

Stock Code:2610



## CHINA AIRLINES

### 2020 Annual Shareholders' Meeting

### Agenda Handbook

Time: June 23, 2020 (Tue.), 9:00 AM

Location: Novotel Taipei Taoyuan International Airport, No.1-1, Hangzhan S. Rd., Dayuan Dist., Taoyuan City 33758, Taiwan

**(Summary Translation)**

This document is based on the Chinese version and is for reference only. In the event of discrepancies between the English and Chinese versions, the Chinese version shall prevail.

# Table of Contents

	<u>Page</u>
<b>1. Meeting Agenda</b> .....	1
<b>2. Matters to Report</b>	
(1) Business Report for the year 2019 .....	2
(2) Audit Committee’s review report for the year 2019 .....	8
(3) Status report on the Unsecured Ordinary Corporate Bonds of NT\$3.5 billion issued in 2019.....	10
<b>3. Matters for Acknowledgement</b>	
(1) Acknowledgement of Business Report and Financial Statements for the year 2019.....	11
(2) Acknowledgement of the Proposal for 2019 Deficit Compensation .....	35
<b>4. Matters for Discussion</b>	
(1) Amendment to the “Articles of Incorporation” .....	37
(2) Amendment to the “Rules of Procedure for Shareholders' Meeting's” .....	41
(3) Proposal to release non-compete restrictions on Director Han-Ming Chen .....	45
<b>5. Questions and Motions</b> .....	46
<b>6. Appendices</b>	
(1) Articles of Incorporation.....	47
(2) Rules of Procedure for Shareholders’ Meetings .....	53
(3) Directors’ Shareholdings.....	57

# **China Airlines 2020 Annual Shareholders' Meeting Agenda**

Time: June 23, 2020 (Tue.), 9:00 AM

Location: Novotel Taipei Taoyuan International Airport, No. 1-1, Hangzhan S. Rd, Dayuan Dist., Taoyuan City 33758, Taiwan

## **1. Presentation of Report to Shareholders and Meeting Called to Order**

## **2. Chairman's Address**

## **3. Matters to Report**

- (1) Business Report for the year 2019
- (2) Audit Committee's review report for the year 2018
- (3) Status report on the Unsecured Ordinary Corporate Bonds of NT\$3.5 billion issued in 2019

## **4. Matters for Acknowledgement**

- (1) Acknowledgement of Business Report and Financial Statements for the year 2018
- (2) Acknowledgement of proposal for distribution of 2018 profits

## **5. Matters for Discussion**

- (1) Amendment to the "Articles of Incorporation"
- (2) Amendment to the "Rules of Procedure for Shareholders' Meeting's"
- (3) Proposal to release non-compete restrictions on Director Han-Ming Chen

## **6. Questions and Motions**

## **7. Meeting Adjournment**

## **Matters to Report**

### **Agenda Item #1**

Description: Business Report for the year 2019. To be reviewed by all parties.

Details: Please refer to pages 3-7 of this handbook.

## Business Report for the year 2019

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. Results of the business strategy**

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 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.

### **1.2 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.

### **1.3 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.

#### 1.4 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.

#### 1.5 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.

## **2. Business cash flow budget and profitability analysis**

### 2.1 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.

### 2.2 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.

### 2.3 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

### **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.

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

## **Agenda Item #2**

Description: Audit Committee's review report for the year 2019. To be reviewed by all parties.

Details: Please refer to page 9 of this handbook.

## **Audit Committee Report**

The Board of Directors shall create and submit (1) the 2019 consolidated financial statement and individual financial statement that have been jointly audited by Deloitte CPAs Rui-Chan Huang and Hsu-Jan Cheng, who released an official unqualified opinion by March 18, 2020, and (2) the 2019 business report and Deficit Compensation Statement, after having been found to have no discrepancies by the audit committee and, thereupon, have issued 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, HSIEN GEN-SEN

March 18, 2020

**Agenda Item #3**

Description: Status report on the NT\$3.5 billion in Unsecured Ordinary Corporate Bonds issued in 2019. To be reviewed by all parties.

Details:

1. In accordance with Article 246 of the Company Act, a company may, by a resolution adopted by the Board of Directors, invite subscription for corporate bonds, provided that the reasons for the said action as well as other relevant matters are reported to the shareholders’ meeting.
2. In response to requirements for business development, repayment of loans, and the stable costs for future medium- and long-term financing, the Company passed a resolution in the 2nd session of the 21st Meeting of the Board to issue domestic unsecured ordinary corporate bonds totaling no more than NT\$8 billion. The corporate bonds may be issued separately. In addition, a total of NT\$4.5 billion in unsecured ordinary corporate bonds was raised in 2018. This matter was reported at the 2019 Annual Shareholders’ Meeting.
3. A total of NT\$3.5 billion in unsecured ordinary corporate bonds was raised in 2019. Details on their issuance is provided in the table below:

Item	Issuance of unsecured ordinary domestic corporate bonds in 2019
Issuance date	June 21, 2019
Total issuance amount	NT\$3.5 billion
Issuance price	Issued at 100% face value
Duration of issuance	Type A: 5 years Type B: 7 years
Coupon rate	Type A: Fixed annual interest rate at 1.10% Type B: Fixed annual interest rate at 1.32%
Principal repayment method	Type A: 50% repayment at the end of the 4th year; 50% repayment at the end of the 5th year Type B: 50% repayment at the end of the 6th year; 50% repayment at the end of the 7th year
Implementation of capital allocation plan	Completed in 2019 Q4

4. The case has been reported to the 10th session of the 21st Meeting of the Board.

## **Matters for Acknowledgement**

### **Agenda Item #1 (Proposed by the Board of Directors)**

Description: Acknowledgement of Business Report and Financial Statements for the year 2019

Details:

1. The Company's 2019 annual financial statements (including Balance Sheet, Consolidated Income Statement, and Changes in Equity and Cash Flow Statement) have been jointly audited by Deloitte CPAs Rui-Chan Huang and Hsu-Jan Cheng and were approved and documented during the 10th session of the 21th Meeting of the Board.
2. For the 2019 Annual Business Report, please refer to pages 3-7 of this handbook; for the CPA Audit Report and the financial statements referred to above, please see pages 12-34 of this handbook.

Resolution:

## **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, 2018. 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. As of December 31, 2019, passenger revenue was NT\$96,176,865 thousand. Refer to Notes 4 and 26 in 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 IFRS16 (Leases) - Aircrafts

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 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 aircrafts leases are 53,870,134 thousand and 52,153,682 thousand, respectively. Refer to Notes 4 and 20 in the accompanying financial statements for related detailed information.

China Airlines, Mandarin Airlines and Tigerair Taiwan leased ten 777-300ER planes, fifteen A330-300 planes and fifteen 737-800 planes for operation. Because of the long lease term and the high rent of each period, the percentage of Right-of –use assets and lease liabilities in the consolidated balance sheet is high. The assessment of each parameters and lease terms, and the calculation of liabilities by the management 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 IFRS16-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 chose an aircraft rents amortization schedule from the lease calculation system, varified the logical rationality of the lease liabilities balance, financial cost discount and Right-of-use amortization, and related carrying amount. Also, we chose a certain amount of aircraft lease contract from the carrying amounts of aircraft lease liability, and checked if there was any difference between rents in the aircraft rents amortization schedule and rents in in the contracts. And we checked if the term of the amortization schedule was consistent with the contract.

## **Other Matter - Audited 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. 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, 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, 2018 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 Chen-Hsiu Yang and Jui-Chan Huang.

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	%
<b>CURRENT ASSETS</b>				
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 amortized cost (Notes 9 and 30)	1,460,450	-	2,310,000	1
Financial assets for hedging - current (Notes 4 and 30)	9,588	-	27,354	-
Notes and accounts receivables, net (Notes 4, 10 and 30)	7,694,431	3	9,280,662	4
Accounts receivables - 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)	-	-	46,154	-
Other current assets (Note 17)	2,106,199	1	3,157,864	2
Total current assets	<u>40,989,612</u>	<u>15</u>	<u>42,932,859</u>	<u>20</u>
<b>NON-CURRENT ASSETS</b>				
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 13)	13,482,877	5	13,158,355	6
Property, plant and equipment (Notes 4, 14 and 32)	131,029,886	49	149,029,054	69
Right-of-use assets (Notes 4, 20 and 32)	64,262,830	24	-	-
Investment properties (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	971,298	-	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	<u>227,886,893</u>	<u>85</u>	<u>171,981,362</u>	<u>80</u>
TOTAL	<u>\$ 268,876,505</u>	<u>100</u>	<u>\$ 214,914,221</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
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	-	1,198,647	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	<u>68,000,173</u>	<u>25</u>	<u>55,179,834</u>	<u>25</u>
<b>NON-CURRENT LIABILITIES</b>				
Financial liabilities for hedging - non-current (Notes 4, 20 and 30)	42,420,205	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)	10,909,262	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	366,255	-	463,610	-
Total non-current liabilities	<u>144,322,560</u>	<u>54</u>	<u>102,652,815</u>	<u>48</u>
Total liabilities	<u>212,322,733</u>	<u>79</u>	<u>157,832,649</u>	<u>73</u>
<b>EQUITY (Notes 19 and 25)</b>				
Share capital	54,209,846	20	54,209,846	25
Capital surplus	2,488,907	1	1,241,214	1
Retained earnings				
Legal reserve	466,416	-	351,923	-
Special reserve	12,967	-	118,810	-
Unappropriated retained earnings (accumulated deficits)	(1,777,225)	-	1,144,928	1
Total retained earnings	<u>(1,297,842)</u>	<u>-</u>	<u>1,615,661</u>	<u>1</u>
Other equity	1,196,233	-	58,223	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity	<u>56,553,772</u>	<u>21</u>	<u>57,081,572</u>	<u>27</u>
TOTAL	<u>\$ 268,876,505</u>	<u>100</u>	<u>\$ 214,914,221</u>	<u>100</u>

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)	<u>135,008,166</u>	<u>92</u>	<u>137,614,956</u>	<u>92</u>
GROSS PROFIT	11,364,235	8	12,649,836	8
OPERATING EXPENSES (Notes 4, 26 and 32)	<u>11,284,000</u>	<u>8</u>	<u>10,802,269</u>	<u>7</u>
OPERATING PROFIT	<u>80,235</u>	<u>-</u>	<u>1,847,567</u>	<u>1</u>
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)	<u>1,811,960</u>	<u>1</u>	<u>1,918,922</u>	<u>1</u>
Total non-operating income and expenses	<u>(1,267,561)</u>	<u>(1)</u>	<u>468,064</u>	<u>-</u>
PROFIT (LOSS) BEFORE INCOME TAX	(1,187,326)	(1)	2,315,631	1
INCOME TAX EXPENSE (Notes 4 and 27)	<u>12,472</u>	<u>-</u>	<u>525,270</u>	<u>-</u>
NET INCOME (LOSS)	<u>(1,199,798)</u>	<u>(1)</u>	<u>1,790,361</u>	<u>1</u>
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)	<u>(273,227)</u>	<u>-</u>	<u>(18,193)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>552,713</u>	<u>1</u>	<u>(532,326)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ (647,085)</u>	<u>-</u>	<u>\$ 1,258,035</u>	<u>1</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 27)				
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 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					Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Other Equity		Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total Equity
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deflect)			Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges			
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												
Legal reserve	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-
Special reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-
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												
Legal reserve	-	-	114,493	-	(114,493)	-	-	-	-	-	-	-
Special reserve	-	-	-	(105,843)	105,843	-	-	-	-	-	-	-
Cash dividends - \$0.20960737 per share	-	-	-	-	(1,136,278)	-	-	-	-	-	-	(1,136,278)
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	-	75,437
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	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	<u>(157,571)</u>	<u>(155,431)</u>
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	-	(469,393)
Proceeds from issuance of bonds payable	3,500,000	10,512,000
Repayments of bonds payable	(4,445,900)	(2,700,000)
Proceeds from sale-leasebacks	4,905,660	-
Proceeds from long-term borrowings	5,500,000	17,200,000
Repayments of long-term borrowings and capital lease obligations	(15,336,255)	(27,339,868)
Proceeds from guarantee deposits received	167,034	118,367
Refunds of guarantee deposits received	(133,938)	(67,905)
Dividends paid to owners of the Company	<u>(1,136,278)</u>	<u>(1,193,670)</u>
Net cash used in financing activities	<u>(16,645,990)</u>	<u>(3,940,469)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(220,402)</u>	<u>2,690</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,937,992	2,124,463
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)



## **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. As of December 31, 2018, passenger revenue was NT\$111,413,435 thousand. Refer to Notes 4 and 27 in 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 IFRS16 (Leases) - Aircrafts

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 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 aircrafts leases are \$62,052,701 thousand and \$60,114,778 thousand, respectively. Refer to Notes 4 and 21 in 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 of the long lease term and the high rent of each period, the percentage of Right-of -use assets and lease liabilities in the consolidated balance sheet is high. The assessment of each parameters and lease terms, and the calculation of liabilities by the management 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 chose an aircraft rents amortization schedule from the lease calculation system, verified the logical rationality of the lease liabilities balance, financial cost discount and Right-of-use amortization, and related carrying amount. Also, we chose a certain amount of aircraft lease contract from the carrying amounts of aircraft lease liability, and checked if there was any difference between rents in the aircraft rents amortization schedule and rents in in the contracts. And we checked if the term of the amortization schedule was consistent with the contract.

### **Other Matter Audited 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 combined 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 combined 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.

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.

The engagement partners on the audit resulting in this independent auditors' report are Chen-Hsiu Yang and Jui-Chan Huang.

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, LTD. AND SUBSIDIARIES

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

ASSETS	2019		2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4, 6, 19 and 33)	\$ 28,459,528	10	\$ 24,937,537	11
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 32)	512,192	-	206,001	-
Financial assets at amortized cost (Notes 9 and 32)	2,355,095	1	3,856,660	2
Financial assets for hedging - current (Notes 4 and 32)	9,626	-	32,906	-
Notes and accounts receivable, net (Notes 4, 10 and 32)	8,520,834	3	10,038,528	4
Notes and accounts receivable - related parties (Notes 32 and 33)	10,348	-	9,043	-
Other receivables (Notes 4 and 32)	774,206	-	879,191	-
Current tax assets (Notes 4 and 29)	54,689	-	18,948	-
Inventories, net (Notes 4 and 11)	8,470,113	3	8,654,710	4
Non-current assets held for sale (Notes 4, 5 and 12)	-	-	46,154	-
Other assets - current (Notes 6 and 18)	2,655,711	1	4,147,882	2
Total current assets	<u>51,822,342</u>	<u>18</u>	<u>52,827,560</u>	<u>23</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 8 and 32)	209,221	-	132,191	-
Financial assets at amortized cost (Notes 4 and 9)	105,586	-	-	-
Investments accounted for using the equity method (Notes 4 and 14)	2,223,793	1	2,200,149	1
Property, plant and equipment (Notes 4, 5, 15 and 35)	145,886,971	50	163,107,718	71
Right-of-use assets (Notes 4, 21 and 35)	71,033,617	24	-	-
Investment properties (Notes 4 and 16)	2,075,068	1	2,075,345	1
Other intangible assets (Notes 4 and 17)	1,182,692	-	1,210,796	1
Deferred income tax asset (Notes 4, 5 and 29)	5,337,626	2	5,152,070	2
Other assets - non-current (Notes 18, 21, 32 and 34)	13,171,063	4	3,430,753	1
Total non-current assets	<u>241,225,637</u>	<u>82</u>	<u>177,309,022</u>	<u>77</u>
<b>TOTAL</b>	<u>\$ 293,047,979</u>	<u>100</u>	<u>\$ 230,136,582</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term debts (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	3	560	-
Notes and accounts payable (Note 32)	1,495,606	1	1,594,487	1
Accounts payable - related parties (Notes 32 and 33)	542,015	-	532,815	-
Other payables (Notes 22 and 32)	13,187,972	5	14,146,198	6
Current tax liabilities (Notes 4 and 29)	374,178	-	164,181	-
Lease liabilities - current (Notes 3, 4 and 21)	2,340,873	1	-	-
Provisions - current (Notes 4 and 24)	360,393	-	321,075	-
Contract liabilities - current (Note 23)	21,060,773	7	19,546,455	9
Bonds payable and put option of convertible bonds - current portion (Notes 4, 20, 27 and 32)	10,000,000	3	4,445,900	2
Loans and debts - current portion (Notes 19, 32 and 35)	14,148,892	5	15,709,487	7
Capital lease obligations - current portion (Notes 4, 21, 32 and 35)	-	-	633,398	-
Other current liabilities (Note 33)	3,830,570	1	3,855,115	2
Total current liabilities	<u>76,351,527</u>	<u>26</u>	<u>60,949,892</u>	<u>27</u>
<b>NON-CURRENT LIABILITIES</b>				
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	8	28,473,710	12
Loans and debts - non-current (Notes 19, 32 and 35)	53,514,891	18	60,686,148	26
Contract liabilities - non-current (Notes 4 and 23)	2,236,311	1	1,903,665	1
Provisions - non-current (Notes 4 and 24)	10,011,464	3	8,473,464	4
Deferred tax liabilities (Notes 4 and 29)	557,142	-	188,447	-
Lease liabilities - non-current (Notes 3, 4, 21 and 25)	15,801,724	5	-	-
Capital lease obligations - non-current (Notes 4, 21, 32 and 35)	-	-	2,945	-
Accrued pension costs (Notes 4, 5 and 25)	9,435,035	3	8,803,382	4
Other non-current liabilities (Note 32)	534,938	-	607,845	-
Total non-current liabilities	<u>156,564,335</u>	<u>53</u>	<u>109,139,606</u>	<u>47</u>
Total liabilities	<u>232,915,862</u>	<u>79</u>	<u>170,089,498</u>	<u>74</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)</b>				
Share capital	54,209,846	19	54,209,846	24
Capital surplus	2,488,907	1	1,241,214	-
Retained earnings				
Legal reserve	466,416	-	351,923	-
Special reserve	12,967	-	118,810	-
Unappropriated retained earnings (accumulated deficits)	(1,777,225)	-	1,144,928	1
Total retained earnings	(1,297,842)	-	1,615,661	1
Other equity	1,196,233	-	58,223	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	56,553,772	20	57,081,572	25
<b>NON-CONTROLLING INTERESTS (Note 26)</b>	<u>3,578,345</u>	<u>1</u>	<u>2,965,512</u>	<u>1</u>
Total equity	<u>60,132,117</u>	<u>21</u>	<u>60,047,084</u>	<u>26</u>
<b>TOTAL</b>	<u>\$ 293,047,979</u>	<u>100</u>	<u>\$ 230,136,582</u>	<u>100</u>

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

## 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	%
REVENUE (Notes 4, 27 and 34)	\$ 168,444,160	100	\$ 170,711,607	100
COSTS (Notes 4, 9, 11, 17, 24, 25, 27 and 34)	<u>151,757,232</u>	<u>90</u>	<u>153,504,076</u>	<u>90</u>
GROSS PROFIT	16,686,928	10	17,207,531	10
OPERATING EXPENSES (Notes 4, 25 and 27)	<u>14,021,107</u>	<u>8</u>	<u>13,185,148</u>	<u>8</u>
OPERATING PROFIT	<u>2,665,821</u>	<u>2</u>	<u>4,022,383</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)	(2)	(1,379,985)	(1)
Share of the profit of associates and joint ventures (Note 14)	<u>332,305</u>	<u>-</u>	<u>367,246</u>	<u>-</u>
Total non-operating income and loss	<u>(2,762,638)</u>	<u>(2)</u>	<u>(941,134)</u>	<u>-</u>
PRETAX PROFIT	(96,817)	-	3,081,249	2
INCOME TAX EXPENSE (Notes 4, 5 and 29)	<u>578,185</u>	<u>-</u>	<u>808,565</u>	<u>1</u>
NET INCOME (LOSS)	<u>(675,002)</u>	<u>-</u>	<u>2,272,684</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>-</u>	<u>187,881</u>	<u>-</u>
	<u>(607,042)</u>	<u>-</u>	<u>(672,413)</u>	<u>-</u>

(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>-</u>	<u>(17,858)</u>	<u>-</u>
	<u>1,069,800</u>	<u>-</u>	<u>94,050</u>	<u>-</u>
Other comprehensive gain (loss) for the year, net of income tax	<u>462,758</u>	<u>-</u>	<u>(578,363)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ (212,244)</u>	<u>-</u>	<u>\$ 1,694,321</u>	<u>1</u>
NET INCOME ATTRIBUTABLE TO:				
Owner of the Company	\$ (1,199,798)	(1)	\$ 1,790,361	1
Non-controlling interests	<u>524,796</u>	<u>1</u>	<u>482,323</u>	<u>-</u>
	<u>\$ (675,002)</u>	<u>-</u>	<u>\$ 2,272,684</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	\$ (647,085)	-	\$ 1,258,035	1
Non-controlling interests	<u>434,841</u>	<u>-</u>	<u>436,286</u>	<u>-</u>
	<u>\$ (212,244)</u>	<u>-</u>	<u>\$ 1,694,321</u>	<u>1</u>
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							Other Equity				Total	Non-Controlling Interests	Total Equity
	Retained Earnings					Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain on Financial Asset at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries			
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)									
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	\$ 2,134,282	\$ 59,157,519
Effect of retrospective application and retrospective restatement	-	-	-	-	60	-	(1,774)	42,351	74,429	(74,429)	-	40,637	-	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	2,134,282	59,198,156
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978	-	409,978
Basis adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	12,118	-	12,118	-	12,118
Appropriation of 2017 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-	-	-
Cash dividends - \$0.2181820086 per share	-	-	-	-	(1,193,670)	-	-	-	-	-	-	(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	-	-	-	-	(645,495)	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	-	1,258,035	436,286	1,694,321
Gain or loss on non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	565,963	565,963
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	(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	-	-	-	(105,843)	105,843	-	-	-	-	-	-	-	-	-
Cash dividends - \$0.20960737 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	-	-	-	-	(577,427)	(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	-	-	-	-	-	-	-	-	-	-	-	-	611,841	611,841
Non-controlling interests arising from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(416,438)	(416,438)
Loss of control of subsidiaries	-	-	-	-	-	8,368	-	105	-	-	-	8,473	(24,957)	(16,484)
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	\$ 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
Bad debts expense	24,096	49,824
Net gain on fair value changes of financial assets and liabilities held for trading	(27,580)	(11,168)
Interest income	(417,446)	(330,710)
Dividend income	(21,422)	(9,603)
Share of profit of associates and joint ventures	(332,305)	(367,246)
(Gain) loss on disposal of property, plant and equipment	(32,460)	270,597
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
Impairment loss on non-current assets held for sale	-	75,437
Impairment loss recognized on property, plant, equipment	-	50,000
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

(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
Interest paid	\$ (3,124,960)	\$ (1,319,690)
Income tax paid	<u>(335,544)</u>	<u>(185,208)</u>
Net cash generated from operating activities	<u>37,526,612</u>	<u>27,026,957</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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>-</u>	<u>136,769</u>
Net cash used in investing activities	<u>(16,053,122)</u>	<u>(20,279,612)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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	<u>(416,438)</u>	<u>(171,019)</u>
Net cash used in financing activities	<u>(17,614,558)</u>	<u>(4,386,909)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(336,941)</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)

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	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)

## **Agenda Item #2 (Proposed by the Board of Directors)**

Description: Acknowledgement of the Proposal for 2019 Deficit Compensation.

Details:

1. In accordance with Article 228 of the Company Act.
2. Unappropriated retained earnings at the beginning of 2019 was NT\$0. After subtracting the retained earnings modified by the remeasurement of defined benefit plans, i.e., NT\$449,807,404, and the changes in recognized affiliated enterprises using the equity method, i.e., NT\$127,620,025, the adjusted cumulative deficit was NT\$577,427,429; adding the 2019 net loss after tax of NT\$1,199,797,975, the final deficit was NT\$1,777,225,404.
3. In accordance with Article 239 of the Company Act, the legal reserve of NT\$466,415,667, the special surplus reserve of NT\$12,966,658, and the capital reserve of NT\$1,297,873,079 are used to make up the deficit; the cumulative deficit at the end of the year was NT\$0.
4. Refer to the Appropriation of 2019 Deficit table on page 36 of this handbook.
5. This plan was approved in the 10th convention of the 21th Board of Directors meeting.

Resolution:

China Airlines Ltd.  
Appropriation of 2019 Deficit

Unit: NT\$

Items	Total
Unappropriated retained earnings (beginning balance)	\$ 0
Remeasurement of defined benefit plans	(449,807,404)
Change from investments in associates and joint ventures accounted for by using equity method	<u>(127,620,025)</u>
Adjusted accumulated deficit	(577,427,429)
Add:2019 Net loss after tax	(1,199,797,975)
Accumulated deficit before compensation	(1,777,225,404)
Item used to compensate for deficit:	
Legal reserves	466,415,667
special surplus reserve	12,966,658
capital reserve	<u>1,297,843,079</u>
Accumulated deficit (Ending Balance)	\$0

Chairman: HSIEH, SU-CHIEN

Manager: HSIEH, SU-CHIEN

Accounting Supervisor: CHEN, I-CHIEH

## Matters for Discussion

### Agenda Item #1 (Proposed by the Board of Directors)

Description: Amendment to the “Articles of Incorporation.” To be determined by all parties.

Details:

1. According to Taiwan Stock Exchange Corporation (TWSE) letter Tai-Zheng-Zhi-Li-Zi No. 10800242211 dated January 2, 2020, amendments to a portion of the articles of the Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers were announced. Therefore, revision of the Company's Articles of Incorporation is needed to comply with the relevant regulations and the Company's practical needs.
2. For the amended and original Articles of Incorporation, please refer to pages 38-40 of this handbook.
3. This item was approved during the 10th session of the 21th Meeting of the Board.

Resolution:

## China Airlines Ltd.

### Comparison Table: Articles of Incorporation

Revised Provisions	Current Provisions	Revision Notes
<p>Article 16-1:</p> <p>Of the directors of the Company provided in the preceding article, there are <u>no fewer than</u> three independent directors, <u>one</u> of which is an independent director experienced in public welfare.</p> <p>(Paragraph 2 and 3 omitted)</p>	<p>Article 16-1:</p> <p>The directors of the Company provided in the preceding article <u>shall include</u> three independent directors and one shall be an independent director undertaking public welfare.</p> <p>(Paragraph 2 and 3 omitted)</p>	<p>It was amended that the number of independent directors is no less than three to meet the Company's needs and increase flexibility.</p>
<p>Article 25:</p> <p>In the case of a profitable fiscal year, the Company shall set aside no less than 3% to employee compensation. However, in the event of accumulated deficits, the profits shall be reserved in advance to offset the deficits.</p> <p>The above compensation shall be distributed as stock or cash, following a Board of Directors majority approval in which at least two-thirds of board members are present. If passed, the resolution shall be reported during a Shareholders' Meeting.</p> <p>In the case of a profitable fiscal year, the Company shall pay taxes in accordance with the law, make up accumulated deficits, and then allot earnings to the statutory reserve <u>and</u> appropriate for provisions and rotating special reserves <u>in accordance with regulations</u>. If there is still surplus and/or accumulated undistributed earnings, the Board of Directors shall submit an allocation proposal in accordance with the following principles:</p> <p>1. Not less than 50% thereof shall be distributed as dividend and bonus to</p>	<p>Article 25:</p> <p>In the case of a profitable fiscal year, the Company shall set aside no less than 3% to employee compensation. However, in the event of accumulated deficits, the profits shall be reserved in advance to offset the deficits.</p> <p>The above compensation shall be distributed as stock or cash, following a Board of Directors majority approval in which at least two-thirds of board members are present. If passed, the resolution shall be reported during a Shareholders' Meeting.</p> <p>In the case of a profitable fiscal year, the Company shall pay taxes in accordance with the law, make up accumulated deficits, and then allot <u>10%</u> to the statutory surplus reserve. <u>In accordance with regulations, the remaining balance shall then be appropriated for provisions and rotating</u> special reserves. If there is still surplus and/or accumulated undistributed earnings, the Board of Directors shall submit an allocation proposal in accordance with the following principles:</p> <p>1. Not less than 50% thereof shall be distributed as dividend and bonus to shareholders. <u>However, if the distributable balance from the</u></p>	<p>1. considering that "calculated and provided...in accordance with regulations" sufficiently covers the calculation base and provision percentage, adjustments to the wording are considered, and such adjustments do not affect the Company's current calculation and provision method.</p> <p>2. Paragraph 3 in this Article already stipulates "accumulated undistributed</p>



Revised Provisions	Current Provisions	Revision Notes
<p>shareholders.</p> <p><u>2.</u>Distribution of the aforesaid dividend and bonus may be made in the form of shares or cash; provided, however, that the cash dividend shall not be less than 30% of the total dividends.</p> <p><u>With respect to the distribution of earnings in the preceding paragraph,</u> where dividends are distributed as new shares, the proposal shall be submitted to the shareholders' meeting for approval before distribution; where dividends are distributed in cash, the Board of Directors <u>can</u> determine such distribution by a resolution adopted by a majority vote at a meeting attended by over two thirds of the Directors and report to the shareholders' meeting.</p> <p>When the Company does not suffer any loss, it may, with due consideration to financial and/or commercial and/or operational factor(s), appropriate all or a part of the reserve to issue new shares or distribute cash to shareholders in accordance with the laws and decrees, or the regulations of the competent authority. Where dividends are distributed as new shares, the proposal shall be submitted to the shareholders' meeting for approval before distribution; where dividends are distributed in cash, the Board of Directors can determine such distribution by a resolution adopted by a majority vote at a meeting attended by over two thirds of the Directors and report to the shareholders' meeting.</p>	<p><u>current year's pre-tax profit after making the deductions in accordance with the aforesaid computation method is not sufficient, the Company may apply the accumulative unappropriated retained earnings to cover the shortfall.</u></p> <p>2.When the Company does not suffer any loss, it may, with due consideration to financial and/or commercial and/or operational factor(s), appropriate all or a part of the reserve to issue new shares or distribute cash to shareholders in accordance with the laws and decrees or the regulations of the competent authority.</p> <p><u>3.</u>Distribution of the aforesaid dividend and bonus may be made in the form of shares or cash; provided, however, that the cash dividend shall not be less than 30% of the total dividends.</p> <p><u>According to the Company Act,</u> where dividends are distributed as new shares, the proposal shall be submitted to the shareholders' meeting for approval before distribution; where dividends are distributed in cash, the Board of Directors <u>shall be authorized to</u> determine such distribution by a resolution adopted by a majority vote at a meeting attended by over two thirds of the Directors and report to the shareholders' meeting.</p>	<p>earnings," so the rule regarding "applying accumulated undistributed earnings" in Subparagraph 1 was deleted to avoid repetition.</p> <p>3. In Paragraph 3, Subparagraph 2 of this Article, considering that "issuing new shares or cash from the reserve" is an independent matter, it is suggested to list it separately as an independent item to avoid confusion with distribution of earnings. Therefore, this Subparagraph was added as Paragraph 5.</p> <p>4. Adjustments to the wording are considered to increase</p>

Revised Provisions	Current Provisions	Revision Notes
		flexibility in the Company's operations.
<p>Article 26:</p> <p>The present Articles of Incorporation were announced on August 15, 1959, and the <u>seventy third (73rd)</u> amendment was made on <u>June 23, 2020</u>. Matters not prescribed under the Articles of Incorporation shall be governed by and construed in accordance with the provisions of the relevant laws and decrees. second</p>	<p>Article 26:</p> <p>The present Articles of Incorporation were announced on August 15, 1959, and the <u>seventy second (72nd)</u> amendment was made on <u>June 25, 2019</u>. Matters not prescribed under this Articles of Incorporation shall be governed by and construed in accordance with the provisions of the relevant laws and decrees. second</p>	Amended revision date.

## **Agenda Item #2 (Proposed by the Board of Directors)**

Description: Amendment to the “Rules of Procedure for Shareholders' Meetings.” To be determined by all parties.

Details:

1. According to (TWSE) letter Tai-Zheng-Zhi-Li-Zi No. 10800242211 dated January 2, 2020, amendments to part of the Sample Template for XXX Co., Ltd. Rules of Procedure for Shareholders Meetings were announced. The Rules of Procedure for Shareholders Meetings were therefore amended to comply with the relevant regulations and the Company's practical needs.
2. For the amended and original Articles of Incorporation, please refer to pages 42-44 of this handbook.
3. This item was approved during the 10th session of the 21th Meeting of the Board.

Resolution:

## China Airlines Ltd.

### Comparison Table: Rules of Procedure for Shareholders' Meeting's

Revised Provisions	Current Provisions	Revision Notes
<p>Article 9:</p> <p>In addition to discussions and votes on issues as outlined in the agenda handbook, shareholders in attendance may also raise extraordinary motions as stipulated in the Company Act. After the chair receives approval from other shareholders, the chair shall put the issue up for discussion and a vote.</p> <p>Election or dismissal of directors, amendments to the Articles of Incorporation, <u>reduction of capital, application for the approval of ceasing its status as a public company, approval of competing with the company by directors, surplus profit distributed in the form of new shares, reserve distributed in the form of new shares, dissolution, merger, spin-off, or any matters as set forth in Article 185, Paragraph 1 hereof shall be itemized in the causes or subjects to be described and the essential contents shall be explained in the notice to convene a meeting of shareholders, and shall not be brought up as extemporary motions; the essential contents may be posted on the website designated by the competent authority in charge of securities affairs or the company, and such website shall be indicated in the above notice.</u></p>	<p>Article 9:</p> <p>In addition to discussions and votes on issues as outlined in the agenda handbook, shareholders in attendance may also raise extraordinary motions as stipulated in the Company Act. After the chair receives approval from other shareholders, the chair shall put the issue up for discussion and a vote.</p> <p>Election or dismissal of directors, amendments to the Articles of Incorporation, the dissolution, merger, or demerger, or any matter under Article 185, Paragraph 1 of the Company Act, <u>Articles 26-1 and 43-6 of the Securities and Exchange Act, or Articles 56-1 and 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers</u> shall be set out in the notice of the reasons for convening the Shareholders' Meeting. None of the above matters may be raised by an extraordinary motion.</p>	<p>Paragraph 2 of this Article was amended with reference to Article 3 in the Sample Template for XXX Co., Ltd. Rules of Procedure for Shareholders Meetings and to accord with amendments to Article 172, Paragraph 5 of the Company Act.</p>
<p>Article 10:</p> <p>When an attending shareholder wishes to speak regarding a proposal up for</p>	<p>Article 10:</p> <p>When an attending shareholder wishes to speak regarding a proposal up for</p>	<p>In order to safeguard shareholders'</p>

Revised Provisions	Current Provisions	Revision Notes
<p>discussion, he or she must specify on a speaker's slip the subject of the speech, his/her shareholder account number, and account name. The order in which shareholders speak will be set by the chair. A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. This also applies in the case of extraordinary motions.</p> <p>Shareholders in attendance who have inquiries regarding reports as stipulated in the meeting agenda may not raise such inquiries until after the chairman or the designated person finishes reading or finishes reporting.</p> <p>After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.</p>	<p>discussion, he or she must specify on a speaker's slip the subject of the speech, his/her shareholder account number, and account name. The order in which shareholders speak will be set by the chair. A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. This also applies in the case of extraordinary motions.</p> <p>After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.</p>	<p>rights and facilitate a more efficient method of communications with shareholders, it is stipulated that shareholders may not speak until after the complete report is read or reported in full. This is to help arrange shareholders' meeting procedures and improve efficiency of those meetings.</p>
<p>Article 15:</p> <p>Except as otherwise provided in the Company Act, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders (if the Articles of Incorporation require a higher standard, then the higher standard shall apply). In the resolution, <u>after the Chairman or delegate thereof announces the total number of voting</u></p>	<p>Article 15:</p> <p>Except as otherwise provided in the Company Act, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders (if the Articles of Incorporation require a higher standard, then the higher standard shall apply). In the resolution, <u>if the chair of the meeting inquires and receives no objection, the motion is deemed</u></p>	<p>To accord with electronic voting on a case-by-case basis, the text "if the chair of the meeting inquires and receives no objection, the motion is deemed passed, with equivalent force as a</p>

Revised Provisions	Current Provisions	Revision Notes
<p><u>rights represented by shareholders in attendance for voting on each issue, shareholders will proceed with voting on a case-by-case basis.</u> When a shareholder is an interested party in relation to an agenda item and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder’s voting rights may not count towards the total, but this does not apply in the selection of directors. When one person is concurrently appointed as proxy by two or more shareholders, the voting rights represented by that proxy may not exceed 3% of the voting rights represented by the total number of issued shares. If that percentage is exceeded, the voting rights in excess of that percentage shall not be included in the calculation.</p> <p>(Paragraph 2, 3, and 4 omitted)</p>	<p><u>passed, with equivalent force as a resolution by vote.</u> When a shareholder is an interested party in relation to an agenda item and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder’s voting rights may not count towards the total, but this does not apply in the selection of directors. When one person is concurrently appointed as proxy by two or more shareholders, the voting rights represented by that proxy may not exceed 3% of the voting rights represented by the total number of issued shares. If that percentage is exceeded, the voting rights in excess of that percentage shall not be included in the calculation.</p> <p>(Paragraph 2, 3, and 4 omitted)</p>	<p>resolution by vote” in the original article was deleted. Revisions to the wording are considered with reference to Article 13, Paragraph 5 of the “XXX Co., Ltd. Rules of Procedure for Shareholders Meetings.”</p>

### Agenda Item #3 (Proposed by the Board of Directors)

Description: Proposal to release non-compete restrictions on Director Han-Ming Chen. To be determined by all parties.

Details:

1. According to Article 209 of the Company Act, a board director acting on behalf of himself (herself) or another in matters within the business scope of the Company shall explain the importance of its actions and obtain approval at the shareholders meeting. Without damaging the Company's interests, it is proposed to lift the non-competition restrictions of Chairman Hsieh Shih-Chen's various titles at the following list of companies:

Name and title	Title at each company
China Aviation	Chairman, Tigerair Taiwan Co., Ltd.
Development Foundation	Chairman, Prime Development Co., Ltd.
Representative: CHEN, HAN-MING	Director, Chyn Tay Bearing, Co., Ltd.

2. This item was approved during the 11th session of the 21th Meeting of the Board.

Resolution:

## Questions and Motions



# Appendices

## Appendix 1

### CHINA AIRLINES LTD. ARTICLES OF INCORPORATION

The Articles were created on August 15, 1959  
Amended and approved by the Shareholders' Meeting, having undergone 70 amendments, on June 26, 2015  
Amended and approved by the Shareholders' Meeting, having undergone 71 amendments, on June 24, 2016  
Amended and approved by the Shareholders' Meeting, having undergone 72 amendments, on June 25, 2019

#### Chapter I General Provisions

##### Article 1

The Company shall be organized in accordance with the provisions of the Company Act relating to companies limited by shares, and shall be named “中華航空股份有限公司”. Its English name shall be “CHINA AIRLINES LTD.”

##### Article 2

The Company operates the following businesses:

1. G501011 Civil Aviation Transportation
2. G501020 Civil Aviation Agency
3. G502011 Aviation
4. G602011 Airport Ground Services
5. G605011 Sky Catering
6. G801010 Warehousing & Storage
7. F114070 Wholesale of Aircraft and Parts
8. F214070 Retail Sale of Aircraft and Parts
9. I301010 Software Design Services
10. I301020 Data Processing Services
11. I301030 Digital Information Supply Services
12. J201051 Civilian Aviation Personnel Training
13. JA01010 Automotive Repair & Maintenance
14. JA02990 Other Repair Shops
15. ZZ99999 All businesses that are not prohibited or restricted by law, except those that are subject to special approval.

##### Article 2-1

The Company may, in accordance with its business requirements, act externally as a guarantor and make re-investment. Where the Company is a limited liability shareholder of another company, the total amount of its re-investment is not subject to the restriction on the re-investment amount as prescribed by Article 13 of the Company Act.

##### Article 2-2

(Deleted)

##### Article 3

The Company's head office is located in Taoyuan City (Taiwan, R.O.C.), and branch offices or sales offices may be set up inside or outside of the country when necessary upon a resolution of the Board of Directors.

##### Article 4

(Deleted)

## Chapter II Shares

### Article 5

The aggregate capital of the Company shall be Seventy Billion New Taiwan Dollars (NT\$70,000,000,000), divided into Seven Billion (7,000,000,000) common shares at Ten New Taiwan Dollars (NT\$10) per share. The un-issued shares may be issued at several times by the Board of Directors in accordance with the Company's business requirements.

### Article 6

Share certificates issued by the Company are not required to be printed. The Company, however, shall register the issued shares with a centralized securities depository enterprise.

With respect to the new shares issued in accordance with the provision of the preceding paragraph, the consolidated printed share certificate shall be placed under the custody of, and the recordation of the issue for shares exempted from printing share certificate shall be made by, the centralized securities custody institution, or the new-issued shares may be consolidated with other already-issued shares into larger-denomination share certificates in accordance with the request of the centralized securities custody institution.

### Article 7

(Deleted)

### Article 8

The Company's stock matters shall be governed by the relevant regulations of the competent authority.

### Article 9

Registration of a share assignment shall not be made within sixty (60) days prior to a convening date of a regular shareholders' meeting, or within thirty (30) days prior to a convening date of a special shareholders' meeting, or within five (5) days prior to the record date fixed by the Company for distribution of dividends, bonuses, or other benefits.

## Chapter III Shareholders' Meetings

### Article 10

The Company's shareholders' meetings are of two kinds: regular shareholders' meetings and special shareholders' meetings. A regular shareholders' meeting shall be convened once a year within six (6) months after the close of the fiscal year. A special shareholders' meeting shall be convened when necessary in accordance with the relevant laws and decrees.

### Article 11

Unless otherwise provided by the Company Act, a resolution of a shareholders' meeting shall be adopted by majority vote of the shareholders present at a meeting, representing a majority of the total number of voting shares.

#### **Article 12**

A shareholder of the Company shall be entitled to one vote per share, unless otherwise restricted by laws.

#### **Article 13**

If a shareholder is unable to attend a shareholders' meeting for causes, he shall appoint a proxy to attend a shareholders' meeting on his behalf by executing a power of attorney printed by the Company specifying therein the scope of the power authorized to a proxy.

Other than a trust enterprise or a stock agency approved by the competent authority, the voting right represented by a proxy appointed concurrently by two or more shareholders shall not exceed three percent (3%) of the total number of voting shares of all outstanding shares; any voting right in excess thereof shall not be counted.

Unless otherwise provided by the Company Act, the rules for appointing proxies to attend a shareholders' meeting shall be prescribed in accordance with the "Rules Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" promulgated by the competent authority.

#### **Article 14**

Where a shareholders' meeting is convened by the Board of Directors, the meeting shall be presided by the Chairman of the Board of Directors. When the Chairman is on leave or absent, or is unable to exercise his power and authority for causes, he shall designate a director to represent him; where he has not designated a representative, directors shall elect a representative from among themselves to act as the chairman of the meeting. Where a shareholders' meeting is convened by any person with convening power other than the Board of Directors, such person shall be the chairman of the meeting. Where there are two or more persons having convening powers, one shall be elected from among themselves to act as the chairman of the meeting.

#### **Article 15**

Resolutions adopted at a shareholders' meeting shall be recorded in meeting minutes signed by or affixed with the seal of the chairman of the meeting, and the meeting minutes shall be kept perpetually throughout the existence of the Company.

The attendance register of shareholders attending the meeting and the proxies shall be safe kept for at least one year. However, in the event a shareholder has initiated litigation in accordance with Article 189 of the Company Act, they shall be safe kept until the conclusion of the litigation.

### **Chapter IV Directors and Managers**

#### **Article 16**

The Company shall have eleven to thirteen directors, all of whom shall be elected at a shareholders' meeting from among persons having legal capacity.

Travel expenses and remuneration for the directors shall be prescribed by the Board of Directors in reference to the standards adopted by enterprises in the relevant industry and listed companies.

#### **Article 16-1**

The directors of the Company provided in the preceding article shall include three independent directors and one shall be an independent director undertaking public welfare.

The election of the directors of the Company shall be held in accordance with the candidate nomination system. The election of directors shall be held in accordance with the Company Act and other applicable laws and regulations; the independent directors, independent directors undertaking public welfare, and non-independent directors shall be elected at the same time but in separately calculated numbers elect, and candidates to whom the ballots cast represent a prevailing number of votes shall be elected as independent directors, independent directors undertaking public welfare, and non-independent directors.

The professional qualifications, restrictions on shareholdings and concurrent positions held, assessment of independence, method of nomination and election, exercise of power, and other matters for compliance with respect to independent directors shall be governed by and construed in accordance with the Securities and Exchange Act and the provisions of the relevant laws and decrees; those of independent directors undertaking public welfare shall be governed by the Regulations Governing Compliance Matters for Civil Air Transport Enterprise to Appoint Independent Directors Undertaking Public Welfare.

#### **Article 16-2**

The audit committee of the Company is organized by all independent directors in accordance with Article 14-4 of the Securities and Exchange Act. Governing powers exercised by the audit committee and its members, and related businesses thereof, shall be governed by and construed in accordance with the Securities and Exchange Act and the provisions of the relevant laws and decrees.

#### **Article 17**

The term of office of the directors is three years, and the directors may be eligible for re-election; independent directors undertaking public welfare are only eligible for two re-elections. The total number of shares held by all the directors shall be governed by the provisions of the Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies.

#### **Article 18**

The directors shall organize a Board of Directors to exercise the power and authority of the directors, and the Chairman of the Board of Directors shall be elected from among the directors by a majority vote at a meeting attended by at least two-thirds of the directors, and the Chairman shall represent the Company externally.

The Board of Directors shall be authorized to prescribe the remuneration for the Chairman according to the extent of the Chairman's participation in the operation of the Company, in reference to the regulations relating to remuneration for managers of the Company.

#### **Article 19**

A board meeting shall be convened by the Chairman; provided, however, that the first board meeting for each term shall be convened by the director who obtains and represents the most votes.

A board meeting shall be presided over by the Chairman of the Board of Directors. When the Chairman is on leave or absent, or is unable to exercise his power and authority for causes, he shall designate a director to represent him; where he has not designated a representative, the directors shall elect a representative from among themselves to represent him.

#### **Article 19-1**

If a board meeting is held in the form of a video conference, the directors who participate in the video conference shall be deemed to have attended the meeting in person.

If a director is unable to attend a board meeting for causes, he may issue a proxy specifying therein the purpose for convening the meeting and the scope of authorization to appoint another director to represent him at the meeting; provided, however, that a representative shall accept only one person's appointment.

#### **Article 20**

Unless otherwise provided by the Company Act, a resolution of the Board of Directors shall be adopted by a majority vote of the directors present at a board meeting attended by a majority of the directors.

#### **Article 21**

(Deleted)

#### **Article 22**

The Company shall have one president and several senior vice presidents whose appointment, dismissal and remuneration shall be governed according to Article 29 of the Company Act.

#### **Article 23**

The Company may, in accordance with its business requirements, invite several consultants, senior consultants and special consultants, who shall be appointed by the Chairman.

### **Chapter V Accounting**

#### **Article 24**

After the close of each fiscal year, the Board of Directors shall prepare the following statements and reports, and submit them to the regular shareholders' meeting for recognition:

1. Operation/Business report.
2. Financial statements.
3. Proposal for distribution of profit or appropriation to cover loss.

#### **Article 25**

In the case of a profitable fiscal year, the Company shall set aside no less than 3% to employee compensation. However, in the event of accumulated deficits, the profits shall be reserved in advance to offset the deficits.

The above compensation shall be distributed as stock or cash, following a Board of Directors majority approval in which at least two-thirds of board members are present. If passed, the resolution shall be reported during a Shareholders' Meeting.

In the case of a profitable fiscal year, the Company shall pay taxes in accordance with the law, make up accumulated deficits, and then allot 10% to the statutory surplus reserve. In accordance with regulations, the remaining balance shall then be appropriated for provisions and rotating special reserves. If there is still

surplus and/or accumulated undistributed earnings, the Board of Directors shall submit an allocation proposal in accordance with the following principles:

1. Not less than 50% thereof shall be distributed as dividend and bonus to shareholders. However, if the distributable balance from the current year's pre-tax profit after making the deductions in accordance with the aforesaid computation method is not sufficient, the Company may apply the accumulative retained earnings-unappropriated to cover the shortfall.
2. When the Company does not suffer any loss, it may, with due consideration to financial and/or commercial and/or operational factor(s), appropriate all or a part of the reserve to issue new shares or distribute cash to shareholders in accordance with the laws and decrees, or the regulations of the competent authority.
3. Distribution of the aforesaid dividend and bonus may be made in the form of shares or cash; provided, however, that the cash dividend shall not be less than 30% of the total dividends.

According to the Company Act, where dividends are distributed as new shares, the proposal shall be submitted to the shareholders' meeting for approval before distribution; where dividends are distributed in cash, the Board of Directors shall be authorized to determine such distribution by a resolution adopted by a majority vote at a meeting attended by over two thirds of the Directors and report to the shareholders' meeting.

## **Chapter VI Supplemental Provisions**

### **Article 26**

The present Articles of Incorporation were announced on August 15, 1959, and the seventy second (72nd) amendment was made on June 25, 2019. Matters not prescribed under this Articles of Incorporation shall be governed by and construed in accordance with the provisions of the relevant laws and decrees.

## Appendix 2

### China Airlines Ltd. Rules of Procedure for Shareholders' Meetings

Formulated and implemented after approval by the 3rd Extraordinary Shareholders' Meeting on December 12, 1991  
Amended and approved by the Shareholders' Meeting on June 29, 2010  
Amended and approved by the Shareholders' Meeting on June 15, 2012  
Amended and approved by the Shareholders' Meeting on June 26, 2015

#### Article 1

These Rules of Procedure for Shareholders' Meetings have been drawn up in accordance with the Company Act and all other relevant laws and regulations. Any matters not stipulated in these Rules shall be conducted in accordance with the aforementioned laws.

#### Article 2

The rules of procedure for the Company's Shareholders' Meetings, except as otherwise provided by law, regulations, or the Articles of Incorporation, shall be as provided in these Rules.

#### Article 3

As stipulated in these Rules, "shareholder" refers to the shareholder himself/herself or a designated representative delegated to attend in his/her stead.

#### Article 4

A shareholder may appoint a proxy to attend a shareholder meeting by providing the proxy form issued by the Company in accordance with the Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies, promulgated by the competent authorities, which clearly states the scope of the proxy's authorization. The shareholder shall deliver the proxy form to the Company at least 5 days before the date of the Shareholders' Meeting. When duplicate proxy forms are delivered, the one received earliest shall prevail unless a declaration is made to cancel the previous proxy appointment. If a shareholder appoints a proxy, should the proxy not provide the proxy form, the total number of shares and voting rights represented shall be disregarded.

When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting.

After a proxy form has been delivered to the Company, if the shareholder intends to attend the meeting in person or to exercise voting rights by correspondence or electronically, a written notice of proxy cancellation shall be submitted to the Company no later than 2 business days prior to the meeting date. If the cancellation notice is submitted after that time, votes cast at the meeting by the proxy shall prevail.

#### Article 5

Attendance and voting at Shareholders' Meetings shall be calculated based on numbers of shares. The number of shares in attendance and voting rights shall be calculated according to the shares indicated by the sign-in cards handed in and proxy forms plus the number of shares whose voting rights are exercised by correspondence or electronically.

## **Article 6**

The chair of the Shareholders' Meeting shall be selected in accordance with Article 208, Paragraph 3 of the Company Act and Article 14 of the Company's Articles of Incorporation.

The Company may appoint its attorneys, certified public accountants, or related persons retained by it to attend a Shareholders' Meeting in a non-voting capacity.

## **Article 7**

If a Shareholders' Meeting is convened by the Board of Directors, the meeting agenda shall be set by the Board of Directors. The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the Shareholders' Meeting.

The provisions of the preceding paragraph apply mutatis mutandis to a Shareholders' Meeting convened by a party with the power to convene that is not the Board of Directors.

After the Shareholders' Meeting agenda is set by the Board of Directors or other party with the power to convene, the agenda shall be distributed to shareholders in attendance or their proxies. The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda (including extraordinary motions), except by a resolution of the Shareholders' Meeting.

After the meeting is adjourned, the shareholders may not designate another person as chair and continue the meeting in the original location or at a different location.

## **Article 8**

The chair shall call the meeting to order at the appointed meeting time. However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements for a combined total of no more than 1 hour are made. If a quorum is not met after two postponements, but the attending shareholders represent one third or more of the total number of issued shares, the situation is to be handled in accordance with Article 175 of the Company Act. When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolutions made previously for a vote by the Shareholders' Meeting.

## **Article 9**

In addition to discussions and votes on issues as outlined in the agenda handbook, shareholders in attendance may also raise extraordinary motions as stipulated in the Company Act. After the chair receives approval from other shareholders, the chair shall put the issue up for discussion and a vote.

Election or dismissal of directors, amendments to the Articles of Incorporation, the dissolution, merger, or demerger, or any matter under Article 185, Paragraph 1 of the Company Act, Articles 26-1 and 43-6 of the Securities and Exchange Act, or Articles 56-1 and 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be set out in the notice of the reasons for convening the Shareholders' Meeting. None of the above matters may be raised by an extraordinary motion.

## **Article 10**

When an attending shareholder wishes to speak regarding a proposal up for discussion, he or she must specify on a speaker's slip the subject of the speech, his/her shareholder account number, and account name. The order in which shareholders speak will be set by the chair. A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. This



also applies in the case of extraordinary motions.

After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.

#### **Article 11**

When a juristic person shareholder appoints two or more representatives to attend a Shareholders' Meeting, only one of the representatives so appointed may speak on the same proposal. Except with the consent of the chair, a shareholder may not speak more than twice on the same proposal, and a single speech may not exceed 5 minutes.

#### **Article 12**

If the speech of any shareholder violates the above Article or exceeds the scope of the agenda item, the chair may terminate the speech.

When an attending shareholder is speaking, other shareholders may not speak or interrupt unless they have sought and obtained the consent of the chair and the shareholder that has the floor. The chair shall stop any violations. The chair shall direct the proctors (or security personnel) to help maintain order at the meeting place.

Proctors (or security personnel) assigned to help maintain order at the meeting place shall wear identification cards or armbands bearing the word "Proctor."

Any shareholders who use public address equipment different from that supplied at the premises may be prevented from speaking by the chair.

In the event that a shareholder violates the rules of procedure and defies the chair's correction, obstructing the proceedings and refusing to heed calls to stop, the chair may direct proctors or security personnel to escort the shareholder from the meeting.

#### **Article 13**

The chair shall announce the end of discussion on a proposed resolution and proceed with voting when he/she feels that the discussion time will affect the smooth proceeding of the meeting or that there has been sufficient discussion and that there is no need for further speeches.

When there is an amendment or an alternative to a proposal, the chair shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. When any one among them is passed, the other proposals will then be deemed rejected and no further voting shall be required.

#### **Article 14**

The number of voting rights required to pass a resolution shall be determined as outlined in the Company Act based on the characteristics of said proposal, but if the Company's Articles of Incorporation specify a higher standard, then the Articles of Incorporation shall be followed

#### **Article 15**

Except as otherwise provided in the Company Act, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders (if the Articles of Incorporation require a higher standard, then the higher standard shall apply). In the resolution, if the chair of the meeting

inquires and receives no objection, the motion is deemed passed, with equivalent force as a resolution by vote. When a shareholder is an interested party in relation to an agenda item and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder's voting rights may not count towards the total, but this does not apply in the selection of directors. When one person is concurrently appointed as proxy by two or more shareholders, the voting rights represented by that proxy may not exceed 3% of the voting rights represented by the total number of issued shares. If that percentage is exceeded, the voting rights in excess of that percentage shall not be included in the calculation.

When a shareholder is an interested party in relation to an agenda item and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder may not vote on that item, and may not exercise voting rights as proxy for any other shareholder, but selection of a director is not thusly restricted.

The number of shares for which voting rights may not be exercised under the preceding paragraph shall not be calculated as part of the voting rights represented by attending shareholders.

With the exception of a trust enterprise or a shareholder services agent approved by the competent securities authority, when one person is concurrently appointed as proxy by two or more shareholders, should the voting rights represented by that proxy exceed 3% of the voting rights represented by the total number of issued shares, the voting rights in excess of that percentage shall not be included in the calculation.

#### **Article 16**

Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of the Company. When the chair appoints shareholders from the shareholder meeting to perform a certain task and the appointee is unable to perform said task, the chair shall appoint a different shareholder.

#### **Article 17**

When a meeting is in progress, the chair may announce a break at his or her discretion. If a force majeure event occurs, the chair may rule the meeting temporarily suspended and announce a time when, in view of the circumstances, the meeting will be resumed. When the chair adjourns the meeting, the meeting is considered concluded.

#### **Article 18**

Matters relating to the resolutions of a Shareholders' Meeting shall be recorded in the meeting minutes. The meeting minutes shall be signed or affixed with a seal by the chair of the meeting and shall be retained for the duration of the existence of the Company.

The Company, beginning from the time it accepts shareholder attendance registrations, shall make an uninterrupted audio or video recording of the registration procedure, the proceedings of the Shareholders' Meeting, and the voting and vote counting procedures. The recorded audio and/or video materials, sign-in cards, attendance book, and proxy forms shall be retained for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the aforementioned materials shall be retained until the conclusion of the litigation.

#### **Article 19**

These Rules and any amendments hereto shall be implemented after adoption by a Shareholders' Meetings.

### Appendix 3

### China Airlines, Ltd. Directors' Shareholdings

Base date: April 25, 2020

Title	Name	Date of Appointment	No. of Shares Held Upon Appointment			No. of Shares Currently Held			Remarks
			Type	No. of Shares	Percentage of shares issued	Type	No. of Shares	Percentage of shares issued	
Chairman	China Aviation Development Foundation Representative: HSIEH, SU-CHIEN	June 27, 2018	common stock	1,867,341,935	34.13%	common stock	1,867,341,935	34.45%	
Director	China Aviation Development Foundation Representative: CHEN, CHIH-YUAN								
Director	China Aviation Development Foundation Representative: TING, KWANG-HUNG								
Director	China Aviation Development Foundation Representative: KO, SON-TA								
Director	China Aviation Development Foundation Representative: WEI, YUNG-YEH								
Director	China Aviation Development Foundation Representative: CHEN, HAN-MING								

Title	Name	Date of Appointment	No. of Shares Held Upon Appointment			No. of Shares Currently Held			Remarks
			Type	No. of Shares	Percentage of shares issued	Type	No. of Shares	Percentage of shares issued	
Director	National Development Fund, Executive Yuan Representative: LIN, SU-MING	June 27, 2018	common stock	519,750,519	9.50%	common stock	519,750,519	9.59%	
Director	National Development Fund, Executive Yuan Representative: WANG, SHIH-SZU								
Independent Director	CHUNG, LO-MIN	June 27, 2018	common stock	0	0.00%	common stock	0	0.00%	
Independent Director	CHANG, HSIEN GEN-SEN	June 27, 2018	common stock	0	0.00%	common stock	0	0.00%	
Independent Director	SHEN, HUI-YA	June 27, 2018	common stock	0	0.00%	common stock	0	0.00%	
Total			common stock	2,387,092,454			2,387,092,454		

June 27, 2018 Total shares outstanding: 5,470,984,650 shares

April 25, 2020 Total shares outstanding: 5,420,984,650 shares

Note: All Directors shall hold statutory shares: 120,000,000 shares. As of April 25, 2020: 2,387,092,454 shares held.

The Company has founded an audit committee, hence no statutory shares shall be held by the supervisors. Shares held by Independent Directors are not included in the Directors' shareholding total.