

China Airlines, Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2020 and 2019 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2020 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

CHINA AIRLINES, LTD.

By

March 18, 2021

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020. 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.

Key audit matter in the audit of the Group's consolidated financial statements is stated below:

Recognition of Cargo Revenue

In accordance with IFRS 15 "Revenue from Contracts with Customers", cargo sales are accounted for as cargo revenue after relevant transportation services have been provided. For the year ended December 31, 2020, cargo revenue amounted to NT\$81,692,574 thousand. Refer to Notes 4 and 27 to the accompanying consolidated financial statements for detailed information.

Cargo rates are highly affected by the supply and demand of the market and sales can only be recognized after relevant transportation services are provided. The input, processing and maintenance of freight information on the air waybills involve manual operations. Therefore, we identified the recognition of cargo revenue as a key audit matter.

Our main audit procedures performed included the following:

1. We understood the internal controls related to the recognition of cargo revenue, including manual and automatic control.
2. We understood and tested the effectiveness of information system related to the recognition of cargo revenue.
3. We sampled the air waybills, confirmed that cargo rates were consistent with those stated in air waybills, and verified the accuracy of cargo revenue.

Other Matter

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

As of December 31, 2020, total assets of these subsidiaries amounted to NT\$11,694,612 thousand, representing 4.12% of the consolidated total assets. For the year ended December 31, 2020, revenue from these subsidiaries amounted to NT\$1,880,636 thousand, representing 1.63% of the consolidated total revenue.

We have also audited the parent company only financial statements of China Airlines, Ltd. as of and for the years ended December 31, 2020 and 2019 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, 2020 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 audits resulting in this independent auditors' report are Jui-Chan Huang and Shiuh-Ran Cheng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 18, 2021

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, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 32)	\$ 27,125,937	10	\$ 28,459,528	10
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 32)	274,761	-	512,192	-
Financial assets at amortized cost (Notes 9 and 32)	6,551,693	2	2,355,095	1
Financial assets for hedging - current (Notes 4 and 32)	7,613,636	3	9,626	-
Notes and accounts receivable, net (Notes 4, 10 and 32)	9,697,511	4	8,520,834	3
Notes and accounts receivable - related parties (Notes 32 and 33)	1,667	-	10,348	-
Other receivables (Notes 4 and 32)	801,134	-	774,206	-
Current tax assets (Notes 4 and 28)	67,549	-	54,689	-
Inventories, net (Notes 4 and 11)	8,788,105	3	8,470,113	3
Non-current assets held for sale (Notes 4, 5 and 12)	89,296	-	-	-
Other assets - current (Note 18)	861,179	-	2,655,711	1
Total current assets	<u>61,872,468</u>	<u>22</u>	<u>51,822,342</u>	<u>18</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 8 and 32)	163,746	-	209,221	-
Financial assets at amortized cost (Notes 4 and 9)	311,596	-	105,586	-
Investments accounted for using the equity method (Notes 4 and 14)	1,970,802	1	2,223,793	1
Property, plant and equipment (Notes 4, 5, 15 and 34)	141,481,694	50	145,886,971	50
Right-of-use assets (Notes 4, 21 and 34)	59,861,537	21	71,033,617	24
Investment properties (Notes 4 and 16)	2,074,798	1	2,075,068	1
Other intangible assets (Notes 4 and 17)	1,076,351	-	1,182,692	-
Deferred income tax asset (Notes 4, 5 and 28)	6,028,200	2	5,337,626	2
Other assets - non-current (Notes 18, 21, 32 and 34)	9,352,892	3	13,171,063	4
Total non-current assets	<u>222,321,616</u>	<u>78</u>	<u>241,225,637</u>	<u>82</u>
TOTAL	<u>\$ 284,194,084</u>	<u>100</u>	<u>\$ 293,047,979</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term debts (Note 19)	\$ 1,932,000	1	\$ 380,000	-
Short-term bills payable (Note 19)	8,088,882	3	-	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 32)	-	-	11,749	-
Financial liabilities for hedging - current (Notes 4, 21 and 32)	8,129,752	3	8,618,506	3
Notes and accounts payable (Note 32)	1,354,237	1	1,495,606	1
Accounts payable - related parties (Notes 32 and 33)	128,567	-	542,015	-
Other payables (Notes 20 and 32)	8,306,257	3	13,187,972	5
Current tax liabilities (Notes 4 and 28)	216,602	-	374,178	-
Lease liabilities - current (Notes 3, 4 and 21)	2,525,957	1	2,340,873	1
Contract liabilities - current (Note 23)	3,569,360	1	21,060,773	7
Provisions - current (Notes 4 and 24)	164,800	-	360,393	-
Bonds payable and put option of convertible bonds - current portion (Notes 4, 20, 27 and 32)	11,982,859	4	10,000,000	3
Loans and debts - current portion (Notes 19, 32 and 34)	15,234,374	5	14,148,892	5
Other current liabilities (Note 32)	1,016,068	-	3,830,570	1
Total current liabilities	<u>62,649,715</u>	<u>22</u>	<u>76,351,527</u>	<u>26</u>
NON-CURRENT LIABILITIES				
Derivative financial liabilities for hedging - non-current (Notes 3, 4, 21 and 32)	32,455,333	11	42,420,205	15
Bonds payable - non-current (Notes 4, 20, 27 and 32)	10,300,000	4	22,052,625	8
Loans and debts - non-current (Notes 19, 32 and 35)	77,288,330	27	53,514,891	18
Contract liabilities - non-current (Notes 4 and 23)	1,761,104	1	2,236,311	1
Provisions - non-current (Notes 4 and 24)	14,369,486	5	10,011,464	3
Current tax liabilities - non-current (Notes 4 and 28)	87,181	-	-	-
Deferred tax liabilities (Notes 4 and 28)	1,023,084	-	557,142	-
Lease liabilities - non-current (Notes 3, 4, and 21)	13,279,792	5	15,801,724	5
Accrued pension costs (Notes 4, 5 and 25)	9,737,741	4	9,435,035	3
Other non-current liabilities (Note 32)	530,745	-	534,938	-
Total non-current liabilities	<u>160,832,796</u>	<u>57</u>	<u>156,564,335</u>	<u>53</u>
Total liabilities	<u>223,482,511</u>	<u>79</u>	<u>232,915,862</u>	<u>79</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)				
Share capital	54,209,846	19	54,209,846	19
Capital surplus	1,187,327	-	2,488,907	1
Retained earnings (accumulated deficit)				
Legal reserve	-	-	466,416	-
Special reserve	-	-	12,967	-
Unappropriated retained earnings (accumulated deficit)	(350,581)	-	(1,777,225)	-
Total retained earnings (accumulated deficit)	<u>(350,581)</u>	<u>-</u>	<u>(1,297,842)</u>	<u>-</u>
Other equity	2,543,766	1	1,196,233	-
Treasury shares	(30,875)	-	(43,372)	-
Total equity attributable to owners of the Company	57,559,483	20	56,553,772	20
NON-CONTROLLING INTERESTS (Note 26)	<u>3,152,090</u>	<u>1</u>	<u>3,578,345</u>	<u>1</u>
Total equity	<u>60,711,573</u>	<u>21</u>	<u>60,132,117</u>	<u>21</u>
TOTAL	<u>\$ 284,194,084</u>	<u>100</u>	<u>\$ 293,047,979</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, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
REVENUE (Notes 4, 27 and 34)	\$ 115,250,550	100	\$ 168,444,160	100
COSTS (Notes 4, 9, 11, 17, 24, 25, 27 and 34)	<u>105,031,349</u>	<u>91</u>	<u>151,757,232</u>	<u>90</u>
GROSS PROFIT	10,219,201	9	16,686,928	10
OPERATING EXPENSES (Notes 4, 25 and 27)	<u>8,034,785</u>	<u>7</u>	<u>14,021,107</u>	<u>8</u>
OPERATING PROFIT	<u>2,184,416</u>	<u>2</u>	<u>2,665,821</u>	<u>2</u>
NON-OPERATING INCOME AND LOSS				
Other income (Notes 4, 8 and 27)	686,574	1	718,988	-
Other gains and losses (Notes 12, 14, 15, 27 and 31)	(265,990)	-	(473,812)	-
Finance costs (Notes 27 and 32)	(3,057,963)	(3)	(3,340,119)	(2)
Share of the profit of associates and joint ventures (Note 14)	<u>(200,834)</u>	<u>-</u>	<u>332,305</u>	<u>-</u>
Total non-operating income and loss	<u>(2,838,213)</u>	<u>(2)</u>	<u>(2,762,638)</u>	<u>(2)</u>
PRETAX LOSS	(653,797)	-	(96,817)	-
INCOME TAX (BENEFIT) EXPENSE (Notes 4, 5 and 28)	<u>373,983</u>	<u>-</u>	<u>(578,185)</u>	<u>-</u>
NET (LOSS) INCOME	<u>(279,814)</u>	<u>-</u>	<u>(675,002)</u>	<u>-</u>
Other comprehensive gain for the year, net of income tax				
Items that will not be reclassified subsequently to profit or loss:				
(Loss) gain on hedging instruments subject to basis adjustment (Notes 4, 26 and 32)	(474,202)	(1)	(17,705)	-
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income (Note 8)	(45,588)	-	79,392	-
Remeasurement of defined benefit plans (Notes 4 and 25)	(399,150)	-	(781,793)	-
Share of other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4 and 14)	34,271	-	(32,102)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 28)	<u>144,158</u>	<u>-</u>	<u>145,166</u>	<u>-</u>
	<u>(740,511)</u>	<u>(1)</u>	<u>(607,042)</u>	<u>-</u>

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations (Notes 4 and 26)	\$ (97,948)	-	\$ (72,952)	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 26 and 32)	2,103,332	2	1,411,623	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 28)	(400,801)	-	(268,871)	-
	<u>1,604,583</u>	<u>2</u>	<u>1,069,800</u>	<u>-</u>
Other comprehensive gain (loss) for the year, net of income tax	<u>864,072</u>	<u>1</u>	<u>462,758</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 584,258</u>	<u>1</u>	<u>\$ (212,244)</u>	<u>-</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	\$ 140,000	-	\$ (1,199,798)	(1)
Non-controlling interests	<u>(419,814)</u>	<u>-</u>	<u>524,796</u>	<u>1</u>
	<u>\$ (279,814)</u>	<u>-</u>	<u>\$ (675,002)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	\$ 966,968	1	\$ (647,085)	-
Non-controlling interests	<u>(382,710)</u>	<u>-</u>	<u>434,841</u>	<u>-</u>
	<u>\$ 584,258</u>	<u>1</u>	<u>\$ (212,244)</u>	<u>-</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 29)				
Basic	<u>\$ 0.03</u>		<u>\$ (0.22)</u>	
Diluted	<u>\$ 0.03</u>		<u>\$ (0.22)</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, 2020 AND 2019
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Company											Total Equity	
	Retained Earnings				Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translation of the Financial Statements of Foreign	Other Equity		Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total		Non-Controlling Interests
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve			Unrealized Gain on Financial Asset at Fair Value Through Other Comprehensive Income						
BALANCE AT JANUARY 1, 2019	\$ 54,209,846	\$ 1,241,214	\$ 351,923	\$ 118,810	\$ 1,144,928	\$ (9,664)	\$ 42,619	\$ 25,268	\$ (43,372)	\$ 57,081,572	\$ 2,965,512	\$ 60,047,084	
Basis adjustment to 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	
Issuance of employee share options by subsidiaries	-	172	-	-	-	-	-	-	-	172	52	224	
Changes in percentage of ownership interests in subsidiaries	-	-	-	-	(169,272)	-	-	-	-	(169,272)	331,427	162,155	
Basis adjustments to gain on hedging instruments	-	-	-	-	-	-	-	200,989	-	200,989	-	200,989	
Appropriation of 2019 earnings													
Legal reserve	-	-	(466,416)	-	466,416	-	-	-	-	-	-	-	
Special reserve	-	-	-	(12,967)	12,967	-	-	-	-	-	-	-	
Capital surplus used to cover accumulated deficit	-	(1,297,843)	-	-	1,297,843	-	-	-	-	-	-	-	
Net profit (loss) for the year ended December 31, 2020	-	-	-	-	140,000	-	-	-	-	140,000	(419,814)	(279,814)	
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	(319,576)	(79,545)	(35,903)	1,261,992	-	826,968	37,104	864,072	
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	(179,576)	(79,545)	(35,903)	1,261,992	-	966,968	(382,710)	584,258	
Disposal of treasury shares	-	(3,909)	-	-	(1,734)	-	-	-	12,497	6,854	-	6,854	
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(375,024)	(375,024)	
BALANCE AT DECEMBER 31, 2020	\$ 54,209,846	\$ 1,187,327	\$ -	\$ -	\$ (350,581)	\$ (134,252)	\$ 71,359	\$ 2,606,659	\$ (30,875)	\$ 57,559,483	\$ 3,152,090	\$ 60,711,573	

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, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	\$ (653,797)	\$ (96,817)
Adjustments for operating activities:		
Depreciation expense	31,167,247	32,601,400
Amortization expense	206,936	198,237
Expected credit loss recognized on trade receivables	4,895	24,096
Net gain on fair value changes of financial assets and liabilities held for trading	(2,287)	(27,580)
Interest income	(282,506)	(417,446)
Dividend income	(23,043)	(21,422)
Share of loss (profit) of associates and joint ventures	200,834	(332,305)
Gain on disposal of property, plant and equipment	(13,347)	(32,460)
Gain on disposal of investments accounted for using the equity method	-	(7,656)
Loss on disposal of non-current assets held for sale	-	10,462
Impairment loss recognized on property, plant, equipment	424,573	-
Loss on inventories and property, plant and equipment	471,507	572,026
Net gain on foreign currency exchange	(1,338,716)	(59,987)
Compensation costs of employee share options	224	-
Finance costs	3,057,963	3,340,119
Impairment loss of investments accounted for using the equity method	46,757	-
Recognition of provisions	6,075,077	4,608,924
Amortization of unrealized sale-leasebacks	-	103,775
Others	(2,435)	(1,484)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	241,592	(278,741)
Financial liabilities mandatorily classified as at fair value through profit or loss	(11,749)	11,528
Notes and accounts receivable	(1,073,959)	1,564,298
Accounts receivable - related parties	593,365	66,538
Other receivables	(85,263)	(49,138)
Inventories	(83,341)	(118,317)
Other current assets	1,830,887	548,156
Notes and accounts payable	(628,780)	(14,326)
Accounts payable - related parties	(1,043,501)	(224,931)
Other payables	(4,295,509)	(832,288)
Contract liabilities	(17,966,621)	1,847,286
Provisions	(1,308,170)	(2,799,314)
Other current liabilities	(2,620,022)	202,815
Accrued pension liabilities	(97,570)	(149,678)
Other liabilities	(17,082)	(5,155)
Cash generated from operations	12,774,159	40,230,615
Interest received	304,642	401,190

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Dividends received	\$ 32,433	\$ 355,311
Interest paid	(3,209,074)	(3,124,960)
Income tax paid	<u>(178,685)</u>	<u>(335,544)</u>
Net cash generated from operating activities	<u>9,723,475</u>	<u>37,526,612</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at amortized cost	(6,235,773)	(2,089,871)
Disposal of financial assets at amortized cost	1,934,516	3,447,202
Payments to acquire financial assets for hedging	(10,269,055)	-
Disposal of financial assets for hedging	2,363,897	-
Proceeds from disposal of non-current assets held for sale	-	35,692
Payments for property, plant and equipment	(1,237,515)	(3,316,078)
Proceeds from disposal of property, plant and equipment	45,620	71,194
Increase in refundable deposits	(63,005)	(440,443)
Decrease in refundable deposits	122,324	218,547
Increase in prepayments for equipment	(11,407,502)	(15,658,898)
(Increase) decrease in computer software costs	(130,461)	(172,639)
Decrease in restricted assets	(171,219)	38,636
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)	<u>-</u>	<u>(17,413)</u>
Net cash used in investing activities	<u>(25,048,173)</u>	<u>(16,053,122)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term debts	1,552,000	380,000
Increase in short-term bill payable	8,088,882	-
Proceeds from issuance of bonds payable	-	3,500,000
Repayments of bonds payable	(9,850,000)	(4,445,900)
Proceeds from long-term debts	45,605,919	9,078,690
Repayments of long-term debts	(20,746,998)	(17,819,750)
Repayments of the principal portion of lease liabilities	(10,583,872)	(11,692,310)
Proceeds from guarantee deposits received	165,404	180,360
Refunds of guarantee deposits received	(156,143)	(149,198)
Proceeds from sale - leasebacks	-	4,905,660
Dividends paid to owners of the Company	-	(1,135,672)
Issuance of ordinary shares of subsidiaries	162,155	-
Cash dividends paid to non-controlling interests	(375,024)	(416,438)
Proceeds from disposal of treasury shares	<u>6,854</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>13,869,177</u>	<u>(17,614,558)</u>

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>\$ 121,930</u>	<u>\$ (336,941)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,333,591)	3,521,991
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>28,459,528</u>	<u>24,937,537</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 27,125,937</u>	<u>\$ 28,459,528</u>

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) were approved by the Company’s board of directors on March 18, 2021.

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

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

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

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

The Company elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Prior to the application of the amendment, the Company shall determine whether or not the abovementioned rent concessions need to be accounted for as lease modifications.

The Company applied the amendment from January 1, 2020. Because the abovementioned rent concessions affect only in 2020, retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

- b. The IFRSs endorsed by the FSC for application starting from 2021

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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

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

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

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

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

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

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

Current and Non-current Assets and Liabilities

Current assets include:

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

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

- c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

Basis of Consolidation

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

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

Foreign Currencies

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

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

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

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

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

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

Business Combinations

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

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

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

Inventories

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

Non-current Assets Held for Sale

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

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

Investments in Associates and Joint Ventures

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

Freehold land is not depreciated.

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

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

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

Investment Properties

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

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

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

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

Intangible Assets

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

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

Financial Instruments

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

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

a. Financial assets

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

1) Measurement category

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

a) Financial assets at FVTPL

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

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

b) Financial assets at amortized cost

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

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

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

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

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

c) Investments in equity instruments at FVTOCI

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

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

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

2) Impairment of financial assets

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

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

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

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

3) Derecognition of financial assets

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

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

b. Equity instruments

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

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

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

c. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

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

d. Convertible bonds

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

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

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

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

e. Derivative financial instruments

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

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

Hedge Accounting

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

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

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

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

Provisions

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

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

Aircraft lease contracts

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

Revenue Recognition

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

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

Shipping service revenue

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

Leasing

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

The Group as lessee

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

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

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

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

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

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

Borrowing Costs

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

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

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

Government Grants

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

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

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

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

Frequent Flyer Programs

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

Share-based Payment Arrangements

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

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

Taxation

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

a. Current tax

The current tax liabilities are based on current taxable profit. Since part of the income and expenses are taxable or deductible in other periods, or in accordance with the relevant tax laws are taxable or deductible, current taxable profit differs from net profit reported in the consolidated statements of comprehensive income. The Group's current tax liabilities are calculated by the tax rate was legislated or substantially legislated at the balance sheet date.

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

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Maintenance and Overhaul Costs

Routine maintenance costs are recognized in profit or loss in the period in which they are incurred.

The overhaul costs of an owned or leased aircraft that meet the criteria for fixed asset capitalization are capitalized as replacements for aircraft and engines and are depreciated on a straight-line basis over the expected annual overhaul cycle.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies as disclosed in Note 4, management is required to make judgments, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Defined Benefit Obligations

The present value of defined benefit obligations at the end of the reporting period is calculated using actuarial assumptions. Those assumptions, which are based on management's judgments and estimates, comprise the discount rate and expected return on plan assets. Changes in actuarial assumptions may have a material impact on the amount of defined benefit obligations.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2020	2019
Cash on hand and revolving funds	\$ 333,677	\$ 483,951
Checking accounts and demand deposits	17,690,186	7,206,938
Cash equivalents		
Time deposits with original maturities of less than three months	6,980,493	16,565,821
Repurchase agreements collateralized by bonds	<u>2,121,581</u>	<u>4,202,818</u>
	<u>\$ 27,125,937</u>	<u>\$ 28,459,528</u>

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

	December 31	
	2020	2019
Bank balance	0%-1.9%	0%-1.9%
Time deposits with original maturities of less than three months	0.24%-2.20%	0.59%-3.55%
Repurchase agreements collateralized by bonds	0.22%-0.55%	0.47%-0.7%

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

	Maturity Date	Subject	Carrying Value
December 31, 2020	2021.1.4-2021.11.1	Financial assets for hedging - current	\$ 7,613,636

Impact on comprehensive income (loss)

	Recognized in Other Comprehensive Income (Loss)
For the year ended December 31, 2020	\$ (372,632)

The amount of hedging instrument settlements recognized as prepayments for equipment in 2020 was \$81,111 thousand.

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

	December 31	
	2020	2019
<u>Financial assets - current</u>		
Financial assets mandatorily classified at FVTPL		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	\$ -	\$ 434
Non-derivative financial assets		
Beneficiary certificates	<u>274,761</u>	<u>511,758</u>
	<u>\$ 274,761</u>	<u>\$ 512,192</u>
<u>Financial liabilities - current</u>		
Derivative financial instruments (not under hedge accounting) -		
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 11,749</u>

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

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2019</u>			
Buy forward contracts	NTD/USD	2020.01.15-2020.07.31	NTD570,571/USD19,000

8. FINANCIAL ASSETS AT FVTOCI

Investments in Equity Instruments

	<u>December 31</u>	
	2020	2019
<u>Non-current</u>		
Foreign investments		
Unlisted shares	\$ 134,042	\$ 182,356
Domestic investments		
Unlisted shares	<u>29,704</u>	<u>26,865</u>
	<u>\$ 163,746</u>	<u>\$ 209,221</u>

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

9. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2020	2019
<u>Current</u>		
Time deposits with original maturities of more than 3 months	<u>\$ 6,551,693</u>	<u>\$ 2,355,095</u>
<u>Non-current</u>		
Time deposits with original maturities of more than 1 year	<u>\$ 311,596</u>	<u>\$ 105,586</u>

The interest rates for time deposits with original maturities of more than 3 months were 0.21%-1.90% and 0.60%-1.30% as of December 31, 2020 and 2019, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Notes receivable</u>	\$ 655	\$ 299,245
<u>Accounts receivable</u>		
Accounts receivable	9,903,008	8,440,254
Less: Allowance for impairment loss	<u>(206,152)</u>	<u>(218,665)</u>
	<u>9,696,856</u>	<u>8,221,589</u>
	<u>\$ 9,697,511</u>	<u>\$ 8,520,834</u>

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

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

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

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

December 31, 2020

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.14%	0.18%	1.20%	53.78%	92.74%	
Gross carrying amount	\$ 9,304,785	\$ 256,178	\$ 134,111	\$ 5,513	\$ 202,421	\$ 9,903,008
Loss allowance (lifetime ECLs)	<u>(13,392)</u>	<u>(470)</u>	<u>(1,608)</u>	<u>(2,965)</u>	<u>(187,718)</u>	<u>(206,152)</u>
Amortized cost	<u>\$ 9,291,393</u>	<u>\$ 255,708</u>	<u>\$ 132,503</u>	<u>\$ 2,548</u>	<u>\$ 14,703</u>	<u>\$ 9,696,856</u>

December 31, 2019

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

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

	For the Year Ended December 31	
	2020	2019
Balance at January 1	\$ 218,665	\$ 227,306
Add: Net remeasurement of loss allowance	4,895	24,096
Less: Amounts written off	(17,398)	(32,717)
Foreign exchange gains and losses	(10)	(3)
Loss of control of subsidiaries	<u>(-)</u>	<u>(17)</u>
Balance at December 31	<u>\$ 206,152</u>	<u>\$ 218,665</u>

11. INVENTORIES

	December 31	
	2020	2019
Aircraft spare parts	\$ 7,898,482	\$ 7,578,125
Items for in-flight sale	627,437	571,601
Work in process - maintenance services	214,362	283,933
Others	<u>47,824</u>	<u>36,454</u>
	<u>\$ 8,788,105</u>	<u>\$ 8,470,113</u>

The operating costs recognized for the years ended December 31, 2020 and 2019 included losses from inventory write-downs of \$190,548 thousand and \$327,919 thousand, respectively.

12. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2020	2019
Long-term equity investments held for sale - Asian Compressor Technology Services	<u>\$ 89,296</u>	<u>\$ -</u>

To enhance its competitiveness, the Company plans to introduce new aircraft and retire old aircraft according to a planned schedule. Such aircraft, classified as non-current assets held for sale, had an original book value which was higher than the expected sale price and which was recognized as an impairment loss. However, the actual loss shall be identified by the actual sale price.

The Company completed the disposal procedures of some aircraft and recognized a loss on disposal of \$10,462 thousand in 2019. The fair value was determined by transactions of the related market, and the proposed sale price was based on the current status of the aircraft. The fair value is classified as Level 3.

13. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%)	
			December 31, 2020	December 31, 2019
China Airlines, Ltd.	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	81	77
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100
	CAL-Dynasty International	A holding company, real estate and hotel services	100	100
	CAL-Asia Investment	General investment	100	100
	Dynasty Aerotech International Corp.	Cleaning of aircraft and maintenance of machine and equipment	100	100
	Yestrip	Travel business	100	100
	Cal Park	Real estate lease and international trade	100	100
	Cal Hotel Co., Ltd.	Hotel business	100	100
	Sabre Travel Network (Taiwan)	Sale and maintenance of hardware and software	94	94
	Mandarin Airlines	Air transportation and maintenance of aircraft	94	94
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59
	Kaohsiung Catering Services, Ltd.	In-flight catering	54	54
	Taoyuan International Airport Services	Airport services	49	49
	Taiwan Airport Services (Note)	Airport services	48	48
Global Sky Express	Forwarding and storage of air cargo	25	25	
Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	100
	Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Airport supporting service and investment	100	100

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

Except that the Company has control over Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express, the others are investees that the Company had more than 50% of their voting shares. The above financial information of the subsidiaries for the years ended December 31, 2020 and 2019 was reported according to financial reports that were not reviewed by independent auditors.

In order to prepare for the listing of Tigerair Taiwan Co., Ltd. and comply with the rules relating to the examination for public listing, the release of the shares of Tigerair Taiwan Co., Ltd. held by the Company and Mandarin Airlines was resolved in the shareholders' meeting of the Company on June 25, 2019, and in the shareholders' meeting of Mandarin Airlines on June 27, 2019. The shares shall be subscribed by all shareholders of the Company and Mandarin Airlines on the basis of the percentage of shareholdings. For the waiver of subscribed shares by the original shareholders or the undersubscribed portion, the chairman was authorized to designate specific persons for subscription. The subscription price was set at \$41 per share. In October and December 2019, the shares were fully paid and were completely delivered and transferred. A total of 45,661,000 shares were disposed of, and the Group's issued share capital decreased to 77%. The amount of proceeds from disposal was \$1,866,474 thousand, and the related gain on disposal was \$1,254,633 thousand and recognized as capital surplus.

To strengthen the capital structure of Tigerair Taiwan Co., Ltd., the board of directors of the Company approved the plan to issue ordinary shares for cash at \$25 per share on August 6, 2020. The Company subscribed for 47,228 thousand shares in October 2020 and 26,286 thousand shares in November 2020. The proportion of ownership of the Group increased to 81%. Because the shares are subscribed at a percentage different from its existing ownership percentage, the Company's retained earnings decreased by \$169,272 thousand.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	2020	2019
Investments in associates	\$ 1,079,852	\$ 1,208,495
Investments in jointly controlled entities	<u>890,950</u>	<u>1,015,298</u>
	<u>\$ 1,970,802</u>	<u>\$ 2,223,793</u>

a. The amount of investment in associates were as follows:

	<u>December 31</u>	
	2020	2019
<u>Unlisted companies</u>		
China Aircraft Services	\$ 277,234	\$ 461,263
Dynasty Holidays	5,237	10,004
Airport Air Cargo Terminal (Xiamen)	476,219	446,161
Airport Air Cargo Service (Xiamen)	270,046	248,350
Eastern United International Logistics (Holdings) Ltd.	<u>51,116</u>	<u>42,717</u>
	<u>\$ 1,079,852</u>	<u>\$ 1,208,495</u>

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

	<u>Proportion of Ownership and Voting Rights</u>	
	<u>December 31</u>	
	2020	2019
Name of Associate		
China Aircraft Services	20%	20%
Dynasty Holidays	20%	20%
Airport air Cargo Terminal (Xiamen)	28%	28%
Airport air Cargo Service (Xiamen)	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%

The investment income of associates accounted for using the equity method was as follows:

	2020	2019
China Aircraft Services	\$ (102,758)	\$ 10,365
Dynasty Holidays	(4,740)	15
Airport air Cargo Terminal (Xiamen)	25,578	21,535
Airport air Cargo Service (Xiamen)	19,124	25,146
Eastern United International Logistics (Holdings) Ltd.	<u>13,940</u>	<u>3,387</u>
	<u>\$ (48,856)</u>	<u>\$ 60,448</u>

Other comprehensive income of associates accounted for using the equity method in 2020 and 2019 comprised of losses in the amount of \$0.

The financial statements used as a basis of the amounts and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2020 and 2019 were all independently audited, except those of China Aircraft Services and Eastern United International Logistics (Holding) Ltd. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

The board of directors of the Company decided to sell part of the equity of Dynasty Holidays to H.I.S. Taiwan Co., Ltd. on January 21, 2019, and completed the transaction on January 31, 2019. After the sale of the equity, the Group's issued share capital decreased from 51% to 20%. Dynasty Holidays was classified as an associate since the Group lost control of the subsidiary. Therefore, the relevant assets and liabilities were not consolidated in the current period, and only the profit and loss from January 1, 2019 to January 31, 2019 were consolidated. For information about the disposal of the subsidiary, please refer to Note 30.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2020	2019
China Pacific Catering Services	\$ 695,959	\$ 801,071
China Pacific Laundry Services	149,353	168,547
NORDAM Asia Ltd.	37,767	37,813
Delica International Co., Ltd.	<u>7,871</u>	<u>7,867</u>
	<u>\$ 890,950</u>	<u>\$ 1,015,298</u>

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

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

The Group entered into a joint venture agreement with the Taikoo Group to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both parties have the majority of voting power in the board of directors to pass a motion for veto, and therefore the Group does not have control.

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

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

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

	For the Year Ended December 31	
	2020	2019
China Pacific Catering Services	\$ (136,459)	\$ 256,899
China Pacific Laundry Services	(15,475)	15,030
NORDAM Asia Ltd.	(46)	(70)
Delica International Co., Ltd.	<u>2</u>	<u>(2)</u>
	<u>\$ (151,978)</u>	<u>\$ 271,857</u>

Other comprehensive income of associates accounted for using the equity method in 2020 and 2019 comprised of losses in the amounts of \$34,271 thousand and \$(32,102) thousand, respectively.

The financial statements used as a basis of the amounts and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2020 and 2019 were all independently audited, except for NORDAM Asia Limited. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

For details on services, major business offices and the country where the above associates and jointly controlled entities are registered, refer to Table 6 "Names, Locations, And Other Information of Investees Over Which the Company Exercises Significant Influence", and Table 7 "Investments In Mainland China", following these notes to the consolidated financial statements.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
<u>Cost</u>						
Balance at January 1, 2019	\$ 1,015,564	\$ 13,993,585	\$ 259,695,130	\$ 25,805,008	\$ 17,917,780	\$ 318,427,067
Additions	-	209,413	2,248,856	-	864,223	3,322,492
Disposals	-	(1,130)	(20,698,042)	(668,721)	(393,058)	(21,760,951)
Reclassification	-	1,906,078	30,831,748	(25,131,813)	(1,537,494)	6,068,519
Net exchange difference	(13,065)	(23,883)	-	-	(2,458)	(39,406)
Loss of control of subsidiaries	-	-	-	(4,474)	(2,158)	(6,632)
Balance at December 31, 2019	<u>\$ 1,002,499</u>	<u>\$ 16,084,063</u>	<u>\$ 272,077,692</u>	<u>\$ -</u>	<u>\$ 16,846,835</u>	<u>\$ 306,011,089</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2019	\$ -	\$ (6,574,873)	\$ (123,507,657)	\$ (14,634,822)	\$ (10,601,997)	\$ (155,319,349)
Depreciation expense	-	(466,943)	(18,571,992)	(741,852)	(921,246)	(20,702,033)
Disposals	-	1,014	14,899,562	79,866	355,222	15,335,664
Reclassification	-	-	(14,706,083)	15,294,696	(45,103)	543,510
Net exchange difference	-	12,262	-	-	1,989	14,251
Loss of control of subsidiaries	-	-	-	2,112	1,727	3,839
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ (7,028,540)</u>	<u>\$ (141,886,170)</u>	<u>\$ -</u>	<u>\$ (11,209,408)</u>	<u>\$ (160,124,118)</u>
Balance at December 31, 2019, net value	<u>\$ 1,002,499</u>	<u>\$ 9,055,523</u>	<u>\$ 130,191,522</u>	<u>\$ -</u>	<u>\$ 5,637,427</u>	<u>\$ 145,886,971</u>
<u>Cost</u>						
Balance at January 1, 2020	\$ 1,002,499	\$ 16,084,063	\$ 272,077,692	\$ -	\$ 16,846,835	\$ 306,011,089
Additions	-	48,809	653,519	-	535,187	1,237,515
Disposals	(18,026)	(375,083)	(3,724,658)	-	(387,858)	(4,505,625)
Reclassification	-	304	13,000,582	-	70,081	13,070,967
Net exchange difference	(28,650)	(52,458)	-	-	(5,597)	(86,705)
Balance at December 31, 2020	<u>\$ 955,823</u>	<u>\$ 15,705,635</u>	<u>\$ 282,007,135</u>	<u>\$ -</u>	<u>\$ 17,058,648</u>	<u>\$ 315,727,241</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2020	\$ -	\$ (7,028,540)	\$ (141,886,170)	\$ -	\$ (11,209,408)	\$ (160,124,118)
Depreciation expense	-	(492,734)	(18,007,550)	-	(925,138)	(19,425,422)
Disposals	-	371,933	3,452,870	-	381,037	4,205,840
Reclassification	-	-	1,489,158	-	1,348	1,490,506
Net exchange difference	-	27,704	-	-	4,516	32,220
Impairment losses	-	-	(424,573)	-	-	(424,573)
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ (7,121,637)</u>	<u>\$ (155,376,265)</u>	<u>\$ -</u>	<u>\$ (11,747,645)</u>	<u>\$ (174,245,547)</u>
Balance at December 31, 2020, net value	<u>\$ 955,823</u>	<u>\$ 8,583,998</u>	<u>\$ 126,630,870</u>	<u>\$ -</u>	<u>\$ 5,311,003</u>	<u>\$ 141,481,694</u>

The reclassification mostly resulted from the transfer of prepayments for equipment.

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

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

Regarding changes in fleet composition, current and forecasted market value, and other technical factors, the Company recognized impairment losses on aircraft equipment of \$424,573 thousand in 2020. The fair value was determined based on aircraft conditions and market estimates.

Refer to Note 34 for the carrying amounts of property, plant and equipment pledged by the Group.

Based on the particularity of risk in the aviation industry, all of the Group's assets such as aircraft, real estate, and movable property are adequately insured to diversify the potential risk related to operations.

The Group generated the following non-cash investment activities related to the purchase of property, plant and equipment in 2020 and 2019:

	December 31	
	2020	2019
Increase in property, plant and equipment	\$ 1,237,515	\$ 3,322,492
Capitalized interest paid	<u>-</u>	<u>(6,414)</u>
Purchase of property, plant and equipment paid	<u>\$ 1,237,515</u>	<u>\$ 3,316,078</u>

16. INVESTMENT PROPERTIES

	December 31	
	2020	2019
Carrying amount		
Investment properties	<u>\$ 2,074,798</u>	<u>\$ 2,075,068</u>

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

The fair value of the investment properties held by the Group was \$2,488,931 thousand and \$2,506,230 thousand as of December 31, 2020 and 2019, respectively. In addition, management assessed that there was no significant difference in the fair value as of December 31, 2020 and 2019. The above fair value valuation was performed by independent qualified professional valuers, and the future income evaluated by management was based on market transactions.

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

	Cost	Accumulated	Net Value
Balance at January 1, 2019	\$ 2,082,390	\$ (7,045)	\$ 2,075,345
Depreciation expense	<u>-</u>	<u>(277)</u>	<u>(277)</u>
Balance at December 31, 2019	<u>\$ 2,082,390</u>	<u>\$ (7,322)</u>	<u>\$ 2,075,068</u>
Balance at January 1, 2020	\$ 2,082,390	\$ (7,322)	\$ 2,075,068
Depreciation expense	<u>-</u>	<u>(270)</u>	<u>(270)</u>
Balance at December 31, 2020	<u>\$ 2,082,390</u>	<u>\$ (7,592)</u>	<u>\$ 2,074,798</u>

17. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Relationship Between Clients	Accumulated Amortization	Net Value
Balance at January 1, 2019	\$ 2,237,382	\$ 186,197	\$ (1,212,783)	\$ 1,210,796
Additions	172,639	-	-	172,639
Amortization expenses	-	-	(198,237)	(198,237)
Disposal of subsidiaries	(3,858)	-	1,357	(2,501)
Effects of exchange rate changes	<u>-</u>	<u>-</u>	<u>(5)</u>	<u>(5)</u>
Balance at December 31, 2019	<u>\$ 2,406,163</u>	<u>\$ 186,197</u>	<u>\$ (1,409,668)</u>	<u>\$ 1,182,692</u>
Balance at January 1, 2020	\$ 2,406,163	\$ 186,197	\$ (1,409,668)	\$ 1,182,692
Additions	130,461	-	-	130,461
Reclassification	(765,426)	-	735,881	(29,545)
Amortization expenses	-	-	(206,936)	(206,936)
Disposal	(7,554)	-	7,243	(311)
Effects of exchange rate changes	<u>-</u>	<u>-</u>	<u>(10)</u>	<u>(10)</u>
Balance at December 31, 2020	<u>\$ 1,763,644</u>	<u>\$ 186,197</u>	<u>\$ (873,490)</u>	<u>\$ 1,076,351</u>

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

18. OTHER ASSETS

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Current</u>		
Temporary payments	\$ 136,681	\$ 296,759
Prepayments	348,554	1,690,368
Restricted assets	11,065	14,618
Others	<u>364,879</u>	<u>653,966</u>
	<u>\$ 861,179</u>	<u>\$ 2,655,711</u>
<u>Non-current</u>		
Prepayments for aircraft	\$ 5,725,340	\$ 8,863,861
Prepayments - long-term	2,216,049	2,819,575
Refundable deposits	1,138,943	1,261,611
Restricted assets	240,467	64,213
Other financial assets	18,078	19,103
Others	<u>14,015</u>	<u>142,700</u>
	<u>\$ 9,352,892</u>	<u>\$ 13,171,063</u>

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of ATR72-600, A321neo, A320neo and B777F aircraft. For details on the aircraft purchase contracts, refer to Note 35.

19. BORROWINGS

a. Short-term loans

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

a. Short-term bills payable

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Commercial paper	\$ 8,100,000	\$ -
Less: Unamortized discount on bills payable	<u>(11,118)</u>	<u>-</u>
	<u>\$ 8,088,882</u>	<u>\$ -</u>
Annual discount rate	0.99%-1.00%	-

b. Long-term borrowings

	December 31	
	2020	2019
Unsecured bank loans	\$ 23,470,696	\$ 1,929,827
Secured bank loans	39,584,540	34,064,099
Commercial paper		
Proceeds from issue	29,490,000	31,730,000
Less: Unamortized discount	<u>22,532</u>	<u>60,143</u>
	92,522,704	67,663,783
Less: Current portion	<u>15,234,374</u>	<u>14,148,892</u>
	<u>\$ 77,288,330</u>	<u>\$ 53,514,891</u>
Interest rates	0.81%-1.63%	0.55%-1.73%

For information on secured bank loans which were secured by buildings, machinery equipment and flight equipment, refer to Note 34.

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

	December 31	
	2020	2019
Periods	2009.2.4- 2032.6.30	2008.2.26- 2030.4.25

The Group has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until March 2025, were used by the Group to guarantee commercial papers issued. As of December 31, 2020 and 2019, the commercial papers were issued at discount rates of 1.0263%-1.1629% and 1.1300%-1.3380%, respectively.

In accordance with the “Regulations on Relief and Revitalization Measures for Industries and Enterprises Affected by Severe Pneumonia with Novel Pathogens” endorsed by the Ministry of Transportation and Communications and the “Operational Guides on Relief Loan Guarantees for Ailing Aviation Industry Affected by Severe Pneumonia with Novel Pathogens”, the Company applied for project finance loans from financial institutions to maintain its operations; and special funds, credit guarantees along with subsidized interest rates were provided by the government. The total amount of the loans is \$24,390,000 thousand, which shall be repaid within 2 years from the date of initial drawdown. As of December 31, 2020, the Company had made a drawdown in the amount of \$23,480,000 thousand.

20. BONDS PAYABLE

	December 31	
	2020	2019
Unsecured corporate bonds first-time issued in 2013	\$ -	\$ 2,750,000
Unsecured corporate bonds first-time issued in 2016	2,350,000	4,700,000
Unsecured corporate bonds second-time issued in 2016	2,500,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	1,000,000	2,350,000
Unsecured corporate bonds second-time issued in 2017	2,600,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	4,500,000
Unsecured corporate bonds first-time issued in 2019	3,500,000	3,500,000
Convertible bonds - sixth-time issued	<u>5,832,859</u>	<u>5,752,625</u>
	22,282,859	32,052,625
Less: Current portion and put option of convertible bonds	<u>11,982,859</u>	<u>10,000,000</u>
	<u>\$ 10,300,000</u>	<u>\$ 22,052,625</u>

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually.	2013.01.17-2020.01.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually.	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually.	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually.	1.19
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually.	2016.09.27-2021.09.27	Principal repayable in September of 2020 and 2021; interest p.a. payable annually.	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually.	2017.05.19-2020.05.19	Principal repayable on due date; indicator rate; payable annually.	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually.	2017.05.19-2024.05.19	Principal repayable on due date; indicator rate; payable annually.	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually.	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually.	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually.	2017.10.12-2022.10.12	Principal repayable in October of 2021 and 2022; indicator rate; payable annually.	1.45
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually	2018.11.30-2023.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.32

(Continued)

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.45
Five-year private unsecured bonds - issued at par in June 2019; repayable in June 2023 and 2024; 1.10% interest p.a., payable annually	2019.06.21-2024.06.21	Principal repayable in June of 2023 and 2024; indicator rate; payable annually	1.10
Seven-year private unsecured bonds - issued at par in June 2019; repayable in June 2025 and 2026; 1.32% interest p.a., payable annually	2019.06.21-2026.06.21	Principal repayable in June of 2025 and 2026; indicator rate; payable annually	1.32
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.01.30-2023.01.30	Except for converting to share capital or buying back, principal repayable in December of 2023	-

(Concluded)

The Company issued its 2016 first unsecured corporate bonds with a face value of \$5,000,000 thousand, and the purchasers of the bonds included Mandarin Airlines Co., Ltd. and Sabre Travel Network (Taiwan) Co., Ltd., which had a face value of \$150,000 thousand, and the amount was eliminated in the consolidated financial statements.

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

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

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

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

The seventh issue of the Company's unsecured convertible bonds was resolved by the board of directors of the Company on August 7, 2019. The cumulative face value of the bonds shall not exceed \$3,000,000 thousand. The bonds are issued at 100%-100.5% of the face value, and the issuance period is 5 years. During the period of public offerings, the stock market and the domestic capital market were volatile due to Coronavirus Pneumonia and the changes in the share price of the Company were unfavorable to the seventh issue of the Company's unsecured convertible bonds. After comprehensive consideration, the issuance was suspended with the permission of the competent authority based on the best interest of the Company and the shareholders' equity.

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

21. LEASING

a. Right-of-use assets

	December 31	
	2020	2019
Carrying amounts		
Land	\$ 7,813,335	\$ 8,153,382
Buildings	1,394,386	824,955
Flight equipment	50,644,652	62,052,701
Other equipment	<u>9,164</u>	<u>2,579</u>
	<u>\$ 59,861,537</u>	<u>\$ 71,033,617</u>
	For Year Ended December 31	
	2020	2019
Additions to right-of-use assets	<u>\$ 2,463,869</u>	<u>\$ 5,863,625</u>
Depreciation for right-of-use assets		
Land	\$ 362,386	\$ 376,425
Buildings	335,553	798,933
Flight equipment	11,041,881	10,721,575
Other equipment	<u>1,535</u>	<u>2,157</u>
	<u>\$ 11,741,555</u>	<u>\$ 11,899,090</u>

b. Lease liabilities

	December 31	
	2020	2019
Carrying amounts		
Current	<u>\$ 2,525,957</u>	<u>\$ 2,340,873</u>
Non-current	<u>\$ 13,279,792</u>	<u>\$ 15,801,724</u>

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

	December 31	
	2020	2019
Land	1.09%-1.80%	1.09%-1.65%
Buildings	0%-3.56%	0%-3.56%
Flight equipment	0.68%-3.34%	2.49%-3.34%
Other equipment	1.06%-1.50%	1.06%-1.50%

c. Financial liabilities under hedge accounting

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

	Maturity Date	Subject	Carrying Value
December 31, 2020	2022.2.9-2028.5.15	Financial liabilities for hedging - current	\$ 8,120,445
		Financial liabilities for hedging - non-current	32,455,333
December 31, 2019	2021.4.15-2028.5.15	Financial liabilities for hedging - current	8,577,482
		Financial liabilities for hedging - non-current	42,420,205

Influence of comprehensive income

	Recognized in Other Comprehensive Income	Reclassified to Income
For the year ended December 31, 2020	\$ 2,099,550	\$ 352,674
For the year ended December 31, 2019	1,457,058	(24,029)

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

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

	December 31	
	2020	2019
Refundable deposits	\$ 725,135	\$ 737,895
Credit guarantees	1,756,656	1,717,953

CAL Park, and Taoyuan International Airport Service signed a BOT contract with a land lease agreement, for the details for the lease agreement, please refer to Note 35. The lease includes an option to extend the lease, as it is not possible to extend the lease, the amount of the lease related to the period covered by the option is not included in the lease liability. If the amount of the extended lease period is included in the lease liability, the lease liability will increase by \$885,657 thousand on December 31, 2020.

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

- e. In September 2019, the Company signed a rental contract for six A321neo with Air Lease Corporation, which is expected to be introduced between 2021 and 2022.

In October 2019, the Company signed a rental letter of intent for eight A321neo with CALC Lease Corporation, which is expected to be introduced in 2022.

In February 2020, Tigerair Taiwan Co., Ltd. signed a rental letter of intent for eight A321neo with ICBC Lease Corporation, which is expected to be introduced in 2021.

The Company also signed related aircraft purchase agreement, please refer to note 35 for details.

- f. In order to revitalize assets and strengthen the financial structure, the Company sold five of its own A330-300 aircraft to Altavair L.P. in September 2019 through sale and leaseback arrangement for \$4,905,660 thousand. The lease term was 5 to 6 years and a loss of \$103,775 thousand was incurred. The lease agreement had no terms for lease renewal or offtake rights. The annual lease payments for each aircraft are from US\$5,389 thousand to US\$5,437 thousand.

- g. Other lease information

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

	For the Year Ended December 31	
	2020	2019
Short-term and low price lease payment	\$ 41,568	\$ 52,675
Total of lease cash outflow	<u>\$ (12,410,357)</u>	<u>\$ (13,884,367)</u>

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

22. OTHER PAYABLES

	December 31	
	2020	2019
Fuel costs	\$ 1,853,717	\$ 3,723,213
Ground service expenses	956,956	1,262,878
Repair expenses	366,589	1,208,875
Interest expense	120,550	219,660
Short-term employee benefits	1,948,982	2,040,718
Terminal surcharges	420,194	1,122,532
Commission expenses	184,363	509,520
Others	<u>2,454,906</u>	<u>3,100,576</u>
	<u>\$ 8,306,257</u>	<u>\$ 13,187,972</u>

23. CONTRACT LIABILITIES/DEFERRED REVENUE

	December 31	
	2020	2019
	Contract Liabilities	Contract Liabilities
Frequent flyer programs	\$ 2,671,203	\$ 2,895,535
Advance ticket sales	2,659,093	20,401,549
Others	<u>168</u>	<u>-</u>
	<u>\$ 5,330,464</u>	<u>\$ 23,297,084</u>
Current	\$ 3,569,360	\$ 21,060,773
Non-current	<u>1,761,104</u>	<u>2,236,311</u>
	<u>\$ 5,330,464</u>	<u>\$ 23,297,084</u>

24. PROVISIONS

	December 31	
	2020	2019
Operating leases - aircraft	<u>\$ 14,534,286</u>	<u>\$ 10,371,857</u>
Current	\$ 164,800	\$ 360,393
Non-current	<u>14,369,486</u>	<u>10,011,464</u>
	<u>\$ 14,534,286</u>	<u>\$ 10,371,857</u>
		Aircraft Lease Contract
Balance at January 1, 2019		\$ 8,794,539
Additional provisions recognized		4,608,924
Usage		(2,799,314)
Effect of exchange rate changes		<u>(232,292)</u>
Balance at December 31, 2019		<u>\$ 10,371,857</u>
Balance at January 1, 2020		\$ 10,371,857
Additional provisions recognized		6,075,077
Usage		(1,308,170)
Effect of exchange rate changes		<u>(604,478)</u>
Balance at December 31, 2020		<u>\$ 14,534,286</u>

The Group leased flight equipment under operating lease agreements. Under the contracts, when the leases expire and the equipment is returned to the lessor, the flight equipment has to be repaired according to the expected years of use, number of flight hours, flight cycles and the number of engine revolutions. The Group had existing obligations to recognize provisions when signing a lease or during the lease term. Tigerair Taiwan Co., Ltd. also leased flight equipment under operating lease agreements. In accordance to the contract, Tigerair must pay maintenance reserves monthly according to the actual number of flight hours.

25. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Employees based in the United States and Japan of China Airlines Co., Ltd. and subsidiaries are members of the United states and Japan government retirement benefit plans. Subsidiaries should appropriate a specific portion to retirement benefit plans. The obligation to the government retirement benefit plans of China Airlines Co., Ltd. and subsidiaries is to appropriate a specific portion amount.

b. Defined benefit plans

The defined benefit plan adopted by the Company and in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and subsidiary contribute amounts equal to 2%-15% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2020	2019
Present value of defined benefit obligation	\$ 18,793,509	\$ 18,457,304
Fair value of plan assets	<u>(9,055,768)</u>	<u>(9,022,269)</u>
Deficit (net defined benefit liabilities)	<u>\$ 9,737,741</u>	<u>\$ 9,435,035</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2019	\$ 17,464,856	\$ (8,661,474)	\$ 8,803,382
Current service cost	1,321,600	-	1,321,600
Net interest expense (income)	<u>161,808</u>	<u>(86,234)</u>	<u>75,574</u>
Recognized in profit or loss	<u>1,483,408</u>	<u>(86,234)</u>	<u>1,397,174</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (308,223)	\$ (308,223)
Actuarial (gain) loss - changes in demographic assumptions	15,959	-	15,959
Actuarial (gain) loss - changes in financial assumptions	440,374	-	440,374
Actuarial (gain) loss - experience adjustments	<u>633,683</u>	<u>-</u>	<u>633,683</u>
Recognized in other comprehensive income	<u>1,090,016</u>	<u>(308,223)</u>	<u>781,793</u>
Contributions from the employer	-	(1,418,970)	(1,418,970)
Benefits paid	(1,452,632)	1,452,632	-
Others	<u>(128,344)</u>	<u>-</u>	<u>(128,344)</u>
Balance at December 31, 2019	<u>18,457,304</u>	<u>(9,022,269)</u>	<u>9,435,035</u>
Current service cost	1,323,036	-	1,323,036
Net interest expense (income)	<u>126,390</u>	<u>(63,554)</u>	<u>62,836</u>
Recognized in profit or loss	<u>1,449,426</u>	<u>(63,554)</u>	<u>1,385,872</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(303,407)	(303,407)
Actuarial (gain) loss - changes in demographic assumptions	9,770	-	9,770
Actuarial (gain) loss - changes in financial assumptions	658,370	-	658,370
Actuarial (gain) loss - experience adjustments	<u>34,417</u>	<u>-</u>	<u>34,417</u>
Recognized in other comprehensive income	<u>702,557</u>	<u>(303,407)</u>	<u>399,150</u>
Contributions from the employer	-	(1,304,769)	(1,304,769)
Benefits paid	(1,638,230)	1,638,230	-
Others	<u>(177,547)</u>	<u>-</u>	<u>(177,547)</u>
Balance at December 31, 2020	<u>\$ 18,793,509</u>	<u>\$ (9,055,768)</u>	<u>\$ 9,737,741</u>

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2020	2019
Discount rate(s)	0.32%-0.80%	0.63%-1.10%
Expected rate(s) of salary increase	1.00%-2.50%	1.00%-2.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2020	2019
Discount rate(s)		
0.25%/0.5% increase	\$ (438,527)	\$ (939,308)
0.25%/0.5% decrease	457,422	1,000,771
Expected rate(s) of salary increase		
0.5% increase	830,329	969,324
0.5% decrease	(772,927)	(927,180)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2020	2019
The expected contributions to the plan for the next year	<u>\$ 916,627</u>	<u>\$ 930,963</u>
The average duration of the defined benefit obligation	8-11 years	8-11 years

26. EQUITY

a. Share capital

Ordinary shares

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

b. Capital surplus

	December 31	
	2020	2019
Issuance of convertible bonds in excess of par value and conversion premium	\$ 146,351	\$ 315,114
Dividend distributed to subsidiaries	-	3,909
Retirement of treasury shares	33,513	33,513
Expired employee share options	11,747	11,747
Long-term investments	119,134	118,962
Bonds payable equity component	409,978	409,978
Difference in sale price of shares of subsidiaries and book value	-	1,129,080
Others	<u>466,604</u>	<u>466,604</u>
	<u>\$ 1,187,327</u>	<u>\$ 2,488,907</u>

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

The capital surplus from long-term investments, employee share options expired, dividends distributed to subsidiaries and retirement of treasury shares may not be used for any purpose. Besides, capital surplus from conversion of employee shares and convertible bonds payable may not be used for any purpose.

c. Appropriation of earnings and dividend policy

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

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

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

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

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

1) Offsetting deficit in 2019

On June 23, 2020, the board proposed to offset the accumulated deficit in 2019. The deficit included a net loss of \$1,199,798 thousand, negative adjustment of other retained earnings of \$577,427 thousand, the remaining amount of accumulated deficit was \$1,777,225 thousand.

The offsetting of deficit for 2019 is subject to the resolution of the shareholders in their meeting to be held on June 23, 2020.

2) Offsetting of deficit in 2020

On March 18, 2021, the board proposed to offset the accumulated deficit in 2020. The deficit included a net income of \$140,000 thousand and the beginning balance of undistributed retained earnings of \$0, negative adjustment of other retained earnings of \$490,581 thousand, the remaining amount of accumulated deficit was \$350,581 thousand and was offset by capital reserve of \$350,581 thousand.

d. Other equity items

The movement of other equity items is as follows:

	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Gain (Loss) on Hedging Instruments	Total
Balance at January 1, 2019	\$ (9,664)	\$ 42,619	\$ 25,268	\$ 58,223
Exchange differences on translation of the financial statements of foreign operations	(65,246)	-	-	(65,246)
Cumulative loss on changes in fair value of hedging instruments	-	-	1,378,603	1,378,603
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	20,014	20,014
Unrealized gain on financial assets at FVTOCI	-	79,392	-	79,392
Effects of income tax	<u>11,835</u>	<u>(14,854)</u>	<u>(279,604)</u>	<u>(282,623)</u>
Other comprehensive income (loss) recognized in the period	<u>(53,411)</u>	<u>64,538</u>	<u>1,119,013</u>	<u>1,130,140</u>
Disposal of subsidiaries	<u>8,368</u>	<u>105</u>	<u>-</u>	<u>8,473</u>
Transfers of initial carrying amount of hedged items	<u>-</u>	<u>-</u>	<u>(603)</u>	<u>(603)</u>
Balance at December 31, 2019	<u>\$ (54,707)</u>	<u>\$ 107,262</u>	<u>\$ 1,143,678</u>	<u>\$ 1,196,233</u>
Balance at January 1, 2020	\$ (54,707)	\$ 107,262	\$ 1,143,678	\$ 1,196,233
Exchange differences on translation of the financial statements of foreign operations	(99,774)	-	-	(99,774)
Cumulative loss on changes in fair value of hedging instruments	-	-	1,921,255	1,921,255
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	(293,518)	(293,518)
Unrealized gain on financial assets at FVTOCI	-	(45,588)	-	(45,588)
Effects of income tax	<u>20,229</u>	<u>9,685</u>	<u>(365,745)</u>	<u>(335,831)</u>
Other comprehensive income (loss) recognized in the period	<u>(79,545)</u>	<u>(35,903)</u>	<u>1,261,992</u>	<u>1,146,544</u>
Transfers of initial carrying amount of hedged items	<u>-</u>	<u>-</u>	<u>200,989</u>	<u>200,989</u>
Balance at December 31, 2020	<u>\$ (134,252)</u>	<u>\$ 71,359</u>	<u>\$ 2,606,659</u>	<u>\$ 2,543,766</u>

e. Non-controlling interests

	For the Year Ended December 31	
	2020	2019
Beginning balance	\$ 3,578,345	\$ 2,965,512
Net (loss) income attributable to non-controlling interests	(419,814)	524,796
Foreign exchange differences	1,826	(7,706)
Actuarial gains and losses on defined benefit plans	43,157	(100,136)
Cash flow hedge on changes in fair value of hedging instruments	2,993	(13,227)
Cumulative (loss) gain arising on changes in fair value of hedging instruments reclassified to profit or loss	(1,600)	8,528
Effect of income tax	<u>(9,272)</u>	<u>22,586</u>
	37,104	(89,955)
Disposal of subsidiaries	-	(24,957)
Disposal of part equity of subsidiaries	-	619,387
Outstanding share options held by employees of subsidiaries	52	-
Acquisition of non-controlling interests in subsidiaries	331,427	-
Dividends paid by subsidiaries	<u>(375,024)</u>	<u>(416,438)</u>
Ending balance	<u>\$ 3,152,090</u>	<u>\$ 3,578,345</u>

f. Treasury shares

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

(In Thousands of Shares)

Period of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year	Number of Shares, End of Year
For the year ended December 31, 2020	<u>2,889</u>	<u>(814)</u>	<u>2,075</u>
For the year ended December 31, 2019	<u>2,889</u>	<u>-</u>	<u>2,889</u>

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>December 31, 2020</u>			
Mandarin Airlines	2,075	<u>\$ 24,999</u>	<u>\$ 24,999</u>
<u>December 31, 2019</u>			
Mandarin Airlines	2,075	\$ 18,796	\$ 18,796
Dynasty Aerotech International Corp.	814	<u>7,376</u>	<u>7,376</u>
		<u>\$ 26,172</u>	<u>\$ 26,172</u>

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

Dynasty Aerotech International Corp. sold a total of 814 thousand shares of the Company in 2020 and the disposal price was \$6,854 thousand.

27. NET INCOME

a. Revenue

	For the Year Ended December 31	
	2020	2019
Passenger	\$ 25,704,367	\$ 111,413,435
Cargo	81,917,976	43,793,256
Others	<u>7,628,207</u>	<u>13,237,469</u>
	<u>\$ 115,250,550</u>	<u>\$ 168,444,160</u>

b. Other income

	For the Year Ended December 31	
	2020	2019
Interest income	\$ 282,506	\$ 417,446
Subsidy income	29,309	38,621
Dividend income	23,043	21,422
Others	<u>351,716</u>	<u>241,499</u>
	<u>\$ 686,574</u>	<u>\$ 718,988</u>

c. Other gains and losses

	For the Year Ended December 31	
	2020	2019
Gain on disposal property, plant and equipment	\$ 13,347	\$ 32,460
Net gain on financial assets at FVTPL	2,287	27,580
Gain (loss) on foreign exchange, net	527,234	(141,611)
Impairment loss on flying equipment	(424,573)	-
Foreign investment impairment loss under equity method	(46,757)	-
Gain on disposal of investments	-	7,656
Loss on non-current assets held for sale	-	(10,462)
Loss on sale and leaseback	-	(103,775)
Others	<u>(337,528)</u>	<u>(285,660)</u>
	<u>\$ (265,990)</u>	<u>\$ (473,812)</u>

d. Finance costs

	For the Year Ended December 31	
	2020	2019
Interest expense		
Bonds payable	\$ 342,963	\$ 429,457
Bank loans	930,083	771,280
Interest on lease liabilities	<u>1,784,917</u>	<u>2,139,382</u>
	<u>\$ 3,057,963</u>	<u>\$ 3,340,119</u>
Capitalization interest	\$ 78,863	\$ 46,528
Capitalization rate	0.71%-1.92%	1.01%-1.35%

e. Depreciation and amortization expense

	For the Year Ended December 31	
	2020	2019
Property, plant, equipment	\$ 19,425,422	\$ 20,702,033
Right of use assets	11,741,555	11,899,090
Investment properties	270	277
Intangible assets	<u>206,936</u>	<u>198,237</u>
Depreciation and amortization expense	<u>\$ 31,374,183</u>	<u>\$ 32,799,637</u>
An analysis of depreciation by function		
Operating costs	\$ 30,171,665	\$ 30,927,997
Operating expenses	<u>995,582</u>	<u>1,673,403</u>
	<u>\$ 31,167,247</u>	<u>\$ 32,601,400</u>
An analysis of amortization by function		
Operating costs	\$ 14,312	\$ 12,380
Operating expenses	<u>192,624</u>	<u>185,857</u>
	<u>\$ 206,936</u>	<u>\$ 198,237</u>

f. Employee benefits expense

	For the Year Ended December 31	
	2020	2019
Post-employment benefits		
Defined contribution plan	\$ 551,154	\$ 574,809
Defined benefit plan	<u>1,385,872</u>	<u>1,397,174</u>
	<u>\$ 1,937,026</u>	<u>\$ 1,971,983</u>

(Continued)

	For the Year Ended December 31	
	2020	2019
Other employee benefits		
Salary expenses	\$ 17,958,185	\$ 20,813,757
Personnel service expenses	<u>5,400,252</u>	<u>5,506,867</u>
	<u>\$ 23,358,437</u>	<u>\$ 26,320,624</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 20,466,080	\$ 23,699,685
Operating expenses	<u>4,829,383</u>	<u>4,592,922</u>
	<u>\$ 25,295,463</u>	<u>\$ 28,292,607</u>

(Concluded)

According to the Company's articles, the Company accrues compensation of employees at rates of no less than 3% of the net profit before income tax and compensation of employees, and accrues profit bonus at a certain rate of profit before tax on the basis of the collective agreement signed with the China Airlines Employees Union. For the years ended December 31, 2020 and 2019, the Company has experienced a deficit, and therefore, no compensation of employees is estimated.

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

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

28. INCOME TAX

a. Income tax expense recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2020	2019
Current tax		
Current year	\$ 118,814	\$ 523,670
Prior year adjustment	(29,845)	(5,546)
Income tax on unappropriated earnings	628	378
Deferred tax		
Current year	(551,574)	35,149
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>87,994</u>	<u>24,534</u>
Income tax expense recognized in profit or loss	<u>\$ (373,983)</u>	<u>\$ 578,185</u>

A reconciliation of accounting profit and income tax expense is as follows:

	<u>For the Year Ended December 31</u>	
	2020	2019
Profit before tax	\$ (653,797)	\$ (96,817)
Income tax expense calculated at the statutory rate (% for 2019, 20% for 2018)	\$ (130,759)	\$ (19,362)
Effect of different tax of subsidiaries	(8,456)	1,680
Effect of adjustment to income tax		
Non-deductible expenses in determining taxable income	388,066	16,936
Tax-exempt income	(711,001)	(45,861)
Income tax on unappropriated earnings (5%)	628	378
Basic income tax	-	8,468
Overseas income tax expense	16,244	11,157
Unrecognized loss carryforwards, investment tax credits and temporary difference	12,129	586,135
Adjustments for prior years' tax	(29,845)	(5,546)
Adjustments to deferred tax attributable to changes in tax rates and laws	87,994	24,534
Adjustments to changes in tax rates and laws	<u>1,017</u>	<u>(334)</u>
Other		
Income tax expense recognized in profit or loss	<u>\$ (373,983)</u>	<u>\$ 578,185</u>
b. Income tax recognized in other comprehensive income		
	2020	2019
<u>Deferred tax</u>		
Recognized in other comprehensive income		
Translation of financial statements of foreign operations	\$ 19,864	\$ 13,454
Fair value changes of financial assets at FVTOCI	9,685	(14,854)
Hedging instruments fair value revaluation for cash flow hedging	(366,022)	(278,664)
Actuarial gain or loss on defined benefit plan	<u>79,830</u>	<u>156,359</u>
Total income tax recognized in other comprehensive income	<u>\$ (256,643)</u>	<u>\$ (123,705)</u>

c. Deferred tax assets and liabilities

For the year ended December 31, 2020

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit plans	\$ 1,891,851	\$ (15,520)	\$ 80,246	\$ -	\$ 1,956,577
Frequent flyer programs	592,977	(42,447)	-	-	550,530
Maintenance reserves	2,240,003	282,021	-	-	2,522,024
Allowance for reduction of inventory	296,857	(41,590)	-	-	255,267
Others	<u>315,938</u>	<u>367,228</u>	<u>77,917</u>	<u>(17,281)</u>	<u>743,802</u>
	<u>\$ 5,337,626</u>	<u>\$ 549,692</u>	<u>\$ 158,163</u>	<u>\$ (17,281)</u>	<u>\$ 6,028,200</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized foreign exchange gains	\$ 81,777	\$ 81,656	\$ -	\$ -	\$ 163,433
Others (Note)	<u>475,365</u>	<u>4,456</u>	<u>414,806</u>	<u>(34,976)</u>	<u>859,651</u>
	<u>\$ 557,142</u>	<u>\$ 86,112</u>	<u>\$ 414,806</u>	<u>\$ (34,976)</u>	<u>\$ 1,023,084</u>

For the year ended December 31, 2019

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit plans	\$ 1,765,052	\$ (29,560)	\$ 156,359	\$ -	\$ 1,891,851
Frequent flyer programs	510,060	82,917	-	-	592,977
Maintenance reserves	1,811,848	428,155	-	-	2,240,003
Allowance for reduction of inventory	335,711	(38,854)	-	-	296,857
Others	<u>729,399</u>	<u>(429,580)</u>	<u>15,113</u>	<u>1,006</u>	<u>315,938</u>
	<u>\$ 5,152,070</u>	<u>\$ 13,078</u>	<u>\$ 171,472</u>	<u>\$ 1,006</u>	<u>\$ 5,337,626</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized foreign exchange gains	\$ 17	\$ 81,760	\$ -	\$ -	\$ 81,777
Others (Note)	<u>188,430</u>	<u>(8,999)</u>	<u>295,177</u>	<u>757</u>	<u>475,365</u>
	<u>\$ 188,447</u>	<u>\$ 72,761</u>	<u>\$ 295,177</u>	<u>\$ 757</u>	<u>\$ 557,142</u>

Deductible temporary differences, and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets.

	December 31	
	2020	2019
Loss carryforwards		
2021	\$ -	\$ 2,899,496
2022	-	619,799
2025	18,124	18,124
2026	344,200	546,899
2027	68,415	68,415
2028	671,529	1,706,913
2029	1,645,438	955,250
2030	<u>852,281</u>	<u>-</u>
	<u>\$ 3,599,987</u>	<u>\$ 6,814,896</u>
Difference in depreciation	<u>\$ 4,563,924</u>	<u>\$ 1,348,096</u>

d. Unused tax loss carryforwards as of December 31, 2020 were as follows:

Expiry Year	Unused Amount
<u>China Airlines, Ltd.</u>	
2028	\$ 495,779
2029	<u>1,439,287</u>
	<u>\$ 1,935,066</u>
<u>Mandarin Airline Co., Ltd.</u>	
2026	\$ 312,724
2028	72,589
2030	<u>524,678</u>
	<u>\$ 909,991</u>
<u>Tigerair Taiwan Co., Ltd.</u>	
2030	<u>\$ 2,056,978</u>
<u>Taoyuan International Airport Services</u>	
2030	<u>\$ 556,790</u>
<u>Taiwan Airport Services</u>	
2030	<u>\$ 223,805</u>

(Continued)

Expiry Year	Unused Amount
<u>Sabre Travel Network (Taiwan)</u>	
2030	\$ <u>75,188</u>
<u>Cal Hotel Co., Ltd.</u>	
2030	\$ <u>114,975</u>
<u>Kaohsiung Catering Services, Ltd.</u>	
2030	\$ <u>85,648</u>
<u>Taiwan Aircraft Maintenance And Engineering Co., Ltd.</u>	
2025	\$ 18,124
2026	31,476
2027	68,415
2028	103,161
2029	206,151
2030	<u>241,955</u>
	\$ <u>669,282</u> (Concluded)

e. Income tax assessment

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

29. EARNING PER SHARE

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

	For the Year Ended December 31	
	2020	2019
Basic earnings (loss) per share	\$ <u>0.03</u>	\$ <u>(0.22)</u>
Diluted earnings (loss) per share	\$ <u>0.03</u>	\$ <u>(0.22)</u>
Earnings (loss) used in the computation of basic earnings per share	\$ 140,000	\$ (1,199,798)
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	<u>-</u>	<u>-</u>
Earnings (loss) used in the computation of diluted earnings (loss) per share	\$ <u>140,000</u>	\$ <u>(1,199,798)</u>

For the Year Ended December 31
2020 2019

In thousands

Weighted average number of ordinary shares in computation of basic earnings per share	5,418,776	5,418,096
Effect of potentially dilutive ordinary shares:		
Convertible bonds		
Compensation of employees or bonuses issued to employees	_____ -	_____ -
 Weighted average number of ordinary shares used in the computation of diluted earnings per share	 <u>5,418,776</u>	 <u>5,418,096</u>

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

30. DISPOSAL OF SUBSIDIARIES

On January 21, 2019, the board of directors of the Company decided to sell part of Dynasty Holidays to H.I.S. Taiwan Co., Ltd. for disposal price of \$34,036 thousand and a gain on disposal of \$7,656 thousand. After the disposal, the proportion of ownership decreased from 51% to 20%, and the Company lost control of the subsidiary.

a. Consideration received from disposals

Consideration received in cash and cash equivalents	\$ <u>34,036</u>
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b. Analysis of assets and liabilities on the date control was lost

Current assets	
Cash and cash equivalents	\$ 51,449
Other current assets	47,510
Non-current assets	17,035
Current liabilities	(49,742)
Non-current liabilities	<u>(15,318)</u>
 Net assets disposed of	 \$ <u>50,934</u>

c. Gain on disposals of subsidiaries

Consideration received	\$ 34,036
Net assets disposed of	(50,934)
Fair value of equity	10,187
Non-controlling interests	24,957
Reclassification of other comprehensive income in respect of subsidiaries	<u>(10,590)</u>
 Gain on disposal	 \$ <u>7,656</u>

d. Net cash inflow on disposal of subsidiaries

Consideration received in cash and cash equivalents	\$ 34,036
Less: Cash and cash equivalent balances disposed of	<u>(51,449)</u>
	<u>\$ (17,413)</u>

31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Group needs to maintain sufficient capital. Therefore, the goal of capital management is to ensure financial resources and operating plan is able to support the future working capital, capital expenditures, debt repayment and dividend expenses and other needs.

32. FINANCIAL INSTRUMENTS

a. Financial instruments not evaluated at fair value

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

	December 31			
	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial liabilities</u>				
Bonds payable	\$ 22,282,859	\$ 22,459,685	\$ 32,052,625	\$ 32,062,874

Some long-term borrowings and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. Fair values of bond payable trading in OTC are based on quoted market prices (Level 1).

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

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

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

- 3) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 274,761	\$ -	\$ -	\$ 274,761
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 46,289	\$ 46,289
Unlisted shares - foreign	-	-	117,457	117,457
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,746</u>	<u>\$ 163,746</u>
Financial assets for hedging	\$ 7,613,636	\$ -	\$ -	\$ 7,613,636
Financial liabilities for hedging	\$ 40,575,778	\$ 9,307	\$ -	\$ 40,585,085

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	\$ 511,758	\$ -	\$ -	\$ 511,758
Foreign exchange agreement	-	434	-	434
	<u>\$ 511,758</u>	<u>\$ 434</u>	<u>\$ -</u>	<u>\$ 512,192</u>
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	\$ -	\$ -	\$ 26,865	\$ 26,865
Unlisted shares - foreign	-	-	182,356	182,356
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,221</u>	<u>\$ 209,221</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Derivative instruments	\$ <u> -</u>	\$ <u> 11,749</u>	\$ <u> -</u>	\$ <u> 11,749</u>
Financial assets for hedging	\$ <u> -</u>	\$ <u> 147</u>	\$ <u> 9,479</u>	\$ <u> 9,626</u>
Financial liabilities for hedging	\$ <u>50,997,687</u>	\$ <u> 37,069</u>	\$ <u> 3,955</u>	\$ <u>51,038,711</u> (Concluded)

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

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

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

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

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

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

The movements of Level 3 financial instruments are as follows:

	Multiplier	Liquidity Discount
December 31, 2020	0.79-16.32	80%
December 31, 2019	0.75-13.23	80%

	Derivative Instruments	Equity Instruments
Balance at January 1, 2020	\$ 5,524	\$ 209,221
Recognized in other comprehensive income	<u>(5,524)</u>	<u>(45,475)</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 163,746</u>
Balance at January 1, 2019	\$ 4,901	\$ 132,191
Recognized in other comprehensive income	<u>623</u>	<u>77,030</u>
Balance at December 31, 2019	<u>\$ 5,524</u>	<u>\$ 209,221</u>

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

c. Categories of financial instruments

	December 31	
	2020	2019
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 274,761	\$ 512,192
Financial assets for hedging	7,613,636	9,626
Financial assets at amortized cost (Note 1)	45,898,091	43,143,106
Financial assets at FVTPCI - equity instrument investment	163,746	209,221
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	-	11,749
Financial liabilities for hedging	40,585,085	51,038,711
Financial liabilities at amortized cost (Note 2)	165,458,441	144,459,429

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

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term debts, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable, long-term loans, lease liabilities payable, lease liabilities, provisions, part of other current liabilities, part of other non-current liabilities and guarantee deposits.

d. Financial risk management objectives and policies

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

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

1) Market risk

The Group is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. The Group enters into foreign exchange forward contracts, foreign currency option contracts, and interest swap contracts with fair values that are highly negatively correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

a) Foreign currency risk

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

Sensitivity analysis

The Group was mainly exposed to the US dollar.

The following details the Group's sensitivity to a one dollar increase or decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies (i.e. the US dollar). This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges and adjusts their translation at the end of the reporting period for US\$1 increase/decrease against the New Taiwan dollar.

When New Taiwan dollars increase one dollar against U.S. dollars and all other variables were held constant, there would be an increase in pre-tax profit and other comprehensive income for the year ended December 31, 2020 of \$345,440 thousand and \$1,150,896 thousand and a decrease in pre-tax profit and other comprehensive income for the year ended December 31, 2019 of \$105,266 thousand and \$1,612,256 thousand, respectively.

The Group's hedging strategy is to enter into foreign exchange forward contracts to avoid exchange rate exposure of its foreign currency denominated receipts and payments and to manage exchange rate exposure of its aircraft prepayments in the next year. Those transactions are designated as cash flow hedges. When forecasted purchases actually take place, basis adjustments are made to the initial carrying amounts of hedged items.

For the hedges of highly probable aircraft prepayments, as the critical terms (i.e. the notional amount, useful life and underlying asset) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of the effectiveness, and it is expected that the value of the foreign exchange forward contracts and the value of the corresponding hedged items will systematically change in the opposite direction in response to movements in the underlying exchange rates.

The following table summarizes the information relating to the hedging of foreign currency risk.

December 31, 2020

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedge							
Aircraft rentals - forward exchange contracts	NTD/USD	NTD 127,906/ USD4,371	2021.1.8- 2021.11.9	28.5-29.7	Financial assets for hedging - current/ liabilities for hedging - current	\$ -	\$ 3,513
Aviation fuel - forward exchange contracts	NTD/USD	NTD 142,045/ USD5,000	2021.1.29- 2021.5.28	29.9-29.8	Financial assets for hedging - current/ liabilities for hedging - current	-	5,794

The abovementioned hedging instruments applied hedge accounting. The book value of other equity for each hedging item (aircraft rentals in U.S. dollars and aviation fuel) was \$(3,513) thousand and \$(5,794) thousand, respectively.

For the year ended December 31, 2020

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	\$ 4,939	\$ 11,908	(Note)
Aviation fuel	4,367	(16,616)	
Aircraft prepayments	(101,570)	-	
Maintenance cost	-	5	
	<u>\$ (92,264)</u>	<u>\$ (4,703)</u>	

Note: Increase in operating costs or exchange loss.

The amount of gains and losses on hedging instruments for the year ended December 31, 2020 reclassified from profit or loss to prepayments for equipment was \$119,878 thousand.

December 31, 2019

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

The abovementioned hedging instruments applied hedge accounting. The book value of other equity for each hedging item (aircraft rentals in U.S. dollars, aviation fuel and aircraft prepayments) was \$(8,453) thousand, \$(10,161) thousand and \$(18,308) thousand, respectively.

For the year ended December 31, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	\$ (35,897)	\$ 9,137	(Note)
Aviation fuel	(10,161)	(53)	
Aircraft prepayments	<u>(17,705)</u>	<u>-</u>	
	<u>\$ (63,763)</u>	<u>\$ 9,084</u>	

Note: Decrease in operating costs or exchange loss.

And the amount of gains and losses on hedging instruments for the year ended December 31, 2019 reclassified from profit or loss to prepayments for equipment was \$(603) thousand.

b) Interest rate risk

The Group enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

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

	<u>December 31</u>	
	2020	2019
Fair value interest rate risk	\$ 68,883,667	\$ 91,414,806
Cash flow interest rate risk	112,324,305	77,821,887

Sensitivity analysis

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

Had interest rates increased by one yard (25 basis) points and all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2020 would have decreased by \$280,811 thousand.

Had interest rates increased by one yard (25 basis) points and had all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2019 would have decreased by \$194,555 thousand.

c) Other price risk

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

December 31, 2020

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	-	-	-	Financial assets for hedging - current/ liabilities for hedging - current	\$ -	\$ -

Hedge accounting continues to be applied to the abovementioned hedging instruments. The carrying amount of other equity for each hedging item (fuel payments) was \$0.

For the year ended December 31, 2020

Comprehensive Income	Hedging Gain Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedges - fuel options	\$ (5,524)	\$ (52,853)	(Note)

Note: Increase in operating costs.

December 31, 2019

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount	
						Asset	Liability
Cash flow hedges - fuel options	USD	NT\$5,524	2020.3.31- 2020.12.31	US\$49.65- US\$80.75	Financial assets for hedging - current/ liabilities for hedging - current	\$ 9,479	\$ 3,955

Hedge accounting continues to be applied to the abovementioned hedging instruments. The carrying amount of other equity for each hedging item (fuel payments) was \$5,524 thousand.

For the year ended December 31, 2019

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedges - fuel options	\$ 623	\$ (13,597)	(Note)

Note: Increase in operating costs.

Sensitivity analysis

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

	For the Year Ended December 31			
	2020		2019	
	Pre-tax Profit Increase (Decrease)	Other Compre- hensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Compre- hensive Income Increase (Decrease)
Fuel price increase of 5%	\$ 1,479	\$ -	\$ -	\$ 7,973
Fuel price decrease of 5%	(1,479)	-	-	-

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk, primarily comes from accounts receivable generated from operating activities and bank deposits generated from investing activities, fixed investment income and other financial instruments, operation related credit risk and financial credit risk are managed separately.

Operation - related credit risk

The Group has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Group consider into the financial condition of the customers, the credit rating agency rating, the Group's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Group uses certain credit enhancement tools to reduce the credit risk of specific customers. Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Group's finance department. The Group's trading partners and other parties were well-performing banks and financial institutions, corporations, and government agencies, and so the risk of counterparties failing to discharge an obligation is low; therefore, there is no significant credit risk.

3) Liquidity risk

The objective of the Group's management of liquidity is to maintain cash and cash equivalents sufficient for operating purposes, marketable securities with high liquidity and loan commitments that are sufficient to ensure that the Group has adequate financial flexibility.

	Unused Bank Loan Limit (Unsecured)
The Group (China Airlines, Ltd., Mandarin Airlines and Tigerair Taiwan Co., Ltd.)	\$ 22,429,000

Liquidity and interest risk rate table

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

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

December 31, 2020

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Lease liabilities	1.1128	\$ 3,494,299	\$ 9,770,964	\$ 7,982,767
Floating interest rate liabilities	1.6269	26,195,346	60,977,026	17,175,894
Derivative instruments	3.0492	9,249,609	32,978,809	1,815,449
Bonds payable	2.4622	<u>12,531,511</u>	<u>9,303,608</u>	<u>1,280,778</u>
		<u>\$ 51,470,765</u>	<u>\$ 113,030,407</u>	<u>\$ 28,254,888</u>

December 31, 2019

	The Weighted Average Effective Interest Rate (%)	Less than 1 Year	1 to 5 Years	Over 5 Years
Lease liabilities	1.1613	\$ 3,357,996	\$ 10,622,204	\$ 8,949,194
Floating interest rate liabilities	1.9058	15,254,687	36,274,033	16,785,664
Derivative instruments	3.1131	10,060,822	39,729,062	6,373,333
Bonds payable	2.2573	<u>10,823,905</u>	<u>19,871,174</u>	<u>3,383,401</u>
		<u>\$ 39,497,410</u>	<u>\$ 106,496,473</u>	<u>\$ 35,491,592</u>

33. RELATED-PARTY TRANSACTIONS

The transactions, account balances, income and expenses between related parties were eliminated from the consolidated report and, therefore, were not disclosed in this note. Except for the disclosures stated in other notes, transactions between the Group and its related parties are disclosed below:

a. Related parties' names and relationships

<u>Name</u>	<u>Relationship with the Company</u>
Dynasty Holidays	Associate (become associate in January 2019)
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associate
Eastern United International Logistics (Hong Kong)	Associate
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
NORDAM Asia Ltd.	Joint venture investment
Delica International Co., Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Group, spouse and second-degree relative

b. Operating income

Account Items	Related Party Type	For the Year Ended December 31	
		2020	2019
Other income	Major shareholder of the Company	<u>\$ 5,097</u>	<u>\$ 25,457</u>
	Associate	<u>\$ 122</u>	<u>\$ 1,239</u>
	Joint venture investment	<u>\$ 22,445</u>	<u>\$ 42,457</u>

c. Purchases

Related Party Type	For the Year Ended December 31	
	2020	2019
Major shareholder of the Company	\$ 11,417	\$ 56,474
Associate	\$ 457,005	\$ 414,106
Joint venture investment	\$ 516,347	\$ 1,911,091

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

Related Party Type	December 31	
	2020	2019
Joint venture investment	\$ 1,667	\$ 7,760
Major shareholder of the Company	-	2,588
	\$ 1,667	\$ 10,348

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

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

Related Party Type	December 31	
	2020	2019
Associate	\$ 52,187	\$ 51,333
Joint venture investment	76,380	484,700
Major shareholder of the Company	-	5,982
	\$ 128,567	\$ 542,015

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

f. Leases of properties (operating leases)

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, the Company paid the rental based on usage hours. In 2020 and 2019, the Company had paid rentals of about \$11,417 thousand and \$56,474 thousand, respectively.

g. Endorsements and guarantees

	December 31			
	2020		2019	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
<u>The Company</u>				
CAL Park	\$ 3,850,000	\$ 1,892,540	\$ 3,850,000	\$ 2,129,400
Taiwan Air Cargo Terminal	-	-	1,080,000	-
Tigerair Taiwan	2,656,591	265,062	3,012,668	685,444
Taiwan Air Craft Maintenance	2,000,000	1,336,000	2,000,000	1,279,827

h. Compensation of key management personnel

	For the Year Ended December 31	
	2020	2019
Short-term employee benefits	\$ 33,376	\$ 39,693
Post-employment benefits	<u>2,525</u>	<u>2,362</u>
	<u>\$ 35,901</u>	<u>\$ 42,055</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

34. PLEDGED ASSETS

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

	December 31	
	2020	2019
Property, plant and equipment	\$ 34,170,076	\$ 31,260,801
Right-of-use assets	59,861,537	71,033,617
Restricted assets - non-current		
Pledged certificate deposits	<u>302,807</u>	<u>130,052</u>
	<u>\$ 94,334,420</u>	<u>\$ 102,424,470</u>

35. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2020, except for the disclosures stated in other notes, the Group had commitments and contingent liabilities as follows:

- a. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board of directors in 2003. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

The original total expenditure of the previous main construction project was \$8,490,000 thousand. However, TACT filed an arbitration for the total amount of expenditure in 2012 to revise the total amount to \$6,840,000 thousand.

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

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction Consultant Contract	\$ 552,285
Bin Li Construction Co., Ltd., Taiwan	Cargo Terminal Expansion and Enhancement Construction	275,000
Trade-Van Information Services Co.	TACT warehouse management system integrated revision contract	30,000

As of December 31, 2020, the cumulated consultant service expense and construction equipment had amounted to \$487,645 thousand (VAT included) and \$5,372,129 thousand (VAT included), respectively. Upon completion of the projects, the amount of \$468,754 thousand (VAT included) and \$5,306,700 thousand (VAT included) were reclassified to property, plant, and equipment. The remaining cumulative payments were recognized under construction in progress.

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

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

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

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

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

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

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

- c. In October 2019, the Company signed a contract with Airbus S.A.S. to purchase eleven A321neo aircraft and an option to purchase five A321neo aircraft. The total list price of the eleven aircraft is US\$1,676,413 thousand, and the list price of the option to purchase five aircraft is US\$769,922 thousand. The expected delivery period of the eleven aircraft ranges from 2024 to 2026. As of December 31, 2020, the list price has been paid in the amount of US\$32,578 thousand (recognized as prepayments for aircraft). In October 2019, the Company signed a contract with International Aero Engines Company to purchase four backup engines of A321neo. The total list price of the four engines is US\$60,289 thousand.
- d. In July and August 2019, the Company signed a contract with the Boeing Company to purchase three B777F aircraft and exercised the option to purchase three B777F aircraft. The total list price of the six aircraft is US\$2,320,315 thousand, and the expected delivery period is from 2020 to 2023. As of December 31, 2020, two out of the six aircraft has been delivered, the list price had been paid in the amount of US\$122,186 thousand (recognized as prepayments for aircraft), and the total list price of the remaining four aircraft is US\$1,552,879.
- e. In October 2019, Tigerair Taiwan Co., Ltd. signed a contract with Airbus S.A.S. to purchase seven A320neo aircraft and an option to purchase two A320neo aircraft. The total list price of the seven aircraft is US\$729,746 thousand, and the list price of the option to purchase two aircraft is US\$208,499 thousand. The expected delivery period of the seven aircraft ranges from 2025 to 2027. As of December 31, 2020, the list price has been paid in the amount of US\$18,549 thousand (recognized as prepayments for aircraft). In addition, in December 2019, Tigerair Taiwan Co., Ltd. signed a contract with International Aero Engines Company to purchase two backup engines of A320neo aircraft. The total list price of the two engines is US\$27,345 thousand. As of December 31, 2020, the list price has been paid in the amount of US\$2,988 thousand (recognized as prepayments for aircraft). In February 2020, Tigerair Taiwan Co., Ltd. rented three A320-neo aircraft from Sky High 117 Leasing Company Limited, one A320-neo aircraft from Sky High 118 Leasing Company Limited, one A320-neo aircraft from Sky High 119 Leasing Company Limited and one A320-neo aircraft from Sky High 120 Leasing Company Limited. The total list price was around US\$250,000 thousand and lease payment will change on the basis of actual differences of the year. The aircraft was initially scheduled to be delivered between 2021 and 2024. As of December 31, 2020, one aircraft that was supposed to be delivered in 2021 had been postponed.

36. IMPACT OF COVID-19

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

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

Also, the Group received several remedy measures such as government subsidy for operation and reduction on rent. In 2020, because of the Covid-19, the Group received subsidy of \$1,293,388 thousand for the airport landing fees and parking fees, etc. The subsidy for housing and land rental, and salary expenses was \$961,208 thousand, recognized as deduction from other income and expenses.

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

37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2020

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 702,507	28.4091	\$ 19,957,598
EUR	18,250	34.8432	635,899
HKD	344,577	3.6603	1,261,257
JPY	3,475,525	0.2750	955,769
CNY	560,252	4.3440	2,433,737
<u>Financial liabilities</u>			
Monetary items			
USD	2,208,214	28.4091	62,733,383
EUR	6,513	34.8432	226,949
HKD	73,825	3.6603	270,223
JPY	3,725,514	0.2750	1,024,509
CNY	144,376	4.3440	627,168

December 31, 2019

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 658,407	30.0300	\$ 19,771,957
EUR	18,401	33.6700	619,571
HKD	228,234	3.8595	880,868
JPY	6,262,272	0.2766	1,732,130
CNY	425,343	4.3048	1,831,012
<u>Financial liabilities</u>			
Monetary items			
USD	2,480,896	30.0300	74,501,305
EUR	7,638	33.6700	257,155
HKD	74,651	3.8595	288,117
JPY	6,584,434	0.2766	1,821,237
CNY	153,196	4.3048	659,478

For the years ended December 31, 2020 and 2019, the Group's net foreign exchange gain (losses) were \$527,234 thousand and \$(141,611) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the entities in the Group.

38. ADDITIONAL DISCLOSURES

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

9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 6 (attached)

10) Derivative financial transactions (Notes 7 and 32)

b. Investment in mainland China: Table 7 (attached)

c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 8 (attached)

d. Information of major shareholders: Table 9 (attached)

39. SEGMENT INFORMATION

a. Segment information

The Group mainly engages in air transportation services for passengers and cargo; the services include airport service, storage service, and other air transportation services which are below the financial threshold for an operating segment of the Group. Therefore, the Group's main reportable segment is air transportation. The accounting policies of the reportable segment are consistent with the accounting policies described in Note 4.

	For the Year Ended December 31, 2020			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 112,031,124</u>	<u>\$ 7,263,997</u>	<u>\$ (4,044,571)</u>	<u>\$ 115,250,550</u>
Operation profit and losses	<u>\$ 2,778,301</u>	<u>\$ (509,281)</u>	<u>\$ (84,604)</u>	\$ 2,184,416
Interest revenue				282,506
Investments income accounted for using the equity method				(200,834)
Revenue				711,308
Financial costs				(3,057,963)
Expenses				<u>(573,230)</u>
Profit before income tax				<u>\$ (653,797)</u>
Identifiable assets	<u>\$ 194,219,132</u>	<u>\$ 15,319,185</u>	(6,120,289)	\$ 203,418,029
Investments accounted for using the equity method				1,970,802
Assets				<u>78,805,253</u>
Total assets				<u>\$ 284,194,084</u>

For the Year Ended December 31, 2019

	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	<u>\$ 164,492,453</u>	<u>\$ 11,067,323</u>	<u>\$ (7,115,616)</u>	<u>\$ 168,444,160</u>
Operation profit and losses	<u>\$ 1,302,647</u>	<u>\$ 1,449,620</u>	<u>\$ (86,446)</u>	\$ 2,665,821
Interest revenue				417,446
Investments income accounted for using the equity method				332,305
Revenue				495,249
Financial costs				(3,340,119)
Expenses				<u>(667,519)</u>
Profit before income tax				<u>\$ (96,817)</u>
Identifiable assets	<u>\$ 209,397,850</u>	<u>\$ 15,915,060</u>	(6,317,254)	\$ 218,995,656
Investments accounted for using the equity method				2,223,793
Assets				<u>71,828,530</u>
Total assets				<u>\$ 293,047,979</u>

b. Geographical segment

The geographical segment information of the Company and its subsidiaries in 2020 and 2019 is listed below:

	For the Year Ended December 31, 2020								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	<u>\$ 53,248,499</u>	<u>\$ 10,515,272</u>	<u>\$ 21,782,132</u>	<u>\$ 9,736,725</u>	<u>\$ 4,377,261</u>	<u>\$ 7,374,972</u>	<u>\$ 12,260,260</u>	<u>\$ (4,044,571)</u>	<u>\$ 115,250,550</u>
Operation profit and losses									\$ 2,184,416
Interest revenue									282,506
Investments income accounted for using the equity method									(200,834)
Revenue									711,308
Interest expense									(3,057,963)
Expenses									<u>(573,230)</u>
Profit before income tax									<u>\$ (653,797)</u>
Identifiable assets	<u>\$ 1,336,074</u>	<u>\$ 168,356</u>	<u>\$ 213,936</u>	<u>\$ 70,984</u>	<u>\$ 15,383</u>	<u>\$ 53,322</u>	<u>\$ 207,730,263</u>	<u>\$ (6,120,289)</u>	\$ 203,418,029
Investments accounted for using the equity method									1,970,802
Assets									<u>78,805,253</u>
Total assets									<u>\$ 284,194,084</u>
	For the Year Ended December 31, 2019								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	<u>\$ 40,324,160</u>	<u>\$ 39,232,038</u>	<u>\$ 33,354,405</u>	<u>\$ 15,638,657</u>	<u>\$ 7,073,170</u>	<u>\$ 21,790,943</u>	<u>\$ 18,146,403</u>	<u>\$ (7,115,616)</u>	<u>\$ 168,444,160</u>
Operation profit and losses									\$ 2,665,821
Interest revenue									417,446
Investments income accounted for using the equity method									332,305
Revenue									495,249
Interest expense									(3,340,119)
Expenses									<u>(667,519)</u>
Profit before income tax									<u>\$ (96,817)</u>
Identifiable assets	<u>\$ 1,399,591</u>	<u>\$ 222,584</u>	<u>\$ 154,074</u>	<u>\$ 76,707</u>	<u>\$ 8,985</u>	<u>\$ 50,948</u>	<u>\$ 223,450,021</u>	<u>\$ (6,317,254)</u>	\$ 218,995,656
Investments accounted for using the equity method									2,223,793
Assets									<u>71,828,530</u>
Total assets									<u>\$ 293,047,979</u>

CHINA AIRLINES, LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit	Note
													Item	Value			
1	Cal-Dynasty International	Dynasty Hotel of Hawaii, Inc.	Notes receivable	Y	\$ 103,244	\$ 99,432	\$ 28,409	2.25	Short-term financing facility is necessary	\$ -	Operating cycle capital expenditure	\$ -		\$ -	\$ 144,128	\$ 288,256	

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counterparty		Limit on Each Counterparty's Endorsement/ Guarantee Amount (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	CAL Park	100% owned subsidiary	\$ 11,511,896	\$ 3,850,000	\$ 3,850,000	\$ 1,892,540	\$ -	6.69	\$ 28,779,741	Y	N	N
		Tigerair Taiwan Co., Ltd.	75.86% owned subsidiary by direct and indirect holdings	11,511,896	3,038,197	2,656,591	265,062	-	4.62	28,779,741	Y	N	N
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% owned subsidiary	11,511,896	2,000,000	2,000,000	1,336,000	-	3.47	28,779,741	Y	N	N

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2020

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

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
China Airlines ("Parent company")	<u>Shares</u>							
	Everest Investment Holdings Ltd. - ordinary shares	-	Financial assets at FVTOCI - non-current	1,359,368	\$ 106,779	13.59	\$ 117,457	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets at FVTOCI - non-current	135,937	10,678	-	-	-
	Chung Hua Express Co.	-	Financial assets at FVTOCI - non-current	1,100,000	29,704	11.00	29,704	-
	Jardine Air Terminal Services	-	Financial assets at FVTPL - current	12,000,000	-	15.00	-	-
	The Grand Hi Lai Hotel	-	Financial assets at FVTPL - current	4,021	-	0.02	-	-
Mandarin Airlines	<u>Shares</u>							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	2,074,628	24,999	-	24,999	-
Cal-Asia Investment	<u>Shares</u>							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets at FVTPL - current	-	-	2.59	-	Note 2
	HAECO Composite Structures (Jinjiang)	-	Financial assets at FVTOCI - non-current	-	16,585	5.45	16,585	Note 2
Sabre Travel Network (Taiwan)	<u>Beneficiary certificates</u>							
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	4,051,153	42,247	-	42,247	-
	FSITC Money Market Fund	-	Financial assets at FVTPL - current	308,094	55,411	-	55,411	-
Taiwan Airport Services	<u>Shares</u>							
	TransAsia Airways	-	Financial assets at FVTPL - current	2,277,786	-	0.40	-	-
Dynasty Aerotech International Corp.	<u>Beneficiary certificates</u>							
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	349,523	4,771	-	4,771	-
Kaohsiung Catering Services	<u>Beneficiary certificates</u>							
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	5,407,832	86,281	-	86,281	-
	Prudential Financial Return Fund	-	Financial assets at FVTPL - current	4,493,628	70,949	-	70,949	-
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	1,106,807	15,103	-	15,103	-

Note 1: The subsidiary's net asset value was \$117,457 thousand, which included ordinary shares and preference shares as of and for the year ended December 31, 2020.

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

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 659,596	0.69	30 days	\$ -	-	\$ (67,465)	(3.39)	-
	Taiwan Airport Services	Subsidiary	Purchase	107,482	0.11	40 days	-	-	(13,046)	(0.76)	-
	Mandarin Airlines	Subsidiary	Sale	(221,527)	(0.21)	2 months	-	-	69,179	0.71	-
	Tigerair Taiwan	Subsidiary	Sale	(240,768)	(0.23)	1 month	-	-	12,008	0.12	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,043,264	1.10	40 days	-	-	(215,542)	(12.56)	-
	Dynasty Aerotech International Corp.	Subsidiary	Purchase	352,214	0.37	2 months	-	-	(49,108)	(2.86)	-
	CAL Park	Subsidiary	Purchase	209,701	0.22	2 months	-	-	-	-	-
	Global Sky Express	Subsidiary	Sale	(139,335)	(0.13)	15 days	-	-	8,180	0.08	-
	Eastern United International Logistics	Equity-method investee	Purchase	388,451	0.41	2 months	-	-	(41,725)	(2.43)	-
	China Pacific Catering Services	Equity-method investee	Purchase	473,460	0.50	90 days	-	-	(71,674)	(4.18)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	152,475	4.14	1 month	-	-	(22,407)	(5.58)	-
	Tigerair Taiwan	Same parent company	Purchase	149,048	4.05	1 month	-	-	(11,711)	(2.92)	-
Cal Hotel	CAL Park	Same parent company	Purchase	102,220	48.59	1 month	-	-	(76)	(0.25)	-

CHINA AIRLINES, LTD. AND SUBSIDIARIES

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

DECEMBER 31, 2020

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Mandarin Airlines	China Airlines	Parent company	\$ 101,725	Note	\$ -	-	\$ 56,870	\$ -
Taoyuan International Airport Service	China Airlines	Parent company	215,542	3.71	-	-	215,542	-

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars and Foreign Currencies, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Balance as of December 31, 2020			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2020	December 31, 2019	Number of Shares/Units	Percentage of Ownership (%)	Carrying Amount			
China Airlines, Ltd.	CAL Park	Taoyuan, Taiwan	Real estate lease and international trade	\$ 1,500,000	\$ 1,500,000	150,000,000	100.00	\$ 1,605,033	\$ 9,350	\$ 53,770	Note 4
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,223,259	(376,255)	(353,642)	Notes 1 and 4
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,556,133	318,494	172,017	-
	Cal-Dynasty International	Los Angeles, USA	A holding company, real estate and hotel services	US\$ 26,145	US\$ 26,145	2,614,500	100.00	1,188,110	(21,960)	(20,542)	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	695,959	(267,566)	(136,459)	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	602,688	(258,894)	(126,858)	-
	CAL-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 7,172	US\$ 7,172	7,172,346	100.00	469,979	45,068	45,068	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	232,883	(49,995)	(46,951)	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000	HK\$ 58,000	28,400,000	20.00	277,234	(513,790)	(102,758)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	200,794	(156,739)	(74,214)	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	383,846	21,494,637	53.67	512,926	9,129	(8,309)	Note 5
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	405,353	(73,586)	(73,906)	Note 4
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	149,353	(28,137)	(15,475)	-
	Dynasty Aerotech International Corp.	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	136,630	33,986	33,967	Note 4
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	10,270	(15,067)	(14,998)	Note 4
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 8,000	JPY 20,400	160	20.00	5,237	(23,701)	(4,740)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,643	7,796	1,949	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	3,109,907	1,272,063	212,420,046	75.86	2,304,113	(1,371,056)	(956,008)	Note 4
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	699,793	(222,223)	(222,196)	-
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	37,975	2,450	3,797,500	49.00	37,767	(93)	(46)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	154,330	154,330	15,433,000	5.51	167,400	(1,371,056)	(104,501)	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	4,567	(156,739)	(1,688)	-
CAL-Asia Investment	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK\$ 3,329	HK\$ 3,329	1,050,000	35.00	51,116	39,829	13,940	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,877	US\$ 5,877	-	100.00	373,442	22,355	22,355	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,871	4	2	-

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

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

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

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

Note 5: Difference caused by acquisition.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2020

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

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2020	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2020	Accumulated Inward Remittance of Earnings as of December 31, 2020
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,105,474 (RMB 254,480)	Indirect (Note 1)	\$ 118,920 (US\$ 4,186)	\$ -	\$ -	\$ 118,920 (US\$ 4,186)	\$ 91,311 (RMB 21,367)	14.00	\$ 12,794 (RMB 2,991)	\$ 238,717 (RMB 54,953)	\$ 100,470 (US\$ 3,537) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,817 (RMB 14,000)	Indirect (Note 1)	55,325 (US\$ 1,947)	-	-	55,325 (US\$ 1,947)	68,272 (RMB 15,976)	14.00	9,566 (RMB 2,237)	134,918 (RMB 31,058)	44,333 (US\$ 1,561) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	2,360,511 (US\$ 83,090)	Indirect (Note 1)	61,114 (US\$ 2,151)	-	-	61,114 (US\$ 2,151)	-	2.589	-	-	-
HAECO Composite Structures (Jinjiang)	Composite material	331,335 (US\$ 11,663)	Indirect (Note 1)	18,068 (US\$ 636)	-	-	18,068 (US\$ 636)	-	5.45	-	16,585 (RMB 3,818)	10,128 (US\$ 357)

Accumulated Investment in Mainland China as of December 31, 2020	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
\$253,427 (US\$8,920)	\$618,216 (Note 3)	\$34,535,690 (Note 4)

(Continued)

Taiwan Airport Services

Investee Company	Main Business and Product	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2020	Accumulated Repatriation of Investment Income as of December 31, 2020
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	\$ 1,105,474 (RMB 254,480)	Indirect (Note 5)	\$ 114,158 (US\$ 4,018)	\$ -	\$ -	\$ 114,158 (US\$ 4,018)	\$ 91,311 (RMB 21,367)	14.00	\$ 12,784 (RMB 2,991)	\$ 237,502 (RMB 54,673)	\$ 129,010 (US\$ 4,541)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	60,817 (RMB 14,000)	Indirect (Note 5)	54,737 (US\$ 1,927)	-	-	54,737 (US\$ 1,927)	68,272 (RMB 15,976)	14.00	9,558 (RMB 2,237)	135,128 (RMB 31,107)	59,426 (US\$ 2,092)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$168,895 (US\$5,945)	\$168,895 (US\$5,945)	\$254,438 (Note 6)

Note 1: China Airlines, Ltd. the “Company” invested in CAL-Asia Investment, which, in turn, invested in a company located in mainland China.

Note 2: The inward remittance of earnings in 2020 amounted to US\$3,536,561 and US\$1,560,538.

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

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

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

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

(Concluded)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES

FOR THE YEAR ENDED DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			% of Total Consolidated Total Revenue or Assets
				Financial Statement Account	Amount	Transaction Criteria	
0	China Airlines, Ltd.	Global Sky Express	a	Cargo revenue	\$ 137,081	The same as ordinary transactions	0.12
		Mandarin Airlines	a	Other operating revenue	123,469	The same as ordinary transactions	0.11
		Tigerair Taiwan Co., Ltd.	a	Other operating revenue	240,768	The same as ordinary transactions	0.21
		Taoyuan International Airport Services	a	Airport service costs	1,043,264	The same as ordinary transactions	0.91
		Taiwan Airport Service	a	Airport service costs	107,482	The same as ordinary transactions	0.09
		Dynasty Aerotech International Corp.	a	Airport service costs	352,214	The same as ordinary transactions	0.31
		Taiwan Air Cargo Terminal	a	Other operating costs	659,596	The same as ordinary transactions	0.57
		CAL Park	a	Other operating costs	209,701	The same as ordinary transactions	0.18
		Mandarin Airlines	a	Accounts payable - related parties	101,725	The same as ordinary transactions	0.03
		Taoyuan International Airport Services	a	Accounts payable - related parties	215,542	The same as ordinary transactions	0.07
		Mandarin Airlines	a	Bonds payable - non-current	125,000	The same as ordinary transactions	0.04
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	659,596	The same as ordinary transactions	0.57
2	Mandarin Airlines	Taiwan Airport Service	c	Airport service costs	152,475	The same as ordinary transactions	0.13
		China Airlines, Ltd.	b	Operating expenses	123,469	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Accounts receivable - related parties	101,725	The same as ordinary transactions	0.03
		China Airlines, Ltd.	b	Financial assets at amortized costs	125,000	The same as ordinary transactions	0.04
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	1,043,264	The same as ordinary transactions	0.91
		China Airlines, Ltd.	b	Accounts receivable - related parties	215,542	The same as ordinary transactions	0.07
4	Taiwan Airport Service	China Airlines, Ltd.	b	Operating revenue	107,482	The same as ordinary transactions	0.09
		Mandarin Airlines	c	Operating revenue	152,475	The same as ordinary transactions	0.13
5	Dynasty Aerotech International Corp.	China Airlines, Ltd.	b	Operating revenue	352,214	The same as ordinary transactions	0.31
6	Global Sky Express	China Airlines, Ltd.	b	Operating expense	137,081	The same as ordinary transactions	0.12
7	CAL Park	China Airlines, Ltd.	b	Operating revenue	209,701	The same as ordinary transactions	0.18
		Cal Hotel Co., Ltd.	c	Operating revenue	102,220	The same as ordinary transactions	0.09
8	Cal Hotel Co., Ltd.	CAL Park	c	Operating costs	102,220	The same as ordinary transactions	0.09
9	Tigerair Taiwan Co., Ltd.	China Airlines, Ltd.	b	Operating expenses	240,768	The same as ordinary transactions	0.21

(Continued)

Note 1: The three directional types for transactions by business relationship between China Airlines, Ltd. and its subsidiaries are as follows:

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

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

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

(Concluded)

TABLE 9**CHINA AIRLINES, LTD.****INFORMATION OF MAJOR STOCKHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

Note 1: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

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