832	\$ 85,886	-	-
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	4,493,628	70,423	-	
	Prudential Financial Return Fund	-	Financial assets at FVTPL - current	1,106,807	15,035	-	
Tigerair Taiwan Co., Ltd.	<u>Government bond</u> Philippines government bond	-	Amortized cost financial assets	-	299	Not applicable	299

Note 1: The subsidiary's net asset value was \$80,991 thousand, which included ordinary shares and preference shares as of and for the year ended December 31, 2019.

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal (Note 3)		Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
China Airlines, Ltd.	Shares Tigerair Taiwan Co., Ltd.	Investments accounted for using the equity method	(Note 5)	Non-related party	-	\$ -	-	\$ -	-	\$ -	-	\$ -

Note 1: The marketable securities in this table refer to shares, bonds, beneficial certificates and the securities derived from the above items.

Note 2: Marketable securities which are recognized as investments accounts for using the equity method are required to be filled in the second column.

Note 3: The cumulative amount of acquired and disposed of marketable securities are required to be calculated separately to determine whether they are at least NT\$300 million or 20% of the paid-in capital.

Note 4: Paid-in capital refers to paid-in capital of the indicated parent company. If the shares issued by an issuer have no par value or a par value other than NT\$10 per share, the threshold of 20% of paid-in capital, as set out in the preceding item, shall be replaced by 10% of equity attributable to owners of the indicated parent company, as stated in the respective balance sheet.

Note 5: Subsidiaries planning initial public offering release stocks.

CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2019

(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
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 524,457	0.39	30 days	\$ -	\$ (41,017)	(1.52)	-
	Taiwan Airport Services	Subsidiary	Purchase	445,472	1.33	40 days	-	(77,970)	(2.90)	-
	Mandarin Airlines	Subsidiary	Sale	(1,971,462)	1.35	2 months	-	158,123	1.83	-
	Mandarin Airlines	Subsidiary	Purchase	242,114	0.18	2 months	-	(247,997)	(9.21)	-
	Tigerair Taiwan	Subsidiary	Sale	(373,811)	0.26	1 months	-	42,642	0.49	-
	Tigerair Taiwan	Subsidiary	Purchase	152,914	0.11	1 months	-	(31,210)	(1.16)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,220,422	0.90	40 days	-	(347,127)	(12.90)	-
	Kaohsiung Catering Services	Subsidiary	Purchase	561,443	0.42	60 days	-	(99,649)	(3.70)	-
	Hua Hsia	Subsidiary	Purchase	349,602	0.26	2 months	-	(37,860)	(1.41)	-
	CAL Park	Subsidiary	Purchase	231,288	0.17	2 months	-	(127)	-	-
	Cal Hotel	Subsidiary	Purchase	135,687	0.10	1 months	-	(40,293)	(1.50)	-
	Global Sky Express	Subsidiary	Sale	(101,421)	0.07	15 days	-	3,888	0.05	-
	Eastern United International Logistics	Equity-method investee	Purchase	216,368	0.16	2 months	-	(23,430)	(0.87)	-
	China Pacific Laundry Services	Equity-method investee	Purchase	120,088	0.09	2 months	-	(20,118)	(0.75)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,791,003	1.33	90 days	-	(464,582)	(17.26)	-
	China Airerair Services	Equity-method investee	Purchase	169,400	0.13	30 days	-	(27,679)	(1.03)	-
	Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	189,853	2.56	1 months	-	(27,760)	(3.74)
Cal Hotel	CAL Park	Same parent company	Purchase	114,281	26.07	1 months	-	(382)	(0.53)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	197,179	2.53	1 months	-	(24,389)	(3.66)	-

CHINA AIRLINES, LTD. AND INVESTEEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2019

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 158,123	Note	\$ -	-	\$ 158,123	\$ -
Mandarin Airlines	China Airlines	Parent company	247,997	Note	-	-	245,364	-
China Pacific Catering Services	China Airlines	Parent company	464,582	3.90	-	-	311,356	-
Taoyuan International Airport Service	China Airlines	Parent company	347,127	3.43	-	-	340,924	-

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

CHINA AIRLINES, LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE FOR THE YEAR ENDED DECEMBER 31, 2019
(In thousands of New Taiwan Dollars and Foreign Currencies in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Balance as of December 31, 2019		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2019	December 31, 2018	Number of Shares/Units	Percentage of Ownership (%)			
China Airlines, Ltd.	CAL Park	Taoyuan, Taiwan	Real estate lease and international trade	\$ 1,500,000	\$ 1,500,000	150,000,000	100.00	\$ 1,163	\$ 47,694	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,494,603	191,322	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	1,517,946	146,642	Note 4
	Cal-Dynasty International	Los Angeles, USA	A holding company, real estate and hotel services	US\$ 26,145	US\$ 26,145	2,614,500	100.00	1,276,546	41,262	Notes 2 and 4
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	801,071	256,899	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	737,245	142,846	-
	CAL-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	559,562	30,819	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	460,213	183,490	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	461,263	51,828	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	276,134	156,861	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	661,170	74,274	Note 5
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	479,259	142,886	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	168,547	18,020	Note 4
	Dynasty Aerotech International Corp.	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	88,313	16,857	Notes 1 and 4
Mandarin Airlines	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,268	(384)	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	8,000	20,400	160	20.00	10,004	(894)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,294	6,392	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,272,063	1,648,387	138,906,275	69.45	1,946,328	699,039	Note 4
CAL-Asia Investment	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	921,989	(206,149)	-
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	37,975	2,450	3,797,500	49.00	37,813	(70)	-
Taiwan Airport Services	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	154,330	200,000	15,433,000	7.72	216,243	77,587	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,281	1,689	-
Kaohsiung Catering Services	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK\$ 3,329	HK\$ 3,329	1,050,000	35.00	42,717	3,387	-
	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	347,551	23,107	Note 3
	Deltea International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,867	(2)	-

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

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

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

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

Note 5: Difference cause by acquisition.

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In thousands of New Taiwan Dollars/Renminbi/US Dollars)

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 10,954,480 (RMB 254,480)	Indirect (Note 1)	\$ 125,705 (US\$ 4,186)	\$ -	\$ -	\$ 125,705 (US\$ 4,186)	\$ 76,711 (RMB 17,107)	14.00	\$ 10,795 (RMB 2,395)	\$ 223,683 (RMB 51,962)	\$ 86,208 (US\$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,267 (RMB 14,000)	Indirect (Note 1)	58,482 (US\$ 1,947)	-	-	58,482 (US\$ 1,947)	89,573 (RMB 19,975)	14.00	12,606 (RMB 2,796)	124,071 (RMB 28,822)	26,933 (US\$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,495,195 (US\$ 83,090)	Indirect (Note 1)	64,601 (US\$ 2,151)	-	-	64,601 (US\$ 2,151)	-	2.589	-	-	-
HAECO Composite Structures (Jinjiang)	Composite material	350,240 (US\$ 11,663)	Indirect (Note 1)	19,099 (US\$ 636)	-	-	19,099 (US\$ 636)	-	5.45	-	42,718 (RMB 9,923)	-

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
\$267,886 (US\$8,920)	\$650,192 (Note 3)	\$36,079,270 (Note 4)

(Continued)

Investee Company	Main Business and Product	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,095,480 (RMB 254,480)	Indirect (Note 5)	\$ 120,671 (US\$ 4,018)	\$ -	\$ -	\$ 120,671 (US\$ 4,018)	\$ 76,711 (RMB 17,107)	14.00	\$ 10,740 (RMB 2,395)	\$ 222,478 (RMB 51,682)	\$ 114,304 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,267 (RMB 14,000)	Indirect (Note 5)	57,860 (US\$ 1,927)	-	-	57,860 (US\$ 1,927)	89,573 (RMB 19,975)	14.00	12,540 (RMB 2,796)	124,279 (RMB 28,870)	42,240 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$178,532 (US\$5,945)	\$178,532 (US\$5,945)	\$349,906 (Note 4)

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

Note 2: The inward remittance of earnings in 2019 amounted to US\$2,801,749 and US\$875,330.

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

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

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

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

(Concluded)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			% of Total Consolidated Total Revenue or Assets
				Financial Statement Account	Amount	Transaction Criteria	
6	CAL Park	China Airlines, Ltd. Cal Hotel Co., Ltd.	b c	Operating revenue Operating revenue	\$ 231,288 114,281	The same as ordinary transactions The same as ordinary transactions	0.14 0.07
7	Cal Hotel Co., Ltd.	China Airlines, Ltd. CAL Park	b c	Operating revenue Operating costs	135,687 114,281	The same as ordinary transactions The same as ordinary transactions	0.08 0.07
8	Tigerair Taiwan Co., Ltd.	China Airlines, Ltd. Taoyuan International Airport Services	b c	Operating expenses Airport service costs	373,811 197,179	The same as ordinary transactions The same as ordinary transactions	0.22 0.12
9	Kaohsiung Catering Services	China Airlines, Ltd.	b	Operating revenue	561,443	The same as ordinary transactions	0.18

Note 1: The three directional types for transactions by business relationship 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 written off in the consolidated financial statements.

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

(Concluded)

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of China Airlines, Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the audit of the financial statements of the Company are stated below:

Passenger Revenue Recognition

In accordance with IFRS 15 "Revenue from Contracts with Customers", passenger sales are accounted for as contract liabilities before relevant transportation services are provided. After providing the related services, contract liabilities are reclassified to passenger revenue. For the year ended December 31, 2019, passenger revenue was NT\$96,176,865 thousand. Refer to Notes 4 and 26 to the accompanying financial statements for related detailed information.

Since relevant sales can only be recognized as passenger revenue when passengers actually boarded, confirmation from each passenger holding the ticket who actually boarded involves a complicated process; therefore, we identified passenger revenue recognition as a key audit matter.

The main audit procedures that we performed included the following:

1. We understood and tested the internal control related to the process of revenue from passenger, including manual and automatic control.
2. We understood and tested the effectiveness of the information system related to the process of passenger revenue.
3. We sampled several flight tickets, which were flown and recognized as revenue, to verify whether the boarding date matched the date recorded on the tickets, from advanced sales tickets.

Initial Application of IFRS 16 (Leases) - Aircraft

In accordance with IFRS 16 "Leases", aircrafts leases initially classified as finance leases under IAS 17 should be recognized as Right-of-use assets and lease liabilities in the balance sheet. As of December 31, 2019, the carrying amount of right-of-use assets and lease liabilities (including financial liabilities for hedging) relating to aircrafts leases are NT\$53,870,134 thousand and NT\$52,153,682 thousand, respectively. Refer to Notes 4 and 20 to the accompanying financial statements for related detailed information.

China Airlines leased ten 777-300ER planes, fifteen A330-300 planes and fifteen 737-800 planes, for operation. Because the lease term of aircrafts is higher and the amount of rental is high, the percentage of right-of-use assets and lease liabilities of the aircrafts in the balance sheet is high. The parameters and lease terms are determined by the management, and the calculation of the lease liabilities will affect the carrying amount and depreciation expense of the right-of-use assets and lease liabilities (including financial liabilities for hedging) relating to aircrafts. Therefore, we identified initial application of IFRS 16-Aircrafts as a key audit matter.

The main audit procedures that we performed included the following:

1. We understood and tested the effectiveness of the information system related to the calculation of lease liabilities.
2. We selected one of the rental payments schedule of the aircrafts from the lease calculation system, to recalculate amount of the lease liabilities balance and financial cost and amortization of right-of-use, and related carrying amount. Also, we selected several aircraft lease contracts from the carrying amounts of aircraft lease liability, and checked if there was any difference between contracted rental and rentals in the aircraft rental payment schedule. And we checked if the lease term used the rental payment schedule was consistent with the contract.

Other Matter - Audit by Other Independent Auditors

Some investments accounted for using the equity method and disclosure information in Note 13 were audited by other independent auditors, and our audit opinion is based solely on the audit report of other independent auditors. As of December 31, 2019, the aforementioned investment accounted for using the equity method was NT\$1,946,328 thousand, representing 0.72% of total assets. For the year ended December 31, 2019, comprehensive income (including share of profit or loss of subsidiaries, associates and joint ventures and share of other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for using the equity method) was NT\$691,115 thousand.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee and supervisors, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Chan Huang and Shuih-Ran, Cheng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 18, 2020

Notice to Readers

The accompanying financial statements are intended only to present the 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 audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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' report and financial statements shall prevail.

CHINA AIRLINES, LTD.

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

ASSETS	2019	%	2018	%
	Amount		Amount	
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 30)	\$ 20,626,014	8	\$ 18,688,022	9
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 30)	434	-	-	-
Financial assets at fair value through profit or loss - non-current (Notes 4, 7 and 30)	1,460,450	-	2,310,000	1
Financial assets at amortized cost (Notes 9 and 30)	9,588	-	27,354	-
Notes and accounts receivable - current (Notes 4 and 30)	7,694,431	3	9,280,662	4
Accounts receivable - related parties (Note 31)	232,386	-	298,311	-
Other receivables	560,819	-	656,790	-
Current tax assets (Notes 4 and 27)	52,776	-	15,810	-
Inventories, net (Notes 4 and 11)	8,246,515	3	8,451,892	4
Non-current assets held for sale (Notes 4 and 12)	2,106,199	-	46,154	-
Other current assets (Note 17)	40,989,612	15	3,157,864	2
Total current assets			42,932,859	20
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 30)	107,856	-	83,366	-
Investments accounted for using the equity method (Notes 4 and 15)	13,482,897	5	13,136,355	6
Property, plant and equipment (Notes 4, 14 and 32)	131,762,826	49	149,029,054	69
Right-of-use assets (Notes 4, 20 and 22)	2,022,830	24	-	-
Leases - current (Notes 4 and 23)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	971,998	1	979,708	1
Deferred tax assets (Notes 4 and 27)	4,757,142	2	4,561,346	2
Other non-current assets (Notes 17, 20 and 30)	11,227,556	4	2,122,085	1
Total non-current assets	227,886,893	85	171,981,362	80
TOTAL	\$ 268,876,505	100	\$ 214,914,221	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 30)	\$ 11,749	-	\$ 221	-
Financial liabilities for hedging - current (Notes 4, 20 and 30)	8,610,015	3	239	-
Notes and accounts payable (Note 30)	1,222,410	1	1,198,647	1
Contract liabilities current (Notes 4 and 22)	18,584,287	7	17,065,481	8
Accounts payable - related parties (Note 31)	1,469,434	1	1,583,684	1
Other payables (Notes 21 and 26)	10,892,203	4	11,739,301	5
Provisions - current (Notes 4 and 23)	-	-	268,901	-
Lease liabilities - current (Notes 4 and 20)	695,215	-	-	-
Bonds payable and put option of convertible bonds - current portion (Notes 4, 19, 30 and 31)	10,000,000	4	4,445,900	2
Loans and debts - current portion (Notes 18, 30 and 32)	13,708,320	5	15,335,005	7
Capital lease obligations - current portion (Notes 4, 20, 30, 31 and 33)	-	-	596,000	-
Other current liabilities	2,806,540	1	2,946,455	1
Total current liabilities	68,000,173	25	55,179,834	25
NON-CURRENT LIABILITIES				
Financial liabilities for hedging - non-current (Notes 4, 20 and 30)	43,420,905	16	-	-
Bonds payable (Notes 4, 19, 30 and 31)	22,352,625	8	28,773,710	13
Loans and debts (Notes 18, 30 and 32)	48,618,168	18	56,827,738	27
Lease liabilities - non-current (Notes 4 and 20)	10,909,260	4	-	-
Contract liabilities (Notes 4 and 22)	2,236,311	1	1,903,665	1
Provisions (Notes 4 and 23)	9,431,736	4	7,730,114	4
Deferred tax liabilities (Notes 4 and 27)	399,253	-	21,195	-
Accrued pension costs (Notes 5 and 24)	7,588,745	3	6,932,783	3
Other non-current liabilities	3,666,255	-	463,610	-
Total non-current liabilities	144,322,560	54	102,652,815	48
Total liabilities	212,322,733	79	157,832,649	73
EQUITY (Notes 19 and 25)				
Share capital	54,209,846	20	54,209,846	25
Capital surplus	2,488,907	1	1,241,214	1
Retained earnings	466,416	-	351,923	-
Legal reserve	12,967	-	118,810	-
Special reserve	(1,777,225)	-	1,144,928	1
Unappropriated retained earnings (accumulated deficits)	(1,297,832)	-	(1,615,661)	-
Total retained earnings	1,196,233	-	38,223	-
Other equity	(43,372)	-	(43,372)	-
Treasury shares	-	-	-	-
Total equity	56,553,772	21	57,081,572	27
TOTAL	\$ 268,876,505	100	\$ 214,914,221	100

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

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019	%	2018	%
	Amount		Amount	
REVENUE (Notes 4, 26 and 32)	\$ 146,372,401	100	\$ 150,264,792	100
COSTS (Notes 4, 11, 26 and 32)	135,008,166	92	137,614,956	92
GROSS PROFIT	11,364,235	8	12,649,836	8
OPERATING EXPENSES (Notes 4, 26 and 32)	11,284,000	8	10,802,269	7
OPERATING PROFIT	80,235	-	1,847,567	1
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 26)	524,233	-	420,416	-
Other gains and losses (Notes 12, 13, 14 and 26)	(569,582)	-	(559,230)	-
Finance costs (Notes 26 and 32)	(3,034,172)	(2)	(1,312,044)	(1)
Share of the profit of associates and joint ventures (Note 13)	1,811,960	1	1,918,922	1
Total non-operating income and expenses	(1,267,561)	(1)	468,064	-
PROFIT (LOSS) BEFORE INCOME TAX	(1,187,326)	(1)	2,315,631	1
INCOME TAX EXPENSE (Notes 4 and 27)	12,472	-	525,270	-
NET INCOME (LOSS)	(1,199,798)	(1)	1,790,361	1
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Loss on hedging instruments subject to basis adjustments (Notes 4, 25 and 31)	(17,705)	-	23,884	-
Unrealized (loss) gain on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4 and 25)	24,490	-	(23,830)	-
Remeasurement of defined benefit plans (Notes 4 and 24)	(562,259)	-	(674,905)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4 and 24)	(72,718)	-	(105,569)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	101,259	-	127,120	-
				(Continued)

CHINA AIRLINES, LTD.

**STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 25)	\$ (59,174)	-	\$ 34,140	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4 and 25)	(13,259)	-	29,573	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 25 and 31)	1,425,306	1	75,454	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 27)	(273,227)	-	(18,193)	-
Other comprehensive income (loss) for the year, net of income tax	552,713	1	(532,326)	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ (647,085)	-	\$ 1,258,035	1
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 27)				
Basic	\$ (0.22)		\$ 0.33	
Diluted	\$ (0.22)		\$ 0.32	

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

(Concluded)

CHINA AIRLINES, LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	Retained Earnings				Unappropriated Earnings (Accumulated Deficits)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total Equity
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve								
BALANCE AT JANUARY 1, 2018	\$ 54,709,846	\$ 799,999	\$ 206,092	\$ -	\$ 1,458,313	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$ (43,372)	\$ 57,023,237
Effect of retrospective application and retrospective restatement	-	-	-	-	60	-	(1,774)	42,351	74,429	(74,429)	-	40,637
BALANCE AT JANUARY 1, 2018 AS RESTATED	54,709,846	799,999	206,092	-	1,458,373	(34,986)	-	42,351	-	(74,429)	(43,372)	57,063,874
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978
Basis adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	12,118	-	12,118
Appropriation of 2017 earnings	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-
Legal reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends - \$0.2181820086 per share	-	-	-	-	(1,193,670)	-	-	-	-	-	-	(1,193,670)
Changes in capital surplus from dividends distributed to subsidiaries	-	630	-	-	-	-	-	-	-	-	-	630
Net income for the year ended December 31, 2018	-	-	-	-	1,790,361	-	-	-	-	-	-	1,790,361
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(645,495)	25,322	-	268	-	87,579	-	(532,326)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	1,144,866	25,322	-	268	-	87,579	-	1,258,035
Treasury shares acquired	-	-	-	-	-	-	-	-	-	-	(469,393)	(469,393)
Treasury shares retired	(500,000)	30,607	-	-	-	-	-	-	-	-	469,393	-
BALANCE AT DECEMBER 31, 2018	54,209,846	1,241,214	351,923	118,810	1,144,928	(9,664)	-	42,619	-	25,268	(43,372)	57,081,572
Basis adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	(603)	-	(603)
Appropriation of 2018 earnings	-	-	114,493	-	(114,493)	-	-	-	-	-	-	-
Legal reserve	-	-	-	(105,843)	105,843	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(1,136,278)	-	-	-	-	-	-	(1,136,278)
Cash dividends - \$0.20960737 per share	-	-	-	-	-	-	-	-	-	-	-	-
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	606	-	-	-	-	-	-	-	-	-	606
Actual disposal or acquisition of interests in subsidiaries	-	1,247,087	-	-	-	-	-	-	-	-	-	1,247,087
Net loss for the year ended December 31, 2019	-	-	-	-	(1,199,798)	-	-	-	-	-	-	(1,199,798)
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	(577,427)	(53,411)	-	64,538	-	1,119,013	-	552,713
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	(1,777,225)	(53,411)	-	64,538	-	1,119,013	-	(647,085)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	-	-	-	8,368	-	105	-	-	-	8,473
BALANCE AT DECEMBER 31, 2019	\$ 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

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

CHINA AIRLINES, LTD.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ (1,187,326)	\$ 2,315,631
Adjustments for:		
Expected credit loss recognized on trade receivables	24,000	50,000
Depreciation expenses	29,398,635	18,192,291
Amortization expenses	165,981	165,050
Net gain on fair value changes of financial assets and liabilities at fair value through profit or loss	(25,700)	(11,076)
Interest income	(314,944)	(274,189)
Dividend income	(10,112)	(9,603)
Share of profit of associates and joint ventures	(1,811,960)	(1,918,922)
Loss (gain) on disposal of property, plant and equipment	(26,377)	273,308
Gain on disposal of investments accounted for using the equity method	(7,656)	(450,195)
Loss on disposal of non-current assets held for sale	10,462	368,992
Loss on inventories and property, plant and equipment	571,960	623,012
Impairment loss recognized on property, plant and equipment	-	50,000
Net gain on foreign currency exchange	41,292	288,598
Finance costs	3,034,172	1,312,044
Recognition of provisions	3,616,519	2,566,045
Amortization of unrealized gain on sale-leasebacks	-	(13,888)
Loss on sale-leasebacks	103,775	-
Others	5	-
Impairment loss recognized on non-current assets held for sale in operating assets and liabilities	-	75,437
Financial assets mandatorily classified as at fair value through profit	25,266	11,076
Financial liabilities mandatorily classified as at fair value through profit or loss	11,528	(9,359)
Notes and accounts receivable	1,507,192	(1,260,344)
Accounts receivable - related parties	65,925	212,277
Other receivables	101,047	(94,232)
Inventories	(128,037)	(225,553)
Other current assets	351,186	62,151
Notes and accounts payable	53,077	878,219
Accounts payable - related parties	(114,250)	89,678
Other payables	(731,599)	513,674
Contract liabilities	1,851,452	3,102,855
Provisions	(1,970,226)	(2,539,210)
Other current liabilities	(120,655)	10,515
Accrued pension liabilities	93,703	99,135
Cash generated from operations	34,578,335	24,453,417
Interest received	307,503	244,604
Dividends received	940,039	624,834
Interest paid	(3,038,729)	(1,242,278)
Income tax paid	(41,260)	(19,085)
Net cash generated from operating activities	<u>32,745,888</u>	<u>24,061,492</u>

(Continued)

CHINA AIRLINES, LTD.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	\$ (1,467,317)	\$ (2,310,000)
Disposal of financial assets at amortized cost	2,310,000	-
Acquisition of investments accounted for by the equity method	(35,525)	(243,743)
Payments for property, plant and equipment	(2,397,742)	(2,561,987)
Proceeds from disposal of property, plant and equipment	38,596	330,136
Proceeds from disposal of non-current assets held for sale	35,692	688,427
Proceeds from disposal of investments accounted for using the equity method	1,713,825	-
Increase in refundable deposits	(387,244)	(51,378)
Decrease in refundable deposits	104,825	103,593
Increase in prepayments for equipment	(13,699,043)	(13,798,867)
Increase in computer software costs	(157,571)	(155,431)
Net cash used in investing activities	<u>(13,941,504)</u>	<u>(17,999,250)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of the principal portion of lease liabilities	(9,666,313)	-
Payments for buy-back of treasury shares	3,500,000	(469,393)
Proceeds from issuance of bonds payable	(4,445,900)	10,512,000
Repayments of bonds payable	4,905,660	(2,700,000)
Proceeds from sale-leasebacks	5,500,000	-
Proceeds from long-term borrowings	(15,336,255)	17,200,000
Repayments of long-term borrowings and capital lease obligations	167,034	(27,339,868)
Proceeds from guarantee deposits received	(133,938)	118,367
Refunds of guarantee deposits received	(1,136,278)	(67,905)
Dividends paid to owners of the Company	(1,645,990)	(1,193,670)
Net cash used in financing activities	<u>(220,402)</u>	<u>(3,940,469)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>2,690</u>	<u>2,690</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>1,937,992</u>	<u>2,124,463</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>18,688,022</u>	<u>16,563,559</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 20,626,014</u>	<u>\$ 18,688,022</u>

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

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 primarily provides air transport services for passengers and cargo. Its other operations include (a) mail services; (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, equipment and the entire aircraft; and (f) leasing of aircraft.

The major shareholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of December 31, 2019 and 2018, CADF and NDF held 44.03% of the Company's shares. As of December 31, 2019 and 2018, the Company had 12,175 and 12,498 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's board of directors on March 18, 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 (FSC) and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the 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 material impact on the Company's accounting policies:

IFRS 16 "Leases"

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Company elected to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not be reassessed and accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

The Company recognizes right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the balance sheets except for those whose payments under low-value and short-term leases are recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Company presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the statements of cash flows. Leased assets and finance lease payables were recognized on the balance sheets for contracts classified as finance leases.

Lease liabilities were recognized on January 1, 2019 for leases classified as operating leases under IAS 17. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Company applies IAS 36 to all right-of-use assets.

For leases classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 was determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

If the Company determines that a sale and leaseback transaction does not satisfy the requirements of IFRS 15 to be accounted for as a sale of an asset, it is accounted for as a financing transaction. If it satisfies the requirements to be accounted for as a sale of an asset, the Company recognizes only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor. Prior to the application of IFRS 16, the leaseback portion is classified as either a finance lease or an operating lease and accounted for differently.

The Company does not reassess sale and leaseback transactions entered into before January 1, 2019 to determine whether the transfer of an underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. Upon initial application of IFRS 16, the aforementioned transitional provision for a lessee is applied to the leaseback portion. In addition, for assets accounted for as a sale and a finance lease under IAS 17, the Company continues to amortize any gains on sales over the lease term.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 2.47%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 68,174,292
Undiscounted amount on January 1, 2019	\$ 68,174,292
Discounted amount using the incremental borrowing rate on January 1, 2019	\$ 58,286,964
Add: Finance lease payable on December 31, 2018	596,000
Add: Adjustments as a result of a different treatment of extension and termination options	6,419,285
Add: Other	4,557,770
Less: Derivative financial instruments for hedging	<u>(41,919,508)</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 27,940,511</u>

The Company as lessor

The Company does not make any adjustments to leases in which it is a lessor and accounts for those leases under IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	Carrying Amount as of December 31, 2019	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepaid rent	\$ 699,098	\$ (699,098)	\$ -
Refundable deposits	377,577	(215,426)	162,151
Right-of-use assets	-	69,988,735	69,988,735
Other financial assets	-	189,808	189,808
Total effect on assets	<u>\$ 1,076,675</u>	<u>\$ 69,264,019</u>	<u>\$ 70,340,694</u>
Lease liabilities - current	\$ -	\$ 3,394,630	\$ 3,394,630
Lease liabilities - non-current	-	24,545,881	24,545,881
Capital lease obligations	596,000	(596,000)	-
Financial liabilities for hedging - current	-	5,947,449	5,947,449
Financial liabilities for hedging - non-current	-	35,972,059	35,972,059
Total effect on liabilities	<u>\$ 596,000</u>	<u>\$ 69,264,019</u>	<u>\$ 69,860,019</u>

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

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 "Definition of Business"	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Materiality"	January 1, 2020 (Note 3)
Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.	
Note 2: Business combinations that began after January 1, 2020 and acquisition of assets after the aforesaid date are subjected to the amendment.	
Note 3: The amendment is applied for the annual period beginning after January 1, 2020.	
As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance and will disclose the relevant impact when the assessment is completed.	

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "clarify the classification of liabilities as current or non-current"	January 1, 2022
Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.	
The application of new IFRSs in issue but not yet endorsed and issued into effect by the FSC would not have any material impact on the Company's accounting policies. As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance and will disclose the relevant impact when the assessment is completed.	

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

Basis of Preparation

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

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

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

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its standalone financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the standalone basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, associates and joint ventures and the related equity items, as appropriate, in these parent company only financial statements.

Current and Non-current Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
 - b. Assets expected to be realized within 12 months after the reporting period; and
 - c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.
- Current liabilities include:
- a. Liabilities held primarily for the purpose of trading;
 - b. Liabilities due to be settled within 12 months after the reporting period; and
 - c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

Foreign Currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

- a. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- b. Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sale and are stated at the lower of cost or net realizable value. The costs of inventories sold or consumed are determined using the weighted-average method.

Non-current Assets Held for Sale

Non-current assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the Non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

Investments Accounted for by the Equity Method

Investments in subsidiaries, associates and jointly controlled entities are accounted for by the equity method.

- a. Investment in subsidiaries

Subsidiaries (including special purpose entities) are the entities controlled by the Company.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the changes in other equity of the subsidiary.

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

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

When the Company ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and side stream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

b. Investments in associates and joint ventures

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement and the rights to the net assets of the arrangement.

The Company uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, an investment in an associate and jointly controlled entity is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and jointly ventures. The Company also recognizes the changes in the Company's share of equity of associates and jointly ventures attributable to the Company.

When the Company subscribes for additional new shares of an associate and joint ventures at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint ventures. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the subscription of additional new shares of the associate and jointly controlled entity, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint ventures is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate and joint ventures equals or exceeds its interest in that associate and joint ventures which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint ventures entity, the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint ventures.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate and joint ventures recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which it ceases to have significant influence and joint control. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the jointly controlled entity. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Company transacts with its associate and joint ventures, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent of interests in the associate and the jointly controlled entity that are not related to the Company.

Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used for more than one period. The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company; and the cost of the item can be measured reliably. Property, plant and equipment are stated at cost less recognized accumulated depreciation and recognized accumulated impairment loss.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. Assets are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Investment Properties
Investment properties are properties held to earn rentals or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Any gain or loss arising on the derecognition of investment properties is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis; otherwise, corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent allocation basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company uses the estimated cash flows discounted by the future pre-tax discount rate, and the discount rate reflects the current market time value of money and the specific risks to the asset for estimated future cash flows not yet adjusting to the market.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

a. Financial assets

All regular purchases or sales of financial assets are recognized and derecognized on a trade date basis. All regular purchases or sales of financial assets are buy or sell of financial assets in the period set by regulation or market convention.

1) Measurement category

Financial assets are classified into the following categories: financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 31.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

- c) Investments in equity instruments at FVTOCI
- On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if an equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.
- Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.
- Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of an investment.
- 2) Impairment of financial assets
- The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), as well as contract assets.
- The Company always recognizes lifetime expected credit losses (ECLs) for trade receivables and other receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.
- Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.
- The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.
- 3) Derecognition of financial assets
- The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.
- On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Equity instruments

Debt and equity instruments issued by the Company entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Except for financial liabilities at FVTPL, all financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issuance of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

e. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and fuel price risks, including foreign exchange forward contracts, interest rate swaps, currency options swaps and fuel swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Company enters into some derivative transactions that aim to manage interest rates, foreign exchange rates, fuel prices, and other factors affecting gains or losses on assets and liabilities. The hedging transactions are defined as cash flow hedges. When entering into hedging transactions, the Company has prepared official documents that describe the hedging relationship between hedging instruments and items which have been hedged, the objective of risk management, the hedging strategy, and the way to evaluate the effectiveness of the hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period as when the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Starting from 2018, the Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period in which the hedge was effective remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

The Company recognizes provisions when the Company has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When the aircraft lease contracts expire and will be returned to lessor, the Company will assess if there are existing obligations and if a provision is required when signing the lease contract.

Revenue Recognition

When applying IFRS 15 during 2018, the Company recognizes revenue by applying the following steps:

- Identifying the contract with the customer;
- Identifying the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and

- Recognize revenue when the Company satisfies a performance obligation.

Shipping service revenue

Passenger and cargo revenue are recognized as revenue when the passengers and goods are actually carried. When the tickets are sold, due to the fact that the fulfillment obligations of the shipment have not been met, the relevant amount of revenue is first recorded as contract liabilities until passengers actually board. Before 2017, the relevant amounts were recorded as deferred revenue.

Leasing

2019

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Company by the end of the lease terms or if the costs of right-of-use assets reflect that the Company will exercise a purchase option, the Company depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives payable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. Lease liabilities are presented on a separate line in the balance sheets.

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.

For sale and leaseback transactions, if the transfer of an asset satisfies the requirements of IFRS 15 to be accounted for as a sale, the Company recognizes only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor, and adjusts the off-market terms to measure the sale proceeds at fair value. If the transfer does not satisfy the requirements of IFRS 15 to be accounted for as a sale, it is accounted for as a financing transaction.

2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability to the lessee is included in the balance sheets as a finance lease obligation.

Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case, they are capitalized in accordance with the Company's general policy on borrowing costs.

Operating lease payments are recognized as expenses on a straight-line basis over the lease term

Employee Benefits

- a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

- b. Retirement benefits

Payments to the defined contribution retirement benefit plan are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined contribution retirement benefit plan are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit in the Company's defined benefit plans.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets which are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Frequent Flyer Programs

The Company has a "Dynasty Flyer Program" through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member rewards.

A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The Company recognizes this deferred revenue as revenue only when the Company has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired.

Share-based Payment Arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instrument that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the granted share options are vested immediately.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

- a. Current tax

The current tax liabilities are based on current taxable profit. Since part of the income and expenses are taxable or deductible in other periods, or in accordance with the relevant tax laws are taxable or deductible, current taxable profit differs from net profit reported in the statements of comprehensive income.

The Company's current tax liabilities are calculated by the tax rate was legislated or substantially legislated at the balance sheet date.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve the retention of these earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

- b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Maintenance and Overhaul Costs

Routine maintenance costs are recognized in profit or loss in the period in which they are incurred.

The overhaul costs of an owned or leased aircraft that meet the criteria for fixed asset capitalization are capitalized as replacements for aircraft and engines and are depreciated on a straight line basis over the expected annual overhaul cycle.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies as disclosed in Note 4, management is required to make judgments, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Depreciation of Property, Plant and Equipment - Flight Equipment

Flight equipment is depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Company on the basis of past experience and fleet operation performance in the industry. Due to changes in the fleet plan, the board of directors of the Company has decided to change the expected useful lives of four 747-400 (GE) from 20 to 16-17 years since January 1, 2018 in order to meet the economic benefits and number of years of consumption. It is estimated that the depreciation expense will increase by approximately NT\$770 million annually.

Defined Benefit Obligations

The present value of defined benefit obligations at the end of the reporting period are calculated using actuarial assumptions. Those assumptions, which are based on management's judgment and estimates, comprise the discount rate and expected return on plan assets. Changes in actuarial assumptions may have a material impact on the amount of defined benefit obligations.

6. CASH AND CASH EQUIVALENTS

	December 31	2018
Cash on hand and revolving funds	\$ 58,661	\$ 51,264
Checking accounts and demand deposits	4,867,015	6,367,527
Cash equivalents	12,662,162	12,269,231
Time deposits with original maturities of less than three months	3,038,176	-
Repurchase agreements collateralized by bonds	<u>\$ 20,626,014</u>	<u>\$ 18,688,022</u>

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

	December 31	2018
Bank balance	0.01%-1.90%	0%-1.90%
Time deposits with original maturities of less than three months	0.60%-2.55%	0.60%-3.55%
Repurchase agreements collateralized by bonds	0.55%-0.70%	-

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

	December 31	2018
Financial assets - current	\$ 434	\$ -
Financial assets mandatorily classified at FVTPL		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	\$ -	\$ -
Financial liabilities held for trading		
Derivative financial instruments (not under hedge accounting)		
foreign exchange forward contracts	<u>\$ 11,749</u>	<u>\$ 221</u>

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2019</u>			
Buy forward contracts	NTD/USD	2020.01.15-2020.07.31	NTD570,571/USD19,000
<u>December 31, 2018</u>			
Buy forward contracts	NTD/USD	2019.01.02-2019.01.31	NTD30,923/USD1,000

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in Equity Instruments

	December 31	
	2019	2018
<u>Non-current</u>		
Foreign investments		
Unlisted shares	\$ 80,991	\$ 61,620
Domestic investments		
Unlisted shares	<u>26,865</u>	<u>21,746</u>
	<u>\$ 107,856</u>	<u>\$ 83,366</u>

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

9. FINANCIAL ASSETS AT AMORTIZED COST

	December 31	
	2019	2018
<u>Current</u>		
Time deposits with original maturities of more than 3 months (e)	<u>\$ 1,460,450</u>	<u>\$ 2,310,000</u>

The range of interest rates for time deposits with original maturities of more than 3 months were approximately 0.60%-2.44% and 0.40%-0.68% per annum as of December 31, 2019 and 2018, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2019	2018
<u>Notes receivable</u>	<u>\$ 297,075</u>	<u>\$ 596,739</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	7,577,460	8,875,002
Less: Allowance for impairment loss	<u>(180,104)</u>	<u>(191,079)</u>
	<u>7,397,356</u>	<u>8,683,923</u>
	<u>\$ 7,694,431</u>	<u>\$ 9,280,662</u>

The average credit period was 7 to 55 days. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the receivable since the date credit was initially granted to the end of the reporting period, and any allowance for impairment loss was based on the estimated irrecoverable amounts determined by reference to the Company's past default experience with the counterparty and an analysis of the counterparty's current financial position. The Company 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 Company uses other publicly available financial information or its own trading records to rate its major customers. The Company'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 Company applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss allowance for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience with the debtors and an analysis of the debtors' current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Company'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 Company's customer base.

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

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

	<u>December 31, 2019</u>					Total
	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
Expected credit loss rate	0.03%	0.15%	15.89%	22.14%	100%	-
Gross carrying amount	\$ 6,070,753	\$ 1,241,766	\$ 37,891	\$ 73,058	\$ 153,992	\$ 7,577,460
Loss allowance (lifetime ECLs)	<u>(2,052)</u>	<u>(1,862)</u>	<u>(6,020)</u>	<u>(16,178)</u>	<u>(153,992)</u>	<u>(180,104)</u>
Amortized cost	<u>\$ 6,068,701</u>	<u>\$ 1,239,904</u>	<u>\$ 31,871</u>	<u>\$ 56,880</u>	<u>\$ -</u>	<u>\$ 7,397,356</u>

	<u>December 31, 2018</u>					Total
	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
Expected credit loss rate	0.06%	0.06%	3.67%	21.78%	97.5%	
Gross carrying amount	\$ 7,291,910	\$ 1,331,529	\$ 36,819	\$ 41,920	\$ 172,824	\$ 8,875,002
Loss allowance (lifetime ECLs)	<u>(1,149)</u>	<u>(699)</u>	<u>(3,796)</u>	<u>(12,611)</u>	<u>(172,824)</u>	<u>(191,079)</u>
Amortized cost	<u>\$ 7,290,761</u>	<u>\$ 1,330,830</u>	<u>\$ 33,023</u>	<u>\$ 29,309</u>	<u>\$ -</u>	<u>\$ 8,683,923</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 191,079	\$ 142,637
Add: Net remeasurement of loss allowance	24,000	50,000
Less: Amounts written off	(34,975)	(2,555)
Foreign exchange gains and losses	-	997
Balance at December 31	<u>\$ 180,104</u>	<u>\$ 191,079</u>

11. INVENTORIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Aircraft spare parts	\$ 7,390,981	\$ 7,669,834
Items for in-flight sale	571,601	554,084
Work in process - maintenance services	<u>283,933</u>	<u>227,974</u>
	<u>\$ 8,246,515</u>	<u>\$ 8,451,892</u>

The operating costs for the years ended December 31, 2019 and 2018 included losses from inventory write-downs of \$317,629 thousand and \$371,275 thousand, respectively.

12. NON-CURRENT ASSETS HELD FOR SALE

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Aircraft held for sale	\$ -	\$ 46,154

To enhance its competitiveness, the Company plans to introduce new aircraft and retire old aircraft according to a planned schedule. Such aircraft, classified as non-current assets held for sale, had an original book value which was higher than the expected sale price and which was recognized as an impairment loss. However, the actual loss shall be identified by the actual sale price.

In 2019 and 2018, the Company recognized impairment losses of \$0 thousand and \$75,437 thousand, respectively. In 2019 and 2018, the Company recognized disposal losses of \$10,462 thousand and \$368,992 thousand, respectively.

The fair value was determined by transactions of the related market, and the proposed sale price was based on the current status of the aircraft. The fair value is classified as Level 3.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	<u>2018</u>
Investments in subsidiaries	\$ 12,004,180	\$ 11,686,577
Investments in associates	471,267	497,362
Investments in jointly controlled entities	<u>1,007,430</u>	<u>974,416</u>
	<u>\$ 13,482,877</u>	<u>\$ 13,158,355</u>

a. Investment in subsidiaries

Unlisted companies

Tigerair Taiwan Co., Ltd.	\$ 1,946,328	\$ 1,805,921
CAL Park	1,552,310	1,507,445
Mandarin Airlines	1,494,603	1,201,109
CAL-Dynasty International	1,276,546	1,266,921
Taiwan Air Cargo Terminal	1,517,946	1,533,244
Taoyuan International Airport Services	737,245	755,619
CAL-Asia Investment	559,562	494,098
Sabre Travel Network (Taiwan)	460,213	454,149
CAL Hotel	479,259	461,239
Taiwan Airport Services	276,134	266,775
Hwa Hsia	88,313	89,101
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	921,989	1,128,138
Yestrip	25,268	26,946
Dynasty Holidays	-	26,059
Global Sky Express	7,294	6,996
Kaohsiung Catering Services	<u>661,170</u>	<u>662,817</u>
	<u>\$ 12,004,180</u>	<u>\$ 11,686,577</u>

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Company were as follows:

	December 31	
	2019	2018
Tigerair Taiwan Co., Ltd.	69%	90%
Taiwan Air Cargo Terminal	54%	54%
CAL Park	100%	100%
Mandarin Airlines	94%	94%
CAL-Dynasty International	100%	100%
Taoyuan International Airport Services	49%	49%
CAL-Asia Investment	100%	100%
Sabre Travel Network (Taiwan)	94%	94%
Taiwan Airport Services	47%	47%
CAL Hotel	100%	100%
Hwa Hsia	100%	100%
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	100%	100%
Dynasty Holidays	20%	51%
Yestrip	100%	100%
Global Sky Express	25%	25%
Kaohsiung Catering Services	54%	54%

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries.

The Company paid \$243,743 thousand on March 7, 2018 to acquire an additional 18% of Kaohsiung Catering, Ltd. (Kaohsiung Catering) of which the Company's holding of the issued share capital exceeded 50%. Kaohsiung Catering is listed as a subsidiary because the Company has control over the investee. For the disclosure of the Company's acquisition of Kaohsiung Catering, refer to Note 30.

The board of directors of the Company decided to sell part of the equity of Dynasty Holidays to H.I.S. Taiwan Co., Ltd. on January 21, 2019, and completed the transaction on January 31, 2019. After the sale of the equity, the Company's holding of the issued share capital decreased from 51% to 20%. Dynasty Holidays was classified as an associate since the Group lost control of the subsidiary. For the information about the disposal of the Dynasty Holidays, please refer to Note 31.

In order to prepare the listing of Tigerair Taiwan Co., Ltd. and comply with the rules relating to the examination for public listing, the release of the shares of Tigerair Taiwan Co., Ltd. held by the Company was resolved in the shareholders' meeting of the Company on June 25, 2019. The shares shall be subscribed by all shareholders of the Company on the basis of the percentage of shareholdings. For the subscribed shares that the original shareholders waived or for the undersubscribed portion, the chairman was authorized to contact specific persons to subscribe. The subscription price was set at \$41 per share. In October and December 2019, the stock price was fully paid and the shares were completely delivered and transferred. The proceeds from disposal were \$1,679,789 thousand, and the related gain on disposal was \$1,129,080 thousand and recognized in the capital surplus account.

The share of profit or loss of subsidiaries recognized under the equity method was as follows:

	2019	2018
The share of profit or loss	\$ 1,529,721	\$ 1,628,453

b. Investments in associates

	December 31	
	2019	2018
<u>Unlisted companies</u>		
China Aircraft Services	\$ 461,263	\$ 497,362
Dynasty Holidays	<u>10,004</u>	<u>-</u>
	<u>\$ 471,267</u>	<u>\$ 497,362</u>

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

	December 31	
	2019	2018
China Aircraft Services	20%	20%
Dynasty Holidays (Note)	20%	51%

Note: Dynasty Holidays was list as a associate on January 31, 2019.

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

	2019	2018
China Aircraft Services	\$ 10,365	\$ 6,402
Dynasty Holidays	<u>15</u>	<u>-</u>
	<u>\$ 10,380</u>	<u>\$ 6,402</u>

c. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2019	2018
China Pacific Catering Services	\$ 801,070	\$ 805,157
China Pacific Laundry Services	168,547	166,901
NORDAM Asia	<u>37,813</u>	<u>2,358</u>
	<u>\$ 1,007,430</u>	<u>\$ 974,416</u>

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

	<u>2019</u>	<u>December 31</u>	<u>2018</u>
China Pacific Catering Services	51%		51%
China Pacific Laundry Services	55%		55%
NORDAM Asia	49%		49%

The Company signed a joint venture agreement with the Taikoo Company to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both parties have the majority power in the board of directors to pose a motion for veto, and therefore the Company does not have control.

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

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

	<u>2019</u>	<u>December 31</u>	<u>2018</u>
China Pacific Catering Services	\$ 256,899	\$ 267,413	
China Pacific Laundry Services	15,030	16,695	
NORDAM Asia	<u>(70)</u>	<u>(41)</u>	
	<u>\$ 271,859</u>	<u>\$ 284,067</u>	

The Company's shares of other comprehensive income of subsidiaries, associates and jointly controlled entities were losses of \$(85,977) thousand and \$(75,996) thousand in 2019 and 2018, respectively.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2019 and 2018 were all independently audited, except of China Aircraft Services. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

For details on services, major business offices and the country where the above associates and jointly controlled entities are registered, refer to Table 6, "Names, Locations, And Other Information of Investees Over Which the Company Exercises Significant Influence" and, Table 7, "Investments In Mainland China", following the notes to financial statements.

14. PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Balance at January 1, 2018	\$ 193,013	\$ 7,304,328	\$ 261,114,631	\$ 25,594,436	\$ 6,163,436	\$ 300,369,844
Additions	-	41,016	2,308,683	-	212,288	2,561,987
Disposals	-	(10,349)	(20,305,928)	(1,811,222)	(108,752)	(22,236,251)
Reclassification	-	542	12,462,241	1,428,463	73,574	13,964,820
Balance at December 31, 2018	<u>\$ 193,013</u>	<u>\$ 7,335,537</u>	<u>\$ 255,579,627</u>	<u>\$ 25,521,677</u>	<u>\$ 6,340,546</u>	<u>\$ 294,660,400</u>
Accumulated depreciation and impairment						
Balance at January 1, 2018	-	\$ (3,717,055)	\$ (135,671,634)	\$ (13,613,023)	\$ (5,102,584)	\$ (158,104,296)
Depreciation expense	-	(172,873)	(15,732,018)	(1,993,631)	(293,769)	(18,192,291)
Disposals	-	9,326	19,813,183	1,532,046	89,841	21,444,396
Impairment losses	-	-	(30,000)	-	-	(30,000)
Reclassification	-	-	9,283,041	-	(12,196)	9,270,845
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ (3,880,602)</u>	<u>\$ (122,357,428)</u>	<u>\$ (14,074,608)</u>	<u>\$ (5,318,708)</u>	<u>\$ (145,631,346)</u>
Carrying amounts at December 31, 2018	<u>\$ 193,013</u>	<u>\$ 3,454,935</u>	<u>\$ 133,222,199</u>	<u>\$ 11,137,069</u>	<u>\$ 1,021,838</u>	<u>\$ 149,029,054</u>
Cost						
Balance at January 1, 2019	\$ 193,013	\$ 7,335,537	\$ 255,579,627	\$ 25,211,677	\$ 6,340,546	\$ 294,660,400
Additions	-	37,725	2,211,321	-	148,696	2,397,742
Disposals	-	(162)	(20,698,042)	(79,866)	(85,852)	(20,863,922)
Reclassification	-	10,658	29,815,008	(25,131,811)	106,257	4,800,112
Balance at December 31, 2019	<u>\$ 193,013</u>	<u>\$ 7,383,758</u>	<u>\$ 266,907,914</u>	<u>\$ -</u>	<u>\$ 6,509,647</u>	<u>\$ 280,994,332</u>
Accumulated depreciation and impairment						
Balance at January 1, 2019	-	\$ (3,880,602)	\$ (122,357,428)	\$ (14,074,608)	\$ (5,318,708)	\$ (145,631,346)
Depreciation expense	-	(175,943)	(18,186,434)	(741,780)	(284,537)	(19,388,694)
Disposals	-	162	14,899,562	79,866	76,586	15,056,176
Reclassification	-	-	(14,692,000)	14,736,522	(45,104)	(82)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ (4,056,383)</u>	<u>\$ (140,336,300)</u>	<u>\$ -</u>	<u>\$ (5,571,763)</u>	<u>\$ (149,964,446)</u>
Carrying amounts at December 31, 2019	<u>\$ 193,013</u>	<u>\$ 3,327,375</u>	<u>\$ 126,571,614</u>	<u>\$ -</u>	<u>\$ 937,884</u>	<u>\$ 131,029,886</u>

Reclassification is mainly from prepaid equipment.

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

Building	
Main buildings	45-55 years
Others	10-25 years
Machinery and equipment	
Electro-mechanical equipment	25 years
Others	3-13 years
Office equipment	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years
Flight equipment and equipment under finance leases	
Airframes	18-25 years
Aircraft cabins	10-20 years
Engines	12-20 years
Heavy maintenance on aircraft	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	8-12 years
Repairable spare parts	3-15 years
Leased aircraft improvements	5-12 years

Regarding changes in fleet composition, current and forecasted market values, and other technical factors, the Company recognized impairment losses on a part of aircraft equipment of \$50,000 thousand in 2018.

Refer to Note 32 for the carrying amounts of aircraft equipment and right-of-use assets pledged by the Company.

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

15. INVESTMENT PROPERTIES

	December 31	
	2019	2018
Carrying amount	<u>\$ 2,047,448</u>	<u>\$ 2,047,448</u>
Investment properties		

The investment properties (land) held Company, located in Nankan, were leased to others.

The fair value of the investment properties held by the Company were both \$2,473,771 thousand as of December 31, 2019 and 2018. The fair value valuation was performed by independent qualified professional valuers, and the future income evaluated by management was based on market transactions. All of the Company's investment properties were held under freehold interest.

16. OTHER INTANGIBLE ASSETS

	Computer Software Costs	Accumulated Amortization	Net Value
Balance at January 1, 2018	\$ 1,905,354	\$ (916,027)	\$ 989,327
Additions	155,431	-	155,431
Amortization expense	-	(165,050)	(165,050)
Balance at December 31, 2018	<u>\$ 2,060,785</u>	<u>\$ (1,081,077)</u>	<u>\$ 979,708</u>
Balance at January 1, 2019	\$ 2,060,785	\$ (1,081,077)	\$ 979,708
Additions	157,571	-	157,571
Amortization expense	-	(165,981)	(165,981)
Balance at December 31, 2019	<u>\$ 2,218,356</u>	<u>\$ (1,247,058)</u>	<u>\$ 971,298</u>

The above items of other intangible assets are amortized on a straight-line basis over 2-10 years.

17. OTHER ASSETS

	December 31	
	2019	2018
<u>Current</u>		
Temporary payments	\$ 94,682	\$ 290,662
Prepayments	1,551,113	2,549,376
Others	<u>460,404</u>	<u>317,826</u>
	<u>\$ 2,106,199</u>	<u>\$ 3,157,864</u>
<u>Non-current</u>		
Prepayments for aircraft	\$ 8,322,518	\$ 223,745
Prepayments - long-term	2,264,220	1,501,429
Refundable deposits	621,715	377,577
Other financial assets	<u>19,103</u>	<u>19,334</u>
	<u>\$ 11,227,556</u>	<u>\$ 2,122,085</u>

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A321neo and B777F aircraft. For details on the A321neo and B777F aircraft purchase contracts, refer to Note 33.

18. BORROWINGS

Long-term Borrowings

	December 31	2018
Unsecured bank loans	\$ 650,000	\$ 7,749,000
Secured bank loans	30,435,870	34,171,875
Commercial paper	31,300,000	30,300,000
Proceeds from issue	<u>59,382</u>	<u>58,132</u>
Less: Unamortized discount	<u>62,326,488</u>	<u>72,162,743</u>
	<u>13,708,320</u>	<u>15,335,005</u>
Less: Current portion	<u>\$ 48,618,168</u>	<u>\$ 56,827,738</u>
Interest rates	1.08%-1.46%	0.92%-1.46%

For information on secured bank loans which were secured by flight equipment, refer to Note 32.

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

	December 31	2018
Periods	2008/2/26- 2030/4/25	2007/5/24- 2030/4/25

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until August 2024, were used by the Company to guarantee commercial paper which it issued. The commercial paper was issued at discount rates of 1.1300%-1.1680% in 2019 and 1.0693%-1.2960% in 2018.

19. BONDS PAYABLE

	December 31	2018
Unsecured corporate bonds first-time issued in 2013	\$ 2,750,000	\$ 5,500,000
Unsecured corporate bonds first-time issued in 2016	5,000,000	5,000,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	2,350,000
Unsecured corporate bonds second-time issued in 2017	3,500,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	4,500,000
Unsecured corporate bonds first-time issued in 2019	3,500,000	-
Convertible bonds - fifth-time issue	-	1,695,900
Convertible bonds - sixth-time issue	<u>5,752,625</u>	<u>5,673,710</u>
	<u>32,352,625</u>	<u>33,219,610</u>
	<u>10,000,000</u>	<u>4,445,900</u>
Less: Current portion and put option of convertible bonds	<u>\$ 22,352,625</u>	<u>\$ 28,773,710</u>

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.01.17-2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.6
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.01.17-2020.01.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.09.27-2021.09.27	Principal repayable in September of 2020 and 2021; interest p.a. payable annually	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually	2017.05.19-2020.05.19	Principal repayable on due date; indicator rate; payable annually	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.05.19-2024.05.19	Principal repayable on due date; indicator rate; payable annually	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in October of 2021 and 2022; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually	2018.11.30-2023.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.32
Seven-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in June 2019; repayable in June 2023 and 2024; 1.10% interest p.a., payable annually	2019.06.21-2024.06.21	Principal repayable in June of 2023 and 2024; indicator rate; payable annually	1.10
Seven-year private unsecured bonds - issued at par in June 2019; repayable in June 2025 and 2026; 1.32% interest p.a., payable annually	2019.06.21-2026.06.21	Principal repayable in June of 2025 and 2026; indicator rate; payable annually	1.32

(Continued)

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

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

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

Proceeds from issuance
Equity component

	\$ 6,012,000
	<u>(409,978)</u>
	<u>\$ 5,602,022</u>

Liability component at the date of issuance

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.

20. LEASE AGREEMENTS

Year 2019

- a. Right-of-use assets - 2019

December 31,
2019

Carrying amounts
Land
Buildings
Flight equipment

	\$ 3,442,366
	6,950,330
	<u>53,870,134</u>
	<u>\$ 64,262,830</u>

Category	Period	Conditions	Rate (%)
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Except for converting to share capital or buying back, principal repayable in December of 2018	-
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	Except for converting to share capital or buying back, principal repayable in December of 2023	-
		(Concluded)	

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 Co., Ltd. and Sabre Travel Network (Taiwan) Co., Ltd., which held a face value of \$300,000 thousand, and the amount was eliminated in the Company's consolidated financial statements.

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. The holders can request that the Company repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise selling rights on December 26, 2016, the Company reclassified the bonds payable to "current portion of bonds payable" in December 2015. The Company paid \$994,705 thousand to the holders of the bonds payable who exercised the put options, and the difference between the payment amount and carrying amount recognized was a loss on the bonds payable buy back of \$41,943 thousand, for which the Company reclassified the remaining face value to Non-current assets.
- c. The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 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\$12.24, 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 August 14, 2018, there was adjustment the conversion price to NT\$11.38, corporate bonds with a face value of \$3,316,800 thousand had been converted to 270,985 thousand units of ordinary shares.
- e. The convertible bonds has expired on December 26, 2018, the Company has fully repayable in January 8, 2019, the related capital surplus - share option has reclassified as capital surplus - other.

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 1.8245% per annum on initial recognition.

Proceeds from issuance
Equity component

	\$ 6,000,000
	<u>(518,621)</u>
	<u>\$ 5,481,379</u>

Liability component at the date of issuance

d. Material leasing activities and terms

As lessee, China Airlines leased ten 777-300ER planes, fifteen A330-300 planes and fifteen 737-800 planes for operation, lease period are 8 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:

	December 31, 2019
Refundable deposits	\$ 463,115
Credit guarantees	1,406,702

e. Lease agreement

The Company signed a rental contract for six A321neo with Air Lease Corporation on September 2019, which is expected to be introduced between 2021 and 2022.

The Company signed a rental letter of intent for eight A321neo with CALC Lease Corporation on May 2019, which is expected to be introduced in 2022.

f. Sale-and-leaseback

In order to revitalize assets and strengthen the financial structure, the Company sold five of its own A330-300 aircraft to Altavair L.P. in September 2019 by sale-and-leaseback for \$4,905,660 thousand. The lease term was 5 to 6 years and a loss of \$103,775 thousand was incurred. The lease agreement had no terms for lease renewal or offtake rights. The annual lease payments for each aircraft are US\$5,389 thousand to US\$5,437 thousand.

As lessee, the Company leased office buildings and equipment from CAL Park. Lease period is 2 years, and the fixed payment (tax included) is \$20,238 thousand per month.

g. Other lease information

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

	For the Year Ended December 31, 2019
Short-term and low price lease payment	\$ 18,144
Total of lease cash outflow	<u>\$ (11,583,349)</u>

The Company 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.

	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 5,043,409</u>
Depreciation for right-of-use assets	\$ 171,147
Land	767,939
Buildings	9,070,855
Flight equipment	<u>\$ 10,009,941</u>

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	<u>\$ 695,215</u>
Current	<u>\$ 10,909,262</u>
Non-current	

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

	December 31, 2019
Land	1.09%-1.65%
Buildings	0%-3.56%
Flight equipment	2.49%-3.16%

c. Financial liabilities under hedge accounting

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

	Maturity Date	Subject	Carrying Value
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

Influence of comprehensive income

	Recognized in Other Comprehensive Income	Reclassified to Income
For the year ended December 31, 2019	\$ 1,457,058	\$ (24,029)

2018

a. Sale-and-leaseback finance leases

	December 31, 2018
<u>Minimum lease payments - flight equipment</u>	
Within one year	\$ 596,000
Beyond one year and within five years	-
Present value of minimum lease payments	<u>\$ 596,000</u>
Interest rates	1.0680%

The Company had leased one A330-300 aircraft under sale-leaseback finance leases as of December 31, 2018. The lease terms started from June 2006 to April 2019. During the lease terms, the Company retained all risks and rewards attached to the aircraft and engines and enjoyed the same substantive rights as those prior to the transactions. The interest rates underlying all obligations under these finance leases were floating. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts do not include interest expenses.

b. Operating lease arrangements (include sale-leaseback operating leases)

For the operating lease arrangements, please refer to the financial statements for the year ended December 31, 2018.

As of December 31, 2018, the refundable deposits paid by the Company under operating lease contracts were \$215,425 thousand. Some of the guarantees were secured by credit guarantees, and outstanding credit guarantees as of December 31, 2018 were \$1,437,707 thousand.

The future minimum lease payments for the non-cancelable operating lease commitments were as follows:

	December 31, 2018
Up to 1 year	\$ 9,943,373
Over 1 year to 5 years	38,789,047
Over 5 years	<u>19,441,872</u>
	<u>\$ 68,174,292</u>

The lease payments recognized in expense for the current period were as follows:

	For the Year Ended December 31, 2018
Minimum lease payments	<u>\$ 10,024,963</u>

21. OTHER PAYABLES

	December 31 2019	2018
Fuel costs	\$ 3,419,803	\$ 3,571,314
Ground service expenses	1,178,184	1,089,125
Repair expenses	1,136,588	960,138
Interest expenses	214,089	260,179
Short-term employee benefits	1,577,322	2,053,442
Terminal surcharges	914,428	914,171
Commission expenses	509,520	484,341
Others	<u>1,942,269</u>	<u>2,406,591</u>
	<u>\$ 10,892,203</u>	<u>\$ 11,739,301</u>

22. CONTRACT LIABILITIES/DEFERRED REVENUE

	December 31 2019	2018
Contract Liabilities	\$ 2,884,122	\$ 2,489,950
Frequent flyer programs	17,936,476	16,479,196
Advance ticket sales	<u>20,820,598</u>	<u>18,969,146</u>
Current	\$ 18,584,287	\$ 17,065,481
Non-current	<u>2,236,311</u>	<u>1,903,665</u>
	<u>\$ 20,820,598</u>	<u>\$ 18,969,146</u>

23. PROVISIONS

	December 31 2019	2018
Operating leases - aircraft	\$ 9,431,736	\$ 7,999,015
Current	-	\$ 268,901
Non-current	<u>9,431,736</u>	<u>7,730,114</u>
	<u>\$ 9,431,736</u>	<u>\$ 7,999,015</u>

The Company rented flight equipment under operating lease agreements. Under the contracts (some of the leased flight equipment's lease payments are calculated monthly), when the lease expires 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 cycle and the number of engine revolutions. The Company had existing obligations to recognize provisions when signing a lease or during the lease term.

	Aircraft Lease Contract
Balance at January 1, 2018	\$ 7,758,651
Additional provisions recognized	2,566,045
Usage	(2,539,210)
Effect of exchange rate changes	<u>213,529</u>
Balance at December 31, 2018	<u>\$ 7,999,015</u>
Balance at January 1, 2019	\$ 7,999,015
Additional provisions recognized	3,616,519
Usage	(1,970,226)
Effect of exchange rate changes	<u>(213,572)</u>
Balance at December 31, 2019	<u>\$ 9,431,736</u>

24. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name.

Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	2019	December 31	2018
Present value of defined benefit obligation	\$ 13,932,511	\$ 13,117,255	(6,184,472)
Fair value of plan assets	<u>(6,343,766)</u>	<u>(6,343,766)</u>	<u>(6,184,472)</u>
Net defined benefit liabilities	<u>\$ 7,588,745</u>	<u>\$ 6,932,783</u>	<u>\$ 6,932,783</u>
Movements in net defined benefit liabilities (assets) were as follows:			
	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	\$ 11,956,223	\$ (5,797,479)	\$ 6,158,744
Service cost	1,263,193	-	1,263,193
Current service cost	116,231	(56,995)	59,236
Net interest expense (income)	<u>1,379,424</u>	<u>(56,995)</u>	<u>1,322,429</u>
Recognized in profit or loss			
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(168,987)	(168,987)
Actuarial loss - changes in financial assumptions	283,774	-	283,774
Actuarial loss - experience adjustments	560,118	-	560,118
Recognized in other comprehensive income	<u>843,892</u>	<u>(168,987)</u>	<u>674,905</u>
Contributions from the employer	-	(1,058,494)	(1,058,494)
Benefits paid	(897,483)	897,483	-
Payment to employees direct from the employer	(174,390)	-	(174,390)
Effect of exchange rate changes	9,589	-	9,589
Balance at December 31, 2018	<u>13,117,255</u>	<u>(6,184,472)</u>	<u>6,932,783</u>
Service cost			
Current service cost	1,187,281	-	1,187,281
Net interest expense (income)	118,517	(56,049)	62,468
Recognized in profit or loss	<u>1,305,798</u>	<u>(56,049)</u>	<u>1,249,749</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(219,345)	(219,345)
Actuarial loss - changes in financial assumptions	290,044	-	290,044
Actuarial loss - experience adjustments	491,560	-	491,560
Recognized in other comprehensive income	<u>781,604</u>	<u>(219,345)</u>	<u>562,259</u>
Contributions from the employer	-	(1,038,624)	(1,038,624)
Benefits paid	(1,154,724)	1,154,724	-
Payment to employees direct from the employer	(117,492)	-	(117,492)
Effect of exchange rate changes	<u>70</u>	<u>-</u>	<u>70</u>
Balance at December 31, 2019	<u>\$ 13,932,511</u>	<u>(6,343,766)</u>	<u>\$ 7,588,745</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. Based on relevant regulations, the return generated by plan assets should not be below the interest rate for a two-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. Thus, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligations.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	2018
	2019	2018
Discount rate	0.71%	0.93%
Expected rate of salary increase	1.00%	1.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	2018
	2019	2018
Discount rate		
0.5% increase	\$ (613,408)	\$ (576,271)
0.5% decrease	\$ 653,413	\$ 626,381
Expected rate of salary increase		
0.5% increase	\$ 626,743	\$ 601,326
0.5% decrease	\$ (600,073)	\$ (563,743)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	2018
	2019	2018
The expected contributions to the plan for the next year	\$ 736,056	\$ 722,820
The average duration of the defined benefit obligation	9.6 years	9.8 years

25. EQUITY

a. Share capital

Ordinary shares

	December 31	2018
	2019	2018
Number of authorized shares (in thousands)	7,000,000	6,000,000
Amount of authorized shares	\$ 70,000,000	\$ 60,000,000
Amount of issued shares	\$ 54,209,846	\$ 54,209,846

b. Capital surplus

	December 31	2018
	2019	2018
Income of convertible bonds in excess of par value and conversion premium	\$ 315,114	\$ 315,114
Dividends distributed to subsidiaries	3,909	3,303
Retirement of treasury shares	33,513	33,513
Difference in sale price of share of subsidiaries and book value	1,129,080	-
Expired employee share options	11,747	11,747
Long-term investments	118,962	955
Bonds payable equity component	409,978	409,978
Others	466,604	466,604
	\$ 2,488,907	\$ 1,241,214

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of ordinary shares) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Company's paid-in capital).

The capital surplus from long-term investments, employee share options expired, dividends distributed to subsidiaries and retirement of treasury shares may not be used for any purpose, expect for offsetting a deficit. As for capital surplus from conversion of convertible bonds payable may not be used for any purpose.

c. Appropriation of earnings and dividend policy

According to 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 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 demand, 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 making good the 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 profit surplus shall be approved in the annual shareholders' meeting held in the following year and shall be accounted for in that year.

1) Appropriation of earnings and dividends per share in 2017

The appropriation of earnings for 2017 was resolved in the shareholders' meeting on June 27, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 145,831	
Special reserve	118,810	
Cash dividends	1,193,670	\$0.2181820086

2) Appropriation of earnings in 2018

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

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

Company reversed special reserve of \$105,843 thousand.

3) Offsetting of deficits in 2019

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

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

d. Other equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) Available-for- sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance at January 1, 2018	\$ (34,986)	\$ 1,774	\$ -	\$ (74,429)	\$ -	\$ (107,641)
Adjustments on initial application of IFRS 9	-	(1,774)	42,351	74,429	(74,429)	40,577
Balance at January 1, 2018 after IFRS 9	(34,986)	-	42,351	-	(74,429)	(67,064)
Exchange differences on translating foreign operations	34,140	-	-	-	-	34,140
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	84,984	84,984
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	14,354	14,354
Unrealized gain on financial assets at FVTOCI	-	-	(23,830)	-	-	(23,830)
Share of profit or associates accounted for using equity method	(3,188)	-	24,760	-	8,001	29,573
Effect of change in tax rate	1,198	-	(1,209)	-	2,530	2,519
Effects of income tax Other comprehensive income (loss)	(6,823)	-	547	-	(22,290)	(28,571)
Recognized in the period	25,322	-	268	-	87,579	113,169
Transfers of initial carrying amount of hedged items	-	-	-	-	12,118	12,118
Balance at December 31, 2018	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ 58,223

(Continued)

e. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries, as of December 31, 2019 and 2018 were as follows:

	(Shares in Thousands)					
	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance at January 1, 2019	\$ (9,664)	\$ -	\$ 42,619	\$ -	\$ 25,268	\$ 58,223
Exchange differences on translating foreign operations	(59,174)	-	-	-	-	(59,174)
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	1,398,296	1,398,296
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	9,305	9,305
Unrealized gain on financial assets at FVTOCI	-	-	24,490	-	-	24,490
Share of profit or associates accounted for using equity method	(6,072)	-	54,902	-	(7,187)	41,643
Effects of income tax	11,835	-	(14,854)	-	(281,401)	(284,420)
Other comprehensive income (loss) recognized in the period	(53,411)	-	64,538	-	1,119,013	1,130,140
Disposal of subsidiaries	8,368	-	105	-	-	8,473
Transfers of initial carrying amount of hedged items	-	-	-	-	(603)	(603)
Balance at December 31, 2019	\$ (54,707)	\$ -	\$ 107,262	\$ -	\$ 1,143,678	\$ 1,196,233

(Concluded)

	Purpose of Treasury Shares	Buy Back to Write off	Company's Shares Held by Its Subsidiaries	Total
Number of shares, January 1, 2019		-	2,889	2,889
Addition during the year		-	-	-
Number of shares, December 31, 2019		-	2,889	2,889
Number of shares, January 1, 2018		-	2,889	2,889
Addition during the year		50,000	-	50,000
Reduction during the year		(50,000)	-	(50,000)
Number of shares, December 31, 2018		-	2,889	2,889

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2019			
Mandarin Airlines	2,075	\$ 18,796	\$ 18,796
Hwa Hsia	814	7,376	7,376
		\$ 26,172	\$ 26,172
December 31, 2018			
Mandarin Airlines	2,075	\$ 22,821	\$ 22,821
Hwa Hsia	814	8,956	8,956
		\$ 31,777	\$ 31,777

The above acquisitions by subsidiaries of the Company's shares in previous years was due to investment planning.

The shares of the Company held by its subsidiaries were treated as treasury shares. The subsidiaries can exercise shareholders' right on these treasury shares, except for the right to subscribe for the Company's new shares and voting rights.

To maintain the Company's credit standing and shareholders' rights and interests, the board of directors decided to buy back shares of the Company from Taiwan Stock Exchange at a price from \$9 to \$14 per share. The expected period of purchase is from August 10, 2018 to October 9, 2018. As of 50,000 thousand shares had been repurchased. The treasury shares held by the Company has retired on December 18, 2018, share capital decreases \$500,000 thousand, additional paid-in capital in excess of par-ordinary share decreases \$2,906 thousand and additional paid-in capital - treasury share increases \$33,513 thousand. Under the Securities Exchange Act, the treasury shares held by the Company cannot be pledged and are not entitled to dividends distribution and voting rights, etc.

26. NET INCOME

a. Revenue

	<u>For the Year Ended December 31</u>	<u>2018</u>
Passenger	\$ 96,176,865	\$ 94,248,291
Cargo	43,406,487	49,422,018
Others	<u>6,789,049</u>	<u>6,594,483</u>
	<u>\$ 146,372,401</u>	<u>\$ 150,264,792</u>

b. Other income

	<u>For the Year Ended December 31</u>	<u>2018</u>
Interest income	\$ 314,944	\$ 274,189
Subsidy income	38,621	11,200
Dividend income	10,112	9,603
Others	<u>160,556</u>	<u>125,424</u>
	<u>\$ 524,233</u>	<u>\$ 420,416</u>

c. Other gains and losses

	<u>For the Year Ended December 31</u>	<u>2018</u>
Gain (loss) on disposal property, plant and equipment	\$ 26,377	\$ (273,308)
Loss on Non-current assets held for sale	(10,462)	(368,992)
Net loss on financial assets as held for trading	25,700	11,076
Gain on disposal of investment	7,656	450,195
Gain (loss) on foreign exchange, net	(262,610)	10,812
Loss on sale-and-lease back	(103,775)	-
Impairment loss recognized on Non-current assets held for sale	-	(75,437)
Impairment loss recognized on flight equipment	-	(50,000)
Others	<u>(252,468)</u>	<u>(263,576)</u>
	<u>\$ (569,582)</u>	<u>\$ (559,230)</u>

d. Finance costs

	<u>For the Year Ended December 31</u>	<u>2018</u>
Interest expense	\$ 431,599	\$ 414,564
Bonds payable	703,681	882,190
Bank loans	-	15,290
Interest on obligations under finance leases	<u>1,898,892</u>	<u>-</u>
Interest on lease liabilities	<u>\$ 3,034,172</u>	<u>\$ 1,312,044</u>

Information about capitalized interest was as follows:

	<u>For the Year Ended December 31</u>	<u>2018</u>
Capitalization interest	\$ 36,404	\$ 37,174
Capitalization rate	1.01%-1.28%	1.16%-1.31%

e. Depreciation and amortization expenses

	<u>For the Year Ended December 31</u>	<u>2018</u>
Property, plant and equipment	\$ 19,388,694	\$ 18,192,291
Right of use assets	10,009,941	-
Intangible assets	<u>165,981</u>	<u>165,050</u>
	<u>\$ 29,564,616</u>	<u>\$ 18,357,341</u>
An analysis of depreciation by function		
Operating costs	\$ 28,373,597	\$ 17,907,878
Operating expenses	<u>1,025,038</u>	<u>284,413</u>
	<u>\$ 29,398,635</u>	<u>\$ 18,192,291</u>

f. Employee benefits expense

	<u>For the Year Ended December 31</u>	<u>2018</u>
An analysis of amortization by function		
Operating expenses	\$ 165,981	\$ 165,050
Employee benefits expense		
Post-employment benefits	\$ 373,187	\$ 365,707
Defined contribution plans	<u>1,249,749</u>	<u>1,322,429</u>
Defined benefit plans	<u>\$ 1,622,936</u>	<u>\$ 1,688,136</u>
Other employee benefits		
Salary expenses	\$ 14,475,115	\$ 15,010,513
Labor and health insurance	1,282,461	1,242,585
Personnel service expenses	<u>4,589,299</u>	<u>3,610,480</u>
	<u>\$ 20,346,875</u>	<u>\$ 19,863,578</u>

An analysis of employee benefits expense by function

Operating costs	\$ 17,862,954	\$ 17,751,051
Operating expenses	<u>4,106,857</u>	<u>3,800,663</u>
	<u>\$ 21,969,811</u>	<u>\$ 21,551,714</u>

According to the Company's articles, the Company accrued employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation, and accrued profit bonus at a certain rate of profit before tax on the basis of the collective agreement signed with the China Airlines Employees Union. The employees' compensation and profit bonus for the year ended December 31, 2018 was \$51,656 thousand and \$594,810 thousand. For the year ended December 31,

2019, the employees' compensation have not estimated since it was loss before income tax.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual financial statements are authorized for issue are adjusted in the year that the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual financial statements were 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 in 2019 and 2018 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

27. INCOME TAX

- a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	<u>For the Year Ended December 31</u>	<u>2018</u>
Current tax	\$ 8,836	\$ 22,506
Current year Prior year adjustment	(6,658)	4,866
Deferred tax		
Current year	(16,218)	1,366,740
Adjustments to deferred tax attributable to changes in tax rates and laws	26,512	-
Effect of income tax	-	(868,842)
Income tax expense recognized in profit or loss	<u>\$ 12,472</u>	<u>\$ 525,270</u>

A reconciliation of accounting profit and income tax expense is as follows:

	<u>For the Year Ended December 31</u>	<u>2018</u>
Profit before tax	<u>\$ (1,187,326)</u>	<u>\$ 2,315,631</u>
Income tax expense calculated at the statutory rate	\$ (237,465)	\$ 463,126
Add (deduct) tax effects of:		
Non-deductible expenses in determining taxable income	17,900	20,098
Tax-exempt income	(347,338)	(343,107)
Overseas income tax expense	8,836	22,506
Additional income tax under the Alternative Minimum Tax Act	-	-
Unrecognized loss carry forwards and investment tax credits	550,685	1,227,000
Effect of income tax	-	(868,842)
Adjustments for prior years' tax	(6,658)	4,866
Adjustments to deferred tax attributable to changes in tax rates and laws	26,512	-
Other	-	(377)
Income tax expense recognized in profit or loss	<u>\$ 12,472</u>	<u>\$ 525,270</u>

It was announced that the Income Tax Law in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to unappropriated earnings will be reduced from 10% to 5%.

- b. Income tax recognized in other comprehensive income

	<u>For the Year Ended December 31</u>	<u>2019</u>	<u>2018</u>
<u>Deferred tax</u>			
Recognized in other comprehensive income	\$ 11,835	\$ (6,828)	
Translation of foreign operations			(22,290)
Fair value revaluation of hedging instruments for cash flow hedges	(281,401)	134,979	
Actuarial gain or loss on defined benefit plan	112,452	547	
Fair value changes of financial assets at FVTOCI	(14,854)	2,519	
Effect of income tax	-	-	
Total income tax recognized in other comprehensive income	<u>\$ (171,968)</u>	<u>\$ 108,927</u>	

- c. Deferred tax assets and liabilities

For the year ended December 31, 2019

	<u>Beginning Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Ending Balance</u>
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plans	\$ 1,396,033	\$ 18,726	\$ 112,452	\$ 1,527,211
Frequent flyer programs	510,060	80,634	-	590,694
Maintenance reserve	1,674,973	388,512	-	2,063,485
Allowance for reduction of inventory	333,653	(38,854)	-	294,799
Others	<u>646,627</u>	<u>(377,534)</u>	<u>11,860</u>	<u>280,953</u>
	<u>\$ 4,561,346</u>	<u>\$ 71,484</u>	<u>\$ 124,312</u>	<u>\$ 4,757,142</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized foreign exchange gains	\$ -	\$ 81,778	\$ -	\$ 81,778
Others (Note)	<u>21,195</u>	<u>-</u>	<u>296,280</u>	<u>317,475</u>
	<u>\$ 21,195</u>	<u>\$ 81,778</u>	<u>\$ 296,280</u>	<u>\$ 399,253</u>

For the year ended December 31, 2018

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plans	\$ 1,055,972	\$ 205,081	\$ 134,980	\$ 1,396,033
Frequent flyer programs	426,106	83,954	-	510,060
Maintenance reserve	1,395,805	279,168	-	1,674,973
Allowance for reduction of inventory	237,366	96,287	-	333,653
Others	1,079,923	(420,179)	(13,117)	646,627
Loss carryforwards	<u>779,769</u>	<u>(779,769)</u>	<u>-</u>	<u>-</u>
	\$ 4,974,941	\$ (535,458)	\$ 121,863	\$ 4,561,346

Deferred tax liabilities

Temporary differences				
Depreciation difference from fixed assets	\$ 31,010	\$ (31,010)	\$ -	\$ -
Unrealized foreign exchange gains	915	(915)	-	-
Others (Note)	<u>13,894</u>	<u>(5,635)</u>	<u>12,936</u>	<u>21,195</u>
	\$ 45,819	\$ (37,560)	\$ 12,936	\$ 21,195

Note: Included adjustments on initial application due to tax rate changes \$6,873 thousand from IFRS 9.

Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheets are as follows:

	2019	December 31 2018
Loss carryforwards		
2019		\$ 11,790,770
2021	\$ 2,899,496	2,899,496
2022	619,799	619,799
2026	202,699	202,699
2028	1,519,941	1,326,528
2029	<u>760,157</u>	<u>-</u>
	\$ 6,002,092	\$ 16,839,292
Other	\$ 1,097,908	\$ 39,142

d. Unused tax loss carryforwards as of December 31, 2018 were as follows:

Expiry Year	Unused Amount
2021	\$ 2,899,496
2022	619,799
2026	202,699
2028	1,519,941
2029	<u>760,157</u>
	\$ 6,002,092

e. Income tax returns

The income tax returns of the Company through 2017 have been examined by the tax authorities.

28. EARNINGS PER SHARE

	For the Year Ended December 31 2019	For the Year Ended December 31 2018
Basic earnings per share	\$ (0.22)	\$ 0.33
Diluted earnings per share	<u>\$ (0.22)</u>	<u>\$ 0.32</u>
Earnings used in the computation of basic earnings per share	\$ (1,199,798)	\$ 1,790,361
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	-	81,463
Earnings used in the computation of diluted earnings per share	<u>\$ (1,199,798)</u>	<u>\$ 1,871,824</u>
Weighted average number of ordinary shares in computation of basic earnings per share (in thousands)	5,418,096	5,453,579
Effect of potentially dilutive ordinary shares:		
Convertible bonds (in thousands)	-	457,481
Employees' compensation or bonuses issued to employees (in thousands)	-	8,821
	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share (in thousands)	<u>5,418,096</u>	<u>5,919,881</u>

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

29. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Company needs to maintain sufficient capital. Therefore, the goal of capital management is to ensure financial resources and operating plan is able to support the future working capital, capital expenditures, debt repayment and dividend expenses and other needs.

30. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments

	December 31		
	2019	Fair Value	2018
	Carrying Amount	Fair Value	Carrying Amount
Bonds payable	\$ 32,352,625	\$ 32,363,301	\$ 33,219,610
Bank loans	62,326,488	62,326,488	72,162,743
			\$ 70,171,333

Some long-term borrowings are floating-rate financial liabilities, so their carrying amounts are their fair values. The fair values of long-term borrowings and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.67% in 2019 and 0.68% in 2018 prevailing in the market for long-term borrowings (Level 2). The fair values of bonds payable are based on those which are traded in the stock exchange and based on quoted market prices (Level 1).

- b. Fair value measurements recognized in the balance sheets

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:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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).

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	\$ -	\$ 434	\$ -	\$ 434
Financial assets at FVTOCI				
Investments in equity instruments	\$ -	\$ -	\$ 26,865	\$ 26,865
Unlisted shares - domestic	-	-	80,991	80,991
Unlisted shares - foreign	-	-	-	-
	\$ -	\$ -	\$ 107,856	\$ 107,856
Financial liabilities at FVTPL				
Derivative instruments	\$ -	\$ 11,749	\$ -	\$ 11,749
Financial assets for hedging	\$ -	\$ 109	\$ 9,479	\$ 9,588
Financial liabilities for hedging	\$ 50,997,687	\$ 28,578	\$ 3,955	\$ 51,030,220

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments	\$ -	\$ -	\$ 21,746	\$ 21,746
United shares - domestic	-	-	61,620	61,620
Unlisted shares - foreign	-	-	-	-
	\$ -	\$ -	\$ 83,366	\$ 83,366
Financial liabilities at FVTPL				
Derivative instruments	\$ -	\$ 221	\$ -	\$ 221
Financial assets for hedging	\$ -	\$ 22,453	\$ 4,901	\$ 27,354
Financial liabilities for hedging	\$ -	\$ 239	\$ -	\$ 239

There were no transfers between Level 2 and 3 in the current and prior periods.

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

Financial Instruments

Derivatives - foreign exchange forward contracts and interest rate swaps

Valuation Techniques and Inputs

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 Company 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 currency options and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. An increase in the implied fluctuation used in isolation would result in a decrease in the fair value of currency options 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 are as follows:

	Multiplicator	Liquidity Discount	Equity Instruments
December 31, 2019	0.75-13.23	80%	
December 31, 2018	0.74-15.29	80%	
	Derivative Instruments		Equity Instruments
Balance at January 1, 2019	\$ 4,901	\$ 83,366	
Recognized in other comprehensive income	<u>623</u>	<u>24,490</u>	
Balance at December 31, 2019	<u>\$ 5,524</u>	<u>\$ 107,856</u>	
	Derivative Instruments		Equity Instruments
Balance at January 1, 2018	\$ -	\$ 64,177	
Adjustments on initial application of IFRS 9	-	43,019	
Other comprehensive income recognized during the period	<u>4,901</u>	<u>(23,830)</u>	
Balance at December 31, 2018	<u>\$ 4,901</u>	<u>\$ 83,366</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

	December 31	
	2019	2018
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 434	-
Financial assets for hedging	9,588	27,354
Financial assets at amortized cost (Note 1)	31,356,562	31,630,697
Financial assets at FVTOCI - equity instrument investment	107,856	83,366
<u>Financial Liabilities</u>		
Financial liabilities at FVTPL	11,749	221
Financial liabilities for hedging	51,030,220	239
Financial liabilities at amortized cost (Note 2)	119,888,720	120,519,575

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 notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, lease liabilities, provisions, parts of other current liabilities, parts of other noncurrent liabilities and guarantee deposits.

d. Financial risk management objectives and policies

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

In addition, the Company has a risk management committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging portion. This committee informs the Company of global economic and financial conditions, controls the Company's 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 Company is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Company entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

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

Sensitivity analysis

The Company is mainly exposed to the U.S. dollar.

The following details the Group's sensitivity to a one dollar increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the U.S. dollar. The sensitivity amount used when reporting foreign currency risk internally to key management personnel and which represents management's assessment of the reasonably possible change in foreign exchange rates is one dollar. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges and adjust their translation at the end of the reporting period for the New Taiwan dollar strengthening or weakening one dollar against the U.S. dollar.

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be a decrease in pre-tax profit of \$40,775 thousand and increase in pre-tax other comprehensive income gain and losses of \$1,629,223 thousand in year ended December 31, 2019. A decrease in pre-tax profit of \$35,184 thousand and decrease in pre-tax other comprehensive income gain and losses of \$54,250 thousand in year ended December 31, 2018.

For the year ended December 31, 2019

The Company'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 Company 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. For the information related to lease contract as a hedging instruments, please refer to note 20.

December 31, 2019

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
					Asset	Liability	
Cash flow hedge - Aviation fuel - forward exchange contracts	NTD/USD	NTD60,661/ USD22,000	2020.2.27- 2020.11.30	29.7-30.7	Financial assets for hedging - current	\$ 32	\$ 10,193
Aircraft rentals - forward exchange contracts	NTD/USD	NTD1,411,411/ USD477,000	2020.11.4	29.6-30.5	Financial assets for hedging - current/ liabilities for hedging - current	77	18,385

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals in U.S. dollars

and aviation fuel) are \$(18,308) thousand and \$(10,161) thousand, respectively.

For the year ended December 31, 2019

	Hedging Gain Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedge	\$ (22,214)	\$ 28,374 (Note)
Aircraft rentals	(10,161)	(53)
Aviation fuel	<u>(17,705)</u>	<u>-</u>
Aircraft prepayments	<u>\$ (50,080)</u>	<u>\$ 28,321</u>

Note: Decrease in operating costs or foreign exchange loss.

For the year ended December 31, 2019, the hedging instruments settlement reclassified to prepaid equipment was \$(603) thousand.

December 31, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
					Asset	Liability	
Cash flow hedge - Aircraft rentals - forward exchange contracts	NTD/USD	NTD1,669,231/ USD4,250	2019.1.17- 2019.12.23	28.3-30.7	Financial assets for hedging - current/ liabilities for hedging - current	\$ 22,453	\$ 239

The above hedging instruments are continuously applied to hedging accounting. The book value of other equity which belongs to each hedging items (aircraft rentals in U.S. dollar) are \$22,214 thousand.

For the year ended December 31, 2018

	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedge	\$ 70,553	\$ (4,933) (Note)
Aircraft rentals	<u>23,884</u>	<u>-</u>
Aircraft prepayments	<u>\$ 94,437</u>	<u>\$ (4,933)</u>

Note: Increase in operating costs or foreign exchange loss.

For the year ended December 31, 2018, the hedging instruments settlement reclassified to prepaid equipment was \$12,118 thousand.

b) Interest rate risk

The Company enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates.

The risk is managed by the Company through maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

The carrying amount of the Company's financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31 2019	2018
Fair value interest rate risk	\$ 83,350,312	\$ 33,523,710
Cash flow interest rate risk	73,930,965	70,758,743

Sensitivity analysis

The sensitivity analyses below were determined based on the Company'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. One yard (25 basis) increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates increased one yard (25 basis) and had all other variables been held constant, the Company's pre-tax profit for the year ended December 31, 2019 would have decreased by \$184,827 thousand.

Had interest rates increased one yard (25 basis) and had all other variables been held constant, the Company's pre-tax profit for the year ended December 31, 2018 would have decreased by \$176,897 thousand.

c) Other price risk

The Company was exposed to fuel price risk on its purchase of aviation fuel. The Company enters into fuel swap contracts to hedge against adverse risks on fuel price changes.

December 31, 2019

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount
					Asset	Liability
Cash flow hedges - fuel options	USD	NTD5,524	2020.3.31-2020.12.31	USD0.65-USD0.75	Financial assets for hedging - current	Financial assets for hedging - current
					\$ 9,479	\$ 3,955

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (fuel payments) is \$5,524 thousand.

For the year ended December 31, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedges - fuel options	\$ 623	\$ (13,597) (Note)

Note: Increase in operating costs.

December 31, 2018

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount
					Asset	Liability
Cash flow hedges - fuel options	USD	NTD4,901	2019.1.31-2019.12.31	USD72-USD88	Financial assets for hedging	Financial assets for hedging
					\$ 4,901	\$ -

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (fuel payments) is \$4,901 thousand.

For the year ended December 31, 2018

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item
Cash flow hedges - fuel options	\$ 4,901	\$ (9,421) (Note)

Note: Increase in operating costs.

Sensitivity analysis

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

	For the Year Ended December 31	
	2019	2018
	Other	Other
	Comprehensive	Comprehensive
	Income	Income
	Pre-tax Profit	Pre-tax Profit
	Increase	Increase
	(Decrease)	(Decrease)
Fuel price increase of 5%	\$ 7,973	\$ -
Fuel price decrease of 5%	-	-

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk, primarily comes from accounts receivable generated from operating activities, bank deposits generated from investing activities, fixed investment income and other financial instruments. Operation related credit risk and financial credit risk are managed separately.

Operation - related credit risk

The Company has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Company consider into the financial condition of the customers, the credit rating agency rating, the Company's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Company uses certain credit enhancement tools to reduce the credit risk of specific customers.

Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Company's finance department. The Company's trading partners and other parties were well-performing banks and financial institutions, corporations, and government agencies, and so the risk of counterparties failing to discharge an obligation is low; therefore, there is no significant credit risk.

Endorsements given by the Company on behalf of its subsidiaries can be found in Notes 31(g).

3) Liquidity risk

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

Liquidity and interest risk rate table

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

Bank loans with a repayment on demand clause were included in the second column of the table below regardless of whether or not the banks would choose to exercise early their rights to repayment. The maturity dates for other non-derivative financial liabilities were based on the agreed-upon repayment dates. The Company'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.

December 31, 2019

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	0.1448	\$ 914,419	\$ 3,362,181	\$ 10,451,021
Floating interest rate liabilities	0.9576	14,284,090	34,457,400	14,787,869
Hedging instruments	3.1131	10,060,822	39,729,062	6,373,333
Bonds payable	2.5273	10,823,905	19,871,174	3,383,401
		<u>\$ 36,083,236</u>	<u>\$ 97,419,817</u>	<u>\$ 34,995,624</u>

December 31, 2018

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Finance lease liabilities	1.0627	\$ 601,743	\$ -	\$ -
Floating interest rate liabilities	1.1084	14,050,574	39,852,965	18,293,128
Fixed interest rate liabilities	1.1800	2,005,900	-	-
Hedging instruments	-	239	-	-
Bonds payable	1.3905	5,999,321	30,835,449	1,051,418
		<u>\$ 22,657,777</u>	<u>\$ 70,688,414</u>	<u>\$ 19,344,546</u>

Loan commitments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Unused bank loan limit (unsecured)	\$ 18,422,000	\$ 17,337,000

31. RELATED-PARTY TRANSACTIONS

Except for the disclosures stated in other notes, transactions between the Company and its related parties are disclosed below:

a. Related parties' names and relationships

<u>Name</u>	<u>Relationship with the Company</u>
Taiwan Aircargo Terminal Company	Subsidiary
Taoyuan International Airport Service Co., Ltd.	Subsidiary
Sabre Travel Network (Taiwan), Ltd.	Subsidiary
Taiwan Airport Service Co., Ltd.	Subsidiary
Taiwan Airport Service (Samoa)	Subsidiary
Hwa Hsia	Subsidiary
Yestrip	Subsidiary
Global Sky Express	Subsidiary
Mandarin Airlines	Subsidiary
CAL Park	Subsidiary
CAL Hotel Co., Ltd.	Subsidiary
CAL-Asia Investment	Subsidiary
Dynasty Holidays, Inc.	Associate (become associate in January 2019)
CAL-Dynasty International Inc.	Subsidiary
Tigerair Taiwan Co., Ltd.	Subsidiary
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Subsidiary
Kaohsiung Catering Services	Subsidiary (become subsidiary in March 2018)
Asian Compressor Technology Services	Associate (disposal in January 2018)
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
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
NORDAM Asia Ltd.	Joint venture investment
Delica International Co., Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Company, spouse and second-degree relative

b. Operating income

<u>Account Items</u>	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Other income	\$ 2,577,039	\$ 2,651,423
	<u>\$ 25,457</u>	<u>\$ 28,670</u>
	\$ 1,239	\$ 523
	<u>\$ 42,457</u>	<u>\$ 41,410</u>

Subsidiary
Major shareholder of the Company
Associate
Joint venture investment

c. Purchases

<u>Related Party Type</u>	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Subsidiary	\$ 3,915,258	\$ 3,843,308
Major shareholder of the Company	<u>\$ 56,474</u>	<u>\$ 64,188</u>
Associate	\$ 414,106	\$ 501,609
Joint venture investment	<u>\$ 1,911,091</u>	<u>\$ 1,912,995</u>

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

<u>Related Party Type</u>	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Subsidiary	\$ 222,038	\$ 289,268
Joint venture investment	7,760	7,589
Major shareholder of the Company	<u>2,588</u>	<u>1,454</u>
	<u>\$ 232,386</u>	<u>\$ 298,311</u>

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

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

<u>Related Party Type</u>	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Subsidiary	\$ 927,419	\$ 1,050,869
Associate	51,333	54,948
Joint venture investment	484,700	474,499
Major shareholder of the Company	<u>5,982</u>	<u>3,368</u>
	<u>\$ 1,469,434</u>	<u>\$ 1,583,684</u>

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

f. Leases of properties (operating leases)

The Company rented out planes to Mandarin Airlines under an operating lease contract. The monthly rent received is based on flight hours. In 2019 and 2018, the rentals received amounted to \$1,624,568 thousand and \$1,685,494 thousand, respectively.

32. PLEDGED ASSETS

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

	December 31	
	2019	2018
Property, plant and equipment	\$ 26,956,631	\$ 37,468,142
Right-of-use asset	<u>64,262,830</u>	<u>-</u>
	<u>\$ 91,219,461</u>	<u>\$ 37,468,142</u>

g. Endorsements and guarantees

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. In 2019 and 2018, the Company paid rentals of about \$56,474 thousand and \$64,188 thousand, respectively.

In March 2010, the Company signed with CAL Park a yearly renewable operating lease agreement to use the Operating and Aviation Headquarters building of the Taiwan Taoyuan International Airport. In 2019 and 2018, the Company paid rentals of both were \$231,288 thousand per year.

	December 31		2018	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
<u>The Company</u>				
CAL Park	\$ 3,850,000	\$ 2,129,400	\$ 3,850,000	\$ 2,339,700
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	-
Tigerair Taiwan	3,012,668	685,444	1,081,792	418,491
Taiwan Air Craft Maintenance	2,000,000	1,279,827	2,000,000	605,457

h. Bonds payable - related parties

Related parties that invested in the first issue of unsecured bonds in 2016 (Note 19) are summarized as follows:

Related Party	December 31, 2019		Aggregate Par/Dollars
	Units	Amount	
<u>The first issue of unsecured bonds in 2016</u>			
Mandarin Airlines	250	\$	250,000
Sabre Travel Network (Taiwan)	50	\$	50,000

In 2019, interest expenses was \$3,570 thousand. This bonds payable will be paid off in May 2021. As of December 31, 2019 the interest payable was \$2,142 thousand.

i. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 39,693	\$ 44,551
Post-employment benefits	<u>2,362</u>	<u>3,295</u>
	<u>\$ 42,055</u>	<u>\$ 47,846</u>

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

33. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2019, except for the disclosures stated in other notes, the Company had commitments and contingent liabilities which were as follows:

a. The Company failed to mediate labor disputes with the labor union. After obtaining the right to strike, the labor union went on strike on February 8, 2019, and the flights resumed normal operation on February 14, 2019. A total of 214 flights was cancelled and the accumulated revenue loss was about \$500 million. The initial estimated compensation for customer losses and other expenditures were about \$54 million (recognized as operating cost).

b. In October 2019, the Company signed a contract with Airbus S.A.S. to purchase eleven A321neo aircraft and an option to purchase five A321neo aircraft. The total list price of the eleven aircraft is US\$1,676,413 thousand, and the list price of the option to purchase five aircraft is US\$769,922 thousand. The expected delivery period of the eleven aircraft ranges from 2024 to 2026. As of October 31, 2019, the list price of the fourteen aircraft has been paid in the amount of US\$17,014 thousand (recognized as prepayments for aircraft). In October 2019, the Company signed a contract with International Aero Engines Company to purchase four backup engines of A321neo. The total list price of the four engines is US\$60,289 thousand.

c. In July and August 2019, the Company signed a contract with the Boeing Company to purchase three B777F aircraft and exercised the option to purchase three B777F aircraft. The total list price of the six aircraft is US\$2,320,315 thousand, and the expected delivery period is from 2020 to 2023. As of September 30, 2019, the list price has been paid in the amount of US\$241,650 thousand (recognized as prepayments for aircraft).

34. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

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

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2019

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 502,608	30.0300	\$ 15,093,328
EUR	18,401	33.6700	619,571
HKD	225,078	3.8595	868,689
JPY	5,531,849	0.2766	1,530,109
RMB	371,642	4.3048	1,599,846
<u>Financial liabilities</u>			
Monetary items			
USD	2,179,056	30.0300	65,437,049
EUR	7,639	33.6700	257,211
HKD	67,529	3.8595	260,630
JPY	5,706,141	0.2766	1,578,319
RMB	132,622	4.3048	570,913

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 439,652	30.7692	\$ 13,527,732
EUR	20,511	35.2113	722,232
HKD	297,496	3.9231	1,167,107
JPY	5,521,288	0.2778	1,533,814
RMB	345,777	4.4803	1,549,187
<u>Financial liabilities</u>			
Monetary items			
USD	405,468	30.7692	12,475,919
EUR	7,801	35.2113	274,697
HKD	70,900	3.9231	278,149
JPY	4,866,894	0.2778	1,352,023
RMB	126,546	4.4803	566,964

For the years ended December 31, 2019 and 2018, the Company's net foreign exchange (losses) gains were \$(262,610) thousand and \$10,812 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.

36. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
- 1) Financing provided: None.
 - 2) Endorsements/guarantees provided: Table 1 (attached).
 - 3) Marketable securities held: Table 2 (attached).
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Table 3 (attached).
 - 5) Acquisitions of individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None.
 - 6) Disposals of individual real estates at costs or prices of at least NT\$100 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) Derivative financial transactions: Notes 7 and 30.
- b. Investment in mainland China: Table 7 (attached).

37. SEGMENT INFORMATION

The Company mainly engages in air transportation services for passengers, cargo and others. The major revenue-generating asset is the fleet, which is jointly used for passenger and cargo services. Thus, the Company's sole reportable segment is the flight segment. For operating segment reporting in the financial statements, the Company's reportable segment comprises the flight and the non-flight business departments.

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019

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

No.	Endorsement/ Guarantee Provider	Counterparty		Limit on Each Counterparty's Endorsement/ Guarantee Amount (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant or Equipment	Ratio of Accumulated 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 Taiwan Air Cargo Terminal Tigerair Taiwan Co., Ltd.	100% subsidiary 54% subsidiary 77.17% subsidiary by direct and indirect holdings	\$ 11,310,754 11,310,754 11,310,754	\$ 3,850,000 1,080,000 3,055,475	\$ 3,850,000 1,080,000 3,012,668	\$ 2,129,400 - 685,444	\$ - - -	6.81 1.91 5.33	\$ 28,276,886 28,276,886 28,276,886	Y Y Y	N N N	N N N
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,310,754	2,000,000	2,000,000	1,279,827	-	3.54	28,276,886	Y	N	N

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

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

CHINA AIRLINES, LTD. AND INVESTEEs

MARKETABLE SECURITIES HELD
DECEMBER 31, 2019

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

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	
China Airlines ("Parent company")	Shares Everest Investment Holdings Ltd. - ordinary shares	-	Financial assets at FVTOCI - non-current	1,359,368	\$ 73,628	13.59	\$ 80,991 Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets at FVTOCI - non-current	135,937	7,363	-	-
	Chung Hua Express Co.	-	Financial assets at FVTOCI - non-current	1,100,000	26,865	11.00	26,865
	Jardine Air Terminal Services	-	Financial assets at FVTPL - current	12,000,000	-	15.00	-
	The Grand Hi Lai Hotel	-	Financial assets at FVTPL - current	4,021	-	0.02	-
Mandarin Airlines	Shares China Airlines	Parent company	Financial assets at FVTOCI - non-current	2,074,628	18,796	-	18,796 -
	Shares Taikoo (Xiamen) Landing Gear Services HAECO Composite Structures (Jinjiang)	- -	Financial assets at FVTPL - current Financial assets at FVTOCI - non-current	- -	- 101,365	2.59 5.45	- 101,365 Note 2 Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	7,816,048	81,124	-	81,124 -
	FSITC Money Market Fund	-	Financial assets at FVTPL - current	497,740	89,145	-	89,145
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	6,444,010	81,065	-	81,065
	Capital Money Market Fund	-	Financial assets at FVTPL - current	2,842,146	46,035	-	46,035
Taiwan Airport Services	Shares TransAsia Airways	-	Financial assets at FVTPL - current	2,277,786	-	0.4	- -
	Beneficial certificates Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at FVTPL - current	1,671,657	20,253	-	20,253 -
Hwa Hsia	Fuh Hwa Global Bond Fund	-	Financial assets at FVTPL - current	1,233,211	18,045	-	18,045
	Shares China Airlines	Parent company	Financial assets at FVTOCI - non-current	814,152	7,376	-	7,376 -
	Beneficiary certificates Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	349,523	4,748	-	4,748 -

(Continued)

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	
Kaohsiung Catering Services	Beneficiary certificates	-	Financial assets at FVTPL - current	5,407,832	\$ 85,885	-	-
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	4,493,628	70,423	-	
	Prudential Financial Return Fund	-	Financial assets at FVTPL - current	1,106,807	15,035	-	
Tigerair Taiwan Co., Ltd.	<u>Government bond</u> Philippines government bond	-	Amortized cost financial assets	-	299	Not applicable	299

Note 1: The subsidiary's net asset value was \$80,991 thousand, which included ordinary shares and preference shares as of and for the year ended December 31, 2019.

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal (Note 3)		Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
China Airlines, Ltd.	Shares Tigerair Taiwan Co., Ltd.	Investments accounted for using the equity method	(Note 5)	Non-related party	-	\$ -	-	\$ -	-	\$ -	-	\$ -

Note 1: The marketable securities in this table refer to shares, bonds, beneficial certificates and the securities derived from the above items.

Note 2: Marketable securities which are recognized as investments accounts for using the equity method are required to be filled in the second column.

Note 3: The cumulative amount of acquired and disposed of marketable securities are required to be calculated separately to determine whether they are at least NT\$300 million or 20% of the paid-in capital.

Note 4: Paid-in capital refers to paid-in capital of the indicated parent company. If the shares issued by an issuer have no par value or a par value other than NT\$10 per share, the threshold of 20% of paid-in capital, as set out in the preceding item, shall be replaced by 10% of equity attributable to owners of the indicated parent company, as stated in the respective balance sheet.

Note 5: Subsidiaries planning initial public offering release stocks.

CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2019

(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
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 524,457	0.39	30 days	\$ -	\$ (41,017)	(1.52)	-
	Taiwan Airport Services	Subsidiary	Purchase	445,472	1.33	40 days	-	(77,970)	(2.90)	-
	Mandarin Airlines	Subsidiary	Sale	(1,971,462)	1.35	2 months	-	158,123	1.83	-
	Mandarin Airlines	Subsidiary	Purchase	242,114	0.18	2 months	-	(247,997)	(9.21)	-
	Tigerair Taiwan	Subsidiary	Sale	(373,811)	0.26	1 months	-	42,642	0.49	-
	Tigerair Taiwan	Subsidiary	Purchase	152,914	0.11	1 months	-	(31,210)	(1.16)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,220,422	0.90	40 days	-	(347,127)	(12.90)	-
	Kaohsiung Catering Services	Subsidiary	Purchase	561,443	0.42	60 days	-	(99,649)	(3.70)	-
	Hua Hsia	Subsidiary	Purchase	349,602	0.26	2 months	-	(37,860)	(1.41)	-
	CAL Park	Subsidiary	Purchase	231,288	0.17	2 months	-	(127)	-	-
	Cal Hotel	Subsidiary	Purchase	135,687	0.10	1 months	-	(40,293)	(1.50)	-
	Global Sky Express	Subsidiary	Sale	(101,421)	0.07	15 days	-	3,888	0.05	-
	Eastern United International Logistics	Equity-method investee	Purchase	216,368	0.16	2 months	-	(23,430)	(0.87)	-
	China Pacific Laundry Services	Equity-method investee	Purchase	120,088	0.09	2 months	-	(20,118)	(0.75)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,791,003	1.33	90 days	-	(464,582)	(17.26)	-
	China Airerair Services	Equity-method investee	Purchase	169,400	0.13	30 days	-	(27,679)	(1.03)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	189,853	2.56	1 months	-	(27,760)	(3.74)	-
Cal Hotel	CAL Park	Same parent company	Purchase	114,281	26.07	1 months	-	(382)	(0.53)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	197,179	2.53	1 months	-	(24,389)	(3.66)	-

CHINA AIRLINES, LTD. AND INVESTEEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2019

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 158,123	Note	\$ -	-	\$ 158,123	\$ -
Mandarin Airlines	China Airlines	Parent company	247,997	Note	-	-	245,364	-
China Pacific Catering Services	China Airlines	Parent company	464,582	3.90	-	-	311,356	-
Taoyuan International Airport Service	China Airlines	Parent company	347,127	3.43	-	-	340,924	-

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

CHINA AIRLINES, LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars and Foreign Currencies in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Balance as of December 31, 2019		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2019	December 31, 2018	Number of Shares/Units	Percentage of Ownership (%)			
China Airlines, Ltd.	CAL Park	Taoyuan, Taiwan	Real estate lease and international trade	\$ 1,500,000	\$ 1,500,000	150,000,000	100.00	\$ 1,163	\$ 47,694	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	204,018	191,322	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	271,552	146,642	Note 2
	Cal-Dynasty International	Los Angeles, USA	A holding company, real estate and hotel services	US\$ 26,145	US\$ 26,145	2,614,500	100.00	41,262	41,262	-
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	511,121	256,899	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	291,522	142,846	-
	CAL-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	30,820	30,819	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	195,347	183,490	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	461,263	51,828	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	156,861	10,365	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	661,170	74,274	-
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	479,259	142,886	Note 5
	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	168,547	16,787	Note 4
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	88,313	17,008	Notes 1 and 4
Mandarin Airlines	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,268	(384)	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	8,000	20,400	160	20.00	10,004	(894)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,294	1,598	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,272,063	1,648,387	138,906,275	69.45	1,946,328	699,039	Note 4
CAL-Asia Investment	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	921,989	(206,151)	Note 4
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	37,975	2,450	3,797,500	49.00	37,813	(70)	-
Taiwan Airport Services	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	154,330	200,000	15,433,000	7.72	216,243	77,587	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,281	1,689	-
Kaohsiung Catering Services	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK\$ 3,329	HK\$ 3,329	1,050,000	35.00	42,717	3,387	-
	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	347,551	23,107	Note 3
	Deltea International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,867	(2)	-

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

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

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

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

Note 5: Difference cause by acquisition.

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019

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

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 10,954,480 (RMB 254,480)	Indirect (Note 1)	\$ 125,705 (US\$ 4,186)	\$ -	\$ -	\$ 125,705 (US\$ 4,186)	\$ 76,711 (RMB 17,107)	14.00	\$ 10,795 (RMB 2,395)	\$ 223,683 (RMB 51,962)	\$ 84,137 (US\$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,267 (RMB 14,000)	Indirect (Note 1)	58,482 (US\$ 1,947)	-	-	58,482 (US\$ 1,947)	89,573 (RMB 19,975)	14.00	12,606 (RMB 2,796)	124,071 (RMB 28,822)	26,286 (US\$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,495,195 (US\$ 83,090)	Indirect (Note 1)	64,601 (US\$ 2,151)	-	-	64,601 (US\$ 2,151)	-	2.589	-	-	-
HAECO Composite Structures (Jinjiang)	Composite material	350,240 (US\$ 11,663)	Indirect (Note 1)	19,099 (US\$ 636)	-	-	19,099 (US\$ 636)	-	5.45	-	42,718 (RMB 9,923)	-

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
\$267,886 (US\$8,920)	\$650,192 (Note 3)	\$36,079,270 (Note 4)

(Continued)

Taiwan Airport Services

Investee Company	Main Business and Product	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,095,480 (RMB 254,480)	Indirect (Note 5)	\$ 120,671 (US\$ 4,018)	\$ -	\$ -	\$ 120,671 (US\$ 4,018)	\$ 76,711 (RMB 17,107)	14.00	\$ 10,740 (RMB 2,395)	\$ 222,478 (RMB 51,682)	\$ 114,304 (US\$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,267 (RMB 14,000)	Indirect (Note 5)	57,860 (US\$ 1,927)	-	-	57,860 (US\$ 1,927)	89,573 (RMB 19,975)	14.00	12,540 (RMB 2,796)	124,279 (RMB 28,870)	42,240 (US\$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$178,532 (US\$5,945)	\$178,532 (US\$5,945)	\$349,906 (Note 4)

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

Note 2: The inward remittance of earnings in 2019 amounted to US\$2,801,749 and US\$875,330.

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

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

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

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

(Concluded)

China Airlines Co., Ltd.

Chairman : Hsieh, Su-Chien



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