



Company Limited

Security code : 2630

Air Asia Co., Ltd

2020 Annual Report

Website of Market Observation Post System:

mops.twse.com.tw

Company website: www.airasia.com.tw

April 26, 2021

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Air Asia Co., Ltd.

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I. Letter to Shareholders

i. Business Results in 2020

(i). Implementation of Business Plan

Total revenue for 2020 was NT\$3,895,091 thousand dollars, the net profit after tax was NT\$42,388 thousand dollars, earnings per share after tax was NT\$ 0.32.

(ii). Status of Budget Implementation

Annual business revenue was NT\$3,895,091 thousand dollars in 2020, compared to the budgeted amount of NT\$3,782,970 thousand dollars increased NT\$112,121 thousand dollars; after-tax net profit was NT\$42,388 thousand dollars, compared to the budgeted amount of NT\$110,052 thousand dollars decreased NT\$67,664 thousand dollars; the business of commercial airplanes was influenced due to the Covid-19 epidemic, revenue decreases and the rise of idle costs incurred by insufficient labors results in lower gross profits than expected; but Air Force 2nd Logistics Area Command projects' capacity increase, the revenue increased than budget.

(iii). Financial Revenue and Expenditure and Profitability Analysis

Company's net profit after tax in 2020 was 42,388 thousand dollars, business revenue and profitability were as follows:

- A. Business revenue in 2020 was 3,895,091 thousand dollars, a decrease of 18,200 thousand dollars compared to 3,913,291 thousand dollars in 2019.
- B. Net profit after tax in 2020 was 42,388 thousand dollars, decreased 2,623 thousand dollars compared to 45,011 thousand dollars in 2019, earnings per share after tax was NT\$ 0.32.

ii. 2021 Annual business plan summary

(i). Business Side

1. Commercial Aircraft Maintenance Business

The Civil Aircraft Division is the professional repairing factory mainly engaged in single-aisle narrow-body/spur aircraft such as Boeing B737, Airbus A320 series and Bombardier Dash8-Q400, based on the "maintaining existing customers" and "developing new customers" strategies, we will develop short, medium and long-term plans to expand energy and strive for new customers and fleets to enter the factory.

In recent years, this division has used professional independence, competitive maintenance cycles, customized services and advantageous management, and in

coordinate with the government's Southbound Policy and implement various business development plans. As the factory's number of time for airplane maintenances dropped to 44 due to the epidemic in 2020, the company has now adjusted its strategy by negotiating with leasing firms for the need of return/parking business. During the epidemic period, it also actively prepared to build up the maintenance energy for ATR, and tried to earn the authorization from Canada-based De Havilland to rank as a formal repairer of DHC-8 models. As soon as the global epidemic comes to an end and service scopes are expanded as expected, the company's overall revenue will be enhanced significantly. To comply with Taiwan's epidemic effectiveness, the company offers relevant supporting measures and subsidies, an attempt to attract more customers to its factory in the future.

The Line Maintenance capacity development preparation was completed in the year 2018. In 2019, it began to enter the main domestic airports such as Taoyuan, Taichung, Tainan and Kaohsiung. In the future, we will continue to extend northbound to Songshan Airport in line with customer demand, providing customers with immediate online maintenance services for shutdown. As the international air transportation still trapped in the continuous spread of Covid-19 epidemic, the passenger business has not fared well than that of freights for the time being, and the maintenance of shutdown lines focused efforts to seek full-agent service of cargo aircraft. Thus, the company has completed a planning to strengthen services in the sign-off authorization of Boeing B737CL freighters. By taking advantage its idle manpower, the company accepts the commercial maintenance of King Air 200 NA-301 for the National Airborne Service Corp. of the Ministry of the Interior, and also supports UH-60M for line maintenances, thus maintaining the energy of shutdown lines effectively. If the vaccine development become a success and epidemic is controlled worldwide, on line maintenances services will be offered to meet customer's requirements of resumed flights, in order to expand the territory in the increasingly competitive aerospace maintenance market, to serve more customers.

2. Government and Military Aircraft Maintenance Business

We exactly carried out the repair and maintenance business of various types of aircraft and accessories according to the contracts of "Air Force Second Logistics Command Military Factory Delegating Private Operation Project" and "Air Force Songshan Base Command Rehabilitation and Supply Team Delegating Private Operation Project", based on the principle of flight safety first. And we shall, on-time and as the quality required, complete the military commissioned work, ensure that annual repairs are completed, meet customer needs, support the shortage of troops, and carry out combat, drills, and training tasks.

We had fully used the transferred assets from Second Logistics Command in GOCO Project for performance of third-party operations (Pingdong Flight Repair Factory-FBO, spray paint, MRO/Taichung accessory factory-electroplating, hydraulic II certification items), in order to increase the overall revenue and create the operation results in GOCO project.

We shall actively strive to include the O/L maintenance work in the renewed contract (January 1st, 2022) of “Air Force Songshan Base Command Rehabilitation and Supply Team Delegating Private Operation Project”, in order to expand the scope of services and the total contract price, and to increase extended works on shutdown lines of civil aircraft and extra income as well.

Actively apply and strive for “Air Force 2nd Logistics Command Military Factory Delegating Private Operation Project” contract renewal (January 1, 2023 - December 31, 2027) , to achieve the goal of sustainable operation.

Based on relevant regulations of the "National Defense Industry Development Ordinances", military manufacturers are required to apply for a qualification certificate with a distinction of three levels: A, B, and C. This thereafter serves as a qualification and score when participating in procurement cases of the Ministry of National Defense. In cooperation with the special project office, the company's business department is conducting several preparations to obtain the mentioned qualification certificate and engage in the national defense affairs, paving the way for the company to gain an utmost benefit.

3. Helicopter Repair Business

The company has obtained the authorized maintenance center of American Bell Helicopter and Breeze-Eastern; currently has signed technical support agreements with Sikorsky Helicopter Company and Boeing Company (Helicopter).

To reliably fulfill the commercial management and maintenance accord reached for UH-60 Black Hawk helicopters of the National Airborne Service Corp. in 2021-2025, and ensure customer's smooth missions and satisfactions in “flight safety first, quality priority, and fair maintenances”.

Signed a strategic business maintenance plan for OH-58D, CH-47SD, TH-67 and other helicopters with the ROC Army to carry out perform airframe, engines, and components business to support the reliability of the ROC Army 's various aircraft fleets to meet the needs of combat training.

Identification Friend or Foe modification of TH-67 and the procurement with maintenance project of AHRS Attitude & Heading Reference Systems for OH-58D are planned to implement replacement and partial delivery in 2021,

which will effectively solve the problem of the proper rate of ROC Army. MFD cockpit display and other equipment of CH-47SD have been used for a long time, the system is old, the replacement/upgrade program has been proposed.

Using professional helicopter maintenance technology and plant equipment, plan and execute the GOCO project S-70C body corrosion and rust in-depth inspection and MD500 helicopter plant-level (D / L) planned IRAN maintenance operations.

Continue to operate the inspection and repair operations of the rescue hoists and cargo hooks of National Airborne Service Corps, Air Force , Navy and Breeze-Eastern company of South Korea DAPA.

Actively develop BL20200 series Rescue Hoist and FE-75900 cargo hooks maintenance capacity and Certification Regulations, cooperate with Asian helicopter Hoist maintenance needs, actively explore potential markets, expand service scope, to improve operational performance.

(ii). Management Side

In order to achieve the overall operational objectives, we will actively grasp the overall operation and function, adopt a professional division of talent adaptability and strengthen the management of teamwork, and continue to strengthen the following key points:

1. Manpower Enhancement

- (1) Continuous manpower reduction, aiming at maximizing per capita output value.
- (2) The recruitment channels and the selection process shall be objective and impartial in order to select suitable employees.
- (3) Reward the license holders and trained professionals to enhance the competitiveness of the civil aircraft business.

2. Talent cultivation

- (1) Train technical manpower and reserve talents through school-to-work Programs with colleges and self-organized aircraft maintenance training courses to enhance qualified manpower and increase repair capacity.
- (2) Introduce the youth employment workplace training program, emphasize on youth's workplace adaptability and professional skills learning, in order to improve youth's job satisfaction and employment stability.
- (3) Execute promotion plan for enterprise manpower resources and manage trainings for different professional fields based on company's policy and

sufficient competency to keep increasing the quality of company's employees.

- (4) Handling supervisor training for management functions, so as to produce the work team's coherence and management synergy.
- (5) Encourage and assist employees to obtain licenses in order to increase the proportion of civil aviation licenses holders in the whole employees and improve existing repair standards.
- (6) To acquire an evaluation certificate of the talent development and quality management for the training institution of enterprise, thus enhancing the operation efficiency of training system.

3. Humanpower Resource management and enhancement of competitiveness

- (1) Continuous analysis of manpower usage and control of idle manpower, arrange job training, rotation and supporting for fully utilization of manpower.
- (2) Encourage production units to handle manpower exchange and training of second expertise, in order to meet the goals of cooperating with of working capacity, adjusting human complementarily and reducing idle capacity.
- (3) In line with work needs, actively adjust manpower by shifting and spelling, in order to strengthen competitiveness.
- (4) The manpower recruitment adopts a contract-signing method for people who both joined the B1 class set up for aircraft maintenance and civil aviation licenses by the industry-academy cooperative schools and passed the test on this subject.

4. Strive for Certification and Quality Improvement

- (1) Strive to obtain the EASA and NADCAP quality management system certification, and maintain the maintenance certificate granted by the civil aviation authorities of various countries and capability to effectively expand the market.
- (2) Implement comprehensive safety and comprehensive quality assurance with the Safety Management System and maintenance specifications to effectively improve quality.
- (3) Establish CAA Civil Aviation Personnel Maintenance Training Institute, the maintenance personnel training is based on the training energy that is approved previously, an effort to optimize training quality and cut down costs.

5. Strict management for controlling and reducing operating costs

- (1) Use internal control and information systems to strictly control the budget and reduce company expenses.
- (2) Improve ability to negotiate with suppliers to reduce operation cost and ensure company's profits and achieve set objectives.
- (3) Keep the reviewing of reduction of materials in stock and demand supplier to deliver by lot based on company's requirement by order to achieve the goal "receive and ship" and to reduce period of material hoarding.
- (4) Expanding business sources and business conditions to reduce the time and cost of waiting for materials, and regularly review the unspent parts of each project to reduce the occurrence of excess materials.
- (5) The company's bulk materials are delivered from the United States, In comparison, 2019 and 2020 encountered a downward trend by declining about 30%. Imports of international express delivery also decreased by 51%. The reason after analyses: the number of commercial aircraft entering the factory decreased considerably due to the impact of Covid-19 epidemic in 2020. This caused a relatively reduction in both purchase orders and quantity of materials for commercial aircraft maintenances.
- (6) The export air freights added by an amount of NT\$2,068,159 in 2020, compared with the previous year. The increase attributed to the price hike of export air freight in 2020, up about 30%. When the Covid-19 epidemic broke out in early 2020, the number of the nations' passenger airlines to the United States and Europe diminished considerably (fewer cargo cabins available within passenger planes), making the cabin capacity fully occupied by cargo aircraft. Thus, the air freight skyrocketed.
- (7) For the most part, the company uses Fedex (more advantages in transportation/customs clearance efficiency) to transport AOG commercial aircraft maintenance materials. The percentage of using Fedex express delivery from the United States to Taiwan represents about 75%, and Singapore to Taiwan stands at 25%, respectively. In view of the express freight increase beginning in 2019, Fedex agreed to render a preferential price after negotiations. Statistics show that a 30% drop was offered from the United States to Taiwan, and 20% drop from Singapore to Taiwan in 2020.
- (8) Latest statistics show that the import and export air freight totaled NT\$37,496,019 in 2020, a decline of NT\$14,554,004 from NT\$52,050,023 registered in 2019. The impact of Covid-19 epidemic and Fedex's preferential

price are main reasons behind the reduction.

- (9) Regarding the customs declaration of domestic aviation materials, the performance evaluation for successful customers brokers in 2021 include import customs declarations, transportation operations, tax exemption letter verifications, and payment operations, and these all met requirements of the contract. As for inland transportation fares, negotiations are now processed, especially to reduce the transportation cost of handling urgent or priority items. Meanwhile, the monthly payment is proposed to change from 30 days to 45 days.

iii. Future Development Strategy

(i). Commercial Aircraft Maintenance Business

Due to the impact of Covid-19, most of the foreign air carriers canceled scheduled maintenance plans or transferred to local maintenance providers. The strategic focus will shift to the enhanced cooperation with domestic airlines along with the partnership with rental firms, competing for the grand examination for parking and return in order to increase the revenue. In addition, encourage existing foreign airliner clients to pay a visit continuously. The Company also assists their technical representatives with relevant pandemic prevention scheme during their stay in Taiwan, so as to increase the convenience and the incentive during their residence; the short, Medium-term and long-term plans for the market are as follows:

1. Short-term goals:

Striving for Line Maintenance business: Actively strive for the Line Maintenance business of various airlines flying to Taiwan. Expecting through Line Maintenance, strive for further Heavy Maintenance markets.

Development airlines market: Strengthen domestic market, spread out to rental firms with an aim to negotiate for the grand examination of parking and return.

2. Medium-term goal: Expand the customer base and available aircraft models.

3. Long-term goal: Establish the threshold, boost service quality, digitalize factories and schedule quality meetings with clients regularly.

(ii). Government and military aircraft maintenance business

Establishment of Taiwan area hardware fastener plating center: Taichung's accessory plating workshop has 25 plating tanks, which can perform chrome plating, cadmium plating and anodizing. In order to expand the use of transferred equipment, manpower and strive for third-party operations, we have actively planned to handle ventilation and exhaust improve project, equipment maintenance, purchase and automation operation, and has acquired ISO 9001 and AS 9110

certification and apply to join “TYSIA”. Through marketing promotion, we will strive for electroplating and expand production capacity.

Applying NADCAP accreditation: In order to strive for the electroplating of civil aviation aircraft and expand the production capacity of the Taichung Electroplating Center, currently processing related procedures such as program manual compilation and Applications of Counseling. It is expected to formally apply for accreditation before March 31, 2021.

Striving for include the flight management system project into the Songshan Project: this company has obtained the three-year (2019-2021) contract of “Automatic Flight management System Delegating Commercial maintenance Project(EK08004L032)” from the Air Force Songshan Base Command. After continually lobbying, the military has agreeded to include the flight management system project into the scope of work. This may effectively establish the “entry barriers” to prevent competitors from participating in the price competition.

Strive for industrial cooperation capacity development: F-16 hydraulic HYD-II Taichung accessories factory has been certified with 20 hydraulic components maintenance capacity development. The industrial cooperation items regarding F-16 model still have hydraulic pressure HYD-I industrail cooperation –9 items for realizable technology transfer, 1 itemfor oxygen regulator industrial cooperation - realizable technology transfer and 16 items for propeller system industrial cooperation - realizable technology transfer in the furture.

. After completing the capability preparation and certification, in addition to including the transferred capability lists from the GOCO project of Air Force Second Logistics Command for the work commissioned by Air Force, we shall also strive for such work to be included in the third-party operation.

Actively expand the third-party operations: Actively expand third-party operations: plan to expand the third-party operation of Pingtung aircraft maintenance factory to execute FBO, civil aircraft paint spray or removal/MRO, Taichung accessory factory electroplating and surface treatment and other third-party operation. Thus, establish an “entry barrier” on Air Force Second Logistics Command’s state-owned private-operating projects, in order to obtain the best favorable position for the renewal/new contract.

The certification of qualification level for military manufacturers: according to the set-up and plan of Project Office, actively complete servicing work related to the items of Department of Military Aircraft Business which are under evaluation, in order to obtain the certification of qualification level for military manufacturers by

national defense industries, ensure the bidding qualification and advantages in cases related to national defense industries afterwards.

(iii).Helicopter Business Unit maintenance business

Currently negotiating with the South Korean military and government agencies (UH-60 and KUH-1) Breeze-Eastern rescue hoists and cargo hooks repair/overhaul contract; actively promoting/marketing rescue hoists repair business to Southeast Asian countries (Thailand, Malaysia) and sell cargo hooks parts.

Currently promoting Sikorsky rotor blade maintenance, domestic S-70C can be implemented through a GOGO maintenance contract or project. The UH-60 rotor blade maintenance is carried out through the maintenance of National Airborne Service Corps Fleet Contractor Operated project, ROC Army UH-60M system; in the meantime, we are promoting S-70 and UH-60 helicopter rotor blades maintenance capacity to South Korea and Thailand.

Make use of the project of GOCO to execute the in-depth anti-corrosion and anti-rust inspection and maintenance of Navy S-70C followed by the business maintenance of the entire aircraft.

Continue to elevate the avionic performance of Army TH-67 helicopters, in order to maintain the fleet arrangement and create revenue.

(iv).Make full use of the state-owned private-operating Dasheng camp to implement third party operation, in order to increase the maintenance capability. Now we have been certified by the Civil Aviation Administration of the United States, Taiwan, Russia, the Philippines, Indonesia, Cayman, South Korea, Vietnam, Bermuda and Laos, and may carry out the aircraft maintenance business of those countries. In the future, we will catch up the civil aviation bureau's renewal schedule and handle the Dasheng camp maintenance factory certification operation.

iv. Influence suffered from the external competitive environment, regulatory environment and overall business environment

The maintenance services for military aircraft and commercial aircraft are strictly regulated by relevant national laws and regulations. This company currently has a number of maintenance certification authorized from those international aircraft and accessories Original Equipment Manufacturer. Looking forward to the future, in addition to the continuous deployment of domestic and international commercial aircraft maintenance market, this company continues to consolidate domestic and international business capabilities and steady growth under the government's release of business opportunity and unchanged new southward policy.

II. Company Profile

i. Date of Incorporation

January 19, 1955

ii. Company history (As of the print date of annual report)

The history of AirAsia Co., Ltd. can be traced back to 1946. The predecessor of it was the China National Relief and Rehabilitation Administration (CNRRA) formed by the world-famous commander of the US Air Force 14th Aviation team in WW2, Claire Lee Chennault. In 1948, the CNRRA was subject to Civil Aeronautics Administration, MOTC instead of Executive Yuan. The direct-commanded CNRRA changed its name to Civil Air Transport (CAT) under special permission of Civil Aeronautics Administration.

After the Korean War Due to the large number of repair services for many US military transport planes, helicopters and fighter jets, the number of repairs has increased, and the company's employees and maintenance capability have grown rapidly.

1955 The Civil Air Transport Team (CAT) was reorganized and registered as two companies. One was the only civil air transport company (Civil Air Transport Company Limited) that operated domestic and international routes. The other was registered as this Air Asia Co. Ltd., which is subject to the US semi-official company (Air America), with a registered capital of NT\$ 80,000 (K) and the paid-up capital of NT\$60,800 (K).

During the Vietnam War It was the primary military aircraft maintenance base of US in the Pacific region with more than 4,000 to 5,000 employees, and the only qualified Depot Level repair factory of US Air Force in the Southeast Asia and Pacific region. It was also the first aircraft maintenance company in the Pacific region which received the Federal Aviation Administration (FAA) certification.

1975 It was transferred to an overseas subsidiary of E-System Inc. of Texas, USA.

1987 AirAsia was transferred to Precision Air Motive, a specialist in aircraft engines and components.
Registered Capital was NT\$ 282,800 (K).

1988 AirAsia was first time operated by Chinese people.

1993 Jingying Venture Capital Co., Ltd obtained the management rights; Mr. Chiu Fu-de took office of Chairman and Mr. Chen You-Min took office of General Manager.

- 1994 It became a subsidiary of Taiwan Aerospace Corp. and the Chairman was replaced by Mr. Sun Tao-tsun, the Chairman of Taiwan Aerospace Corp. ISO9002 certification obtained.
- 1995 Signed a maintenance cooperation agreement with Bell Helicopter Company to become the Asia Pacific Service Center.
Signed a maintenance cooperation agreement with McDonnell Douglas of the United States and also became the aircraft maintenance center in Taiwan of McDonnell Douglas.
The helicopter center was officially opened in October.
Capital increase of NT\$200,000 (K), the capital was increased to NT\$482,800 (K).
- 1996 The company's 50th anniversary.
Signed a maintenance cooperation agreement with American helicopter manufacturer Sikorsky.
Capital increase of NT\$200,000 (K), the capital was increased to NT\$682,800 (K).
- 1997 Cooperated with the government to promote "Developing Taiwan to Asia-Pacific Operation Center Project" and sign a "Cooperative Development Agreement for Tainan Aerospace Industrial Zone" with Taiwan Sugar Cop., and jointly develop the "Asia-Pacific Aircraft Maintenance Center".
- 1998 Conducted supplemental public issuance and became a public company.
- 1999 In line with the relevant hangar construction and capability expansion plan in the "New AirAsia Project", this company issued 34,720 (K) shares and raised a fund of NT\$694,440 (K); the company's capital became NT\$1,030,000 (K) after capital increase.
Obtained ISO9001 certification and it was the first professional maintenance factory for aircraft in the Republic of China which obtained the national quality certification ISO9001.
- 2000 Actively carried out operations such as plant expansion, equipment replacement and capability preparation, and established a complete aircraft maintenance and modification capability by participating in various international cooperation and strategic alliances
Participated in the Boeing B737 passenger to cargo aircraft modification project and established a joint venture company, ICAS Co. Ltd (ICAS), with China Airlines, EVA Air and Aerospace Industrial Development Corporation.
Established a reinvestment company, Air Asia Technology Inc., in order to expand the avionics capability and business and establish a full capability maintenance system.

- 2001 The newly built wide-body hangar was completed and used.
Passed the ISO9001 certification conversion of 2000 version.
- 2002 Established Air Asia Company Ltd., a subsidiary company in the United States, to lay the foundation for the expansion of the industry and the extension of business reach.
Cooperate with the Department of Defense's strategic military aircraft commercial maintenance business, and actively obtain authorizations for the sales of aircraft materials such as Bell, Boeing B-234, Raytheon, PW, Honeywell, Sikorsky, and Allison.
- 2003 The Ministry of Defense's strategic commercial maintenance business was officially released and three long-term contracts of TH-67, OH-58 and S-2T were obtained.
- 2004 Obtained the contract of the annual fleet commercial maintenance service of the National Airborne Service Corps of the Ministry of the Interior.
Obtained the long-term strategic commercial maintenance contract for the whole aircraft of CH-47SD helicopter.
On December 6, Mr. Tsai Minghsun took over the position of chairman.
- 2005 On January 1, Mr. Yu Hung took over the position of general manager.
The capital reduction was made to make up the loss of NT\$700,000 (K) and the capital amount was changed to NT\$330,000 (K).
Jointly obtained the long-term contract for private business commissioned by the Second Logistics Command of Air Force of the Ministry of Defense with Aerospace Industrial Development Corporation and Evergreen Aviation Technologies Corp.
Obtained long-term contract of Air Force Songshan Base Command Rehabilitation and Supply Team Delegating Private Operation Project
- 2006 This company issued 36,364 (K) shares by capital increase and raised a fund of NT\$400,000 (K); the company's capital became NT\$693,636 (K) after capital increase.
- 2007 Received a license certificate of aircraft maintenance factory from the Japanese Civil Aviation Authority.
Obtained a long-term contract with Japan Airlines MD-80 fleet.
- 2008 On January 2, Mr. Jin Defu took over the position of chairman; Mr. Zhuang Shundian took over the post of general manager.
On June 23, Mr. Wang Hongzhi took over the position of chairman.
13,877 (K) shares issued by capital increase out of earnings and employees' bonuses transferred to capital increase. The paid up capital was NT\$832,408 (K) after capital increase.

2009	On September 1, Mr. Wu Husheng took over the position of general manager. 6,782 (K) shares issued by capital increase out of earnings and employees' bonuses transferred to capital increase. The paid up capital was NT\$900,230 (K) after capital increase. In October, Aircraft Maintenance Factory License from China Civil Aviation Administration was awarded.
2010	5,564 (K) shares issued by capital increase out of earnings and employees' bonuses transferred to capital increase. The paid up capital was NT\$955,874 (K) after capital increase. Obtained a long-term contract of B737 fleet from Japan Transocean Air.
2011	On September 16, Mr. Zhang Hanqing took over the position of chairman.
2012	Obtained a long-term contract of B737-800 fleet from the Korean t'way airline, and officially entered the next-generation commercial aircraft maintenance business. 10,242 (K) shares issued by capital increase out of earnings and employees' bonuses transferred to capital increase. The paid up capital was NT\$1,058,296 (K) after capital increase. On November 8, Mr. Huang Guangzhi took over the position of chairman. On November 9, Mr. Lan Liangjia took over the position of general manager.
2013	Obtained the long-term strategic commercial maintenance contract for the whole aircraft of CH-47SD helicopter. Jointly obtained the long-term contract for private business commissioned by the Air Force Second Logistics Command military factory with Taiwan Aerospace Corp. and Wan Cheng International Human Resource Co., Ltd. Obtained the long-term strategic commercial maintenance contract for the whole aircraft of Army AH-1W helicopter. Obtained long-term contract of Air Force Songshan Base Command Rehabilitation and Supply Team Delegating Private Operation Project
2014	Obtained the long-term strategic commercial maintenance contract for the whole aircraft of Army TH-67 helicopter. Obtained a long-term maintenance contract of A319 fleet from the Russian Aurora Airline. On March 12, Mr. Siwei took over the position of chairman. On December 1, Mr. Zhang Hanqing took over position of general manager.

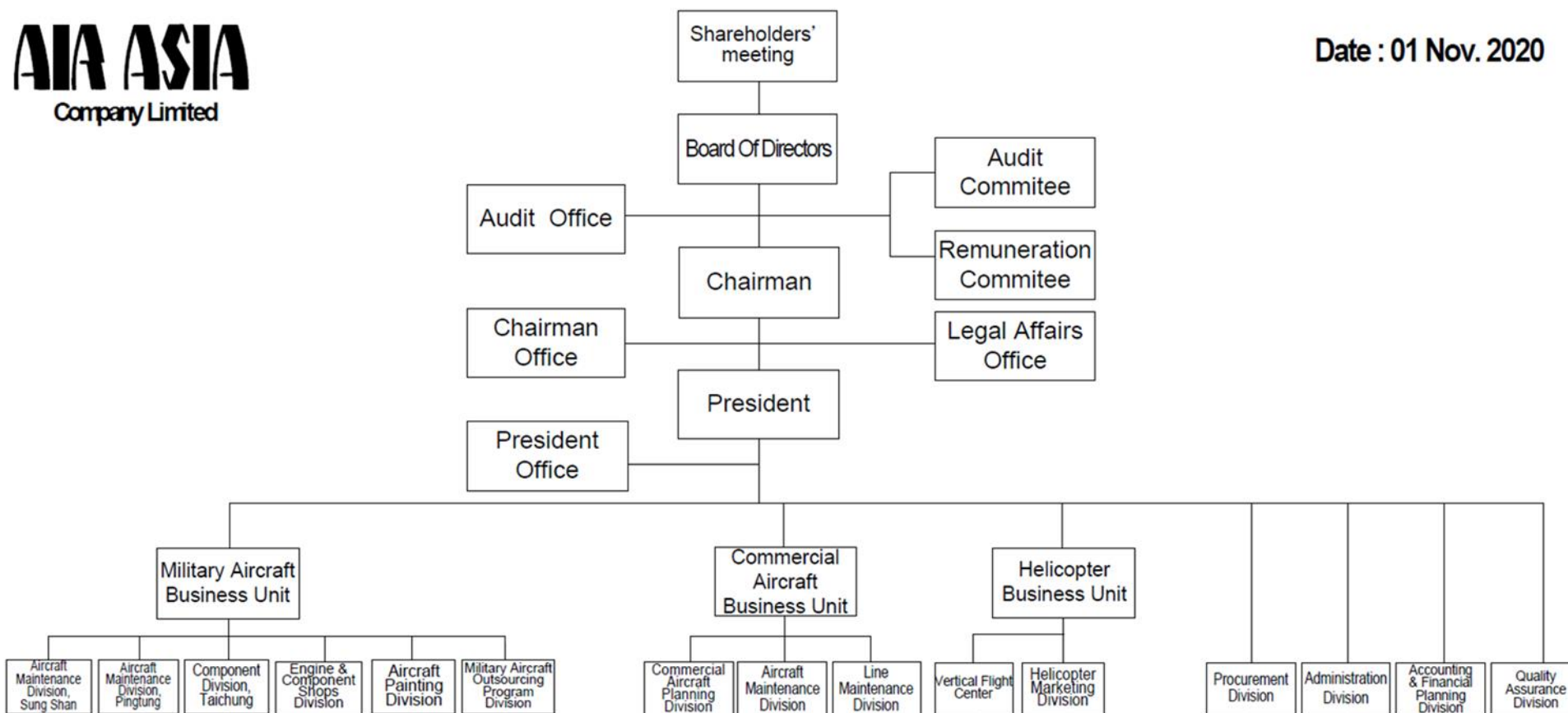
- 2015
- Obtained a long-term maintenance contract of B737 fleet from the Korean Jeju Air.
 - Obtained a long-term maintenance contract of A320 fleet from the Japanese Peach Aviation.
 - Obtained a long-term maintenance contract of Dash-8 fleet from the Russian Aurora Airline
 - On December 24, Mr. Wan Tong took over the position of chairman.
- 2016
- Obtained the contract of UH-60M Black Hawk helicopter rescue training project from National Airborne Service Corps.
 - On January 5, Chairman Wan Tong also took over the position of general manager.
 - Obtained the two-year commercial maintenance contract of preventive maintenance and repair service project for UH-1H helicopter from National Airborne Service Corps.
 - Obtained the half year commercial maintenance contract of preventive maintenance and repair service project for B-234 helicopter from National Airborne Service Corps.
 - Obtained the three-year commercial maintenance contract of preventive maintenance and repair service project for Beech fixed-wings fleet from National Airborne Service Corps since 2017 to 2019.
 - Obtained a long-term strategic commercial maintenance contract for TH-67 helicopter from the Army. On November 2, Mr. Lu Tianlin took over position of chairman and concurrently as general manager.
- 2017
- Capital increase of NT\$20,000 (K), the capital was increased to NT\$1,078,296 (K).
 - This company's stock is listed on the counter.
 - Obtained a long-term contract of B737 fleet from Japan Transocean Air.
 - Signed a Memorandum of Understanding (MOU) with Lockheed Martin US and Taiwan Aerospace Corp.
 - Jointly obtained a long-term contract of Air Force Second Logistics Command Military Factory Delegating Private Operation Project with Champion Auto Co., Ltd.
 - Obtained a long-term contract of strategic commercial maintenance contract for the whole aircraft of OH-58D helicopter of Army of Ministry of Defense.
- 2018
- Before initial public offering, an issuance of 14,378,444 common shares, the capital was increased to NT\$1,222,080 (K) after capital increase.
 - On February 22, the company's shares were traded on the Taiwan Stock Exchange Corporation.
 - This company's organization was re organized into three business units of civil aircraft, military aircraft and helicopter to be responsible for

2018	various market operations and development. Completed AS9110 certification to improve quality and expand the market. Obtained maintenance contract of 4 cranes on UH-60M Black Hawk helicopter from National Airborne Service Corps. Obtained five-year contract in the Air Force Second Logistics Command Military Factory state-owned private-operating Project and the contract was renewed once. Obtained three-year contract in Air Force Automatic Flight management System delegating commercial maintenance project, and the contract was extended for three years. Obtained two-year contract in Air Force TFE731-2-2L engine parts and accessories open for sale project.
2019	The registration of “deregistration of treasury shares and reduction of capital” was carried out, and the capital amount was changed to NT\$1,201,200 (K). Acquired AS9100 Certification, which improves quality standard and expand company’s market. Acquired a five-year contract of update of Auto flight check system tenical order with 1 renewed contract from Air Force. Completed first commercial aircraft painting and maintenance services of the third-party operation for Air Force Second Logistics Command Military Factory state-owned private-operating Project.
2020	Capital surplus transferred to capital and issue new shares of 11,051 thousand shares, after the capital increase, the paid-in capital goes to 1,311,710 thousand NTD. Obtained Civil Aviation Personnel Training Institution License by Civil Aeronautics Administration, Ministry of Transportation and Communications R.O.C. Obtained the preventive maintenance and repair provider maintenance followed by the procurement of entire aircraft painting of the fleet of Beech fixed-wing aircrafts with National Airborne Service Corps from 2020 to 2024, as well as the commission management and the maintenance for the fleet of UH-60M Black Hawk helicopters from 2021 to 2025.

III. Corporate governance report

i. Organization system

(i). Organization Structure



(ii). Business Operated by Respective Main Departments

Department	Descriptions of main functions
Chairman's office	Responsible for company operation policy planning and control, corporate operations, risk assessment, stakeholder, decision analysis and other relevant issues. And supervise the operation of the board of directors, shareholders meeting and corporate governance related matters.
Audit Department	Responsible for checking and evaluating whether the internal system in each unit is appropriate, effective and complete, and assisting the board of directors and management to promote the implementation of various internal control systems.
Office of Legal Affairs	Responsible for legal advice, providing explanations, regulatory amendments, contract review and other legal related affairs.
General Manager's Office	Responsible for supervising Procurement Division, Administration Division, Finance Division and Quality Assurance Division.
Military Aircraft Business Unit	Responsible for supervising Songshan factory, Taichung accessories factory, Paint factory and Military aircraft project division; further, and Taichung production control group, Pingtong production control group and Songshan production control group.
Civil Aircraft Business Unit	Responsible for supervising Civil aircraft planning division, Fixed wings aircraft maintenance factory and Line maintenance division.
Helicopter Business Unit	Responsible for supervising Helicopter factory, Engine and accessories maintenance factory and Helicopter Business Division
Procurement Division	Responsible for management operations such as material procurement, receiving, warehousing and distribution, and timely solving material matters.
Administration Division	Adhering to the company's policies to perform all personnel, administrative, general, safety and health, facilities, equipment maintenance and other operations within the company.
Finance Division	Manage the company's budget control, finance, accounting, financial institution transactions, communication and analysis of accounting transactions with accountants, and the scheduling and operation of operational capital.
Quality Assurance Division	Responsible for all quality control operations in production operations to meet FAA, CAA and original factory requirements in order to ensure the best quality of service for customers.

ii. Directors, Supervisors, General Manager, Assistant General Manager, Associates, Departments and Branches Officer Information

(i). Information of directors and supervisors

April 26, 2021

Title	Nationality or place of registration	Name	Gender	Date of election (taking office)	Term of office	First elected date	Shares held at election		Shares held now		Shares held by spouse and minor children		Shares held under other's name		Main (education) experience	Position now concurrently served in this company and other company	The other head, director or supervisor is his/her spouse or a relative within the second degree of kinship			Note
							Shares	Ratio	Shares	Ratio	Shares	Ratio	Shares	Ratio			Title	Name	Relation	
Chairman	ROC	Taiwan Aerospace Corp.	-	Jun.11,2018	3 Y	Dec.16,1994	86,783,566	82.00%	92,156,523	68.62%	-	-	-	-	-	-	-	-	-	-
	ROC	Lu, Tian-Lin	M	Jun.11,2018	3 Y	Nov.2,2016	-	-	388,752	0.29%	-	-	-	-	Master of Engineering, National Taiwan Ocean University The 6th National Non-Divisional Legister of the Legislative Yuan Chairman of the Labor Committee of the Executive Yuan	Chairman of Taiwan Aerospace Corp. Director of Apex Flight Academy. Air Asia Company Ltd.(USA) Director · President	-	-	-	Note4
Director	ROC	Taiwan Aerospace Corp.	-	Jun.11,2018	3 Y	Dec.16,1994	86,783,566	82.00%	92,156,523	68.62%	-	-	-	-	-	-	-	-	-	-
	ROC	Li, Yueh-Tsung	M	Feb.1,2019	Note 1	Feb.1,2019	-	-	-	-	-	-	-	-	National Chung Cheng University Labor Research Institute Department of Social Work, Tunghai University Tainan Vocational Training Center, Vocational Training Bureau, Labor Committee of the Executive Yuan Executive Director of Gao,Ping Yi, Dong District Employment Service Center, Vocational Training Council, Labour Committee, the Executive Yuan, Executive Director of the Employment Service Center of Yun,Jia,Nan District Employment Service Center, Vocational Training Council, Labour Committee, the Executive Yuan, Director of the Yun,Jia,Nan Branch of the Labor Development Department, Ministry of Labor,the Executive Yuan	Supervisor of Taiwan Aerospace Corp	-	-	-	-
Director	ROC	Taiwan Aerospace Corp.	-	Jun.11,2018	3 Y	Dec.16,1994	86,783,566	82.00%	92,156,523	68.62%	-	-	-	-	-	-	-	-	-	-
	ROC	Chen, Chin-Ming	M	Jun.11,2018	3 Y	Oct.01,2015	-	-	-	-	-	-	-	-	PhD, Institute of Engineering Science and Technology, National Kaohsiung First University of Science and Technology Master of Mechanical Engineering, National Taiwan University Acting CEO, Metal Industries Research and Development Center Secretary General of CTCA Director of Taiwan Implant Technology Company, Ltd. Director of Precision Machinery Research & Development Center Director of Taiwan Fukang Co., Ltd. Secretary General of Chinese Institute of Automation Engineers	Vice President of Metal Industries Research and Development Center Director of Committee for Aviation Industry Development Director of Taiwan Aerospace Corp. Chairman of the Taiwan Light Metals Association Standing Supervisor of Welfare Organization for the Elderly, Taiwan, R.O.C. Executive Director of CTCA Executive Director of Taiwan Supercritical Fluid Association Consultant of Taiwan Medical Care Assistive Technologies Association	-	-	-	-

Title	Nationality or place of registration	Name	Gender	Date of election (taking office)	Term of office	First elected date	Shares held at election		Shares held now		Shares held by spouse and minor children		Shares held under other's name		Main (education) experience	Position now concurrently served in this company and other company	The other head, director or supervisor is his/her spouse or a relative within the second degree of kinship			Note
							Shares	Ratio	Shares	Ratio	Shares	Ratio	Shares	Ratio			Title	Name	Relation	
Director	ROC	Taiwan Aerospace Corp.	-	Jun.11,2018	3 Y	Dec.16,1994	86,783,566	82.00%	92,156,523	68.62%	-	-	-	-	-	-	-	-	-	-
	ROC	Hsieh, Ho-Cheng	M	Jun.11,2018	3 Y	Mar.01,2018	-	-	65,866	0.05%	-	-	-	-	Department of Applied English, Nantai University of Science and Technology Executive Director of Union of Air Asia Co., Ltd.	Specialist of Administration Division of Air Asia Co., Ltd. Director of Chinese Federation of Labor	-	-	-	-
Director	ROC	Taiwan Aerospace Corp.	-	Jun.11,2018	3 Y	Dec.16,1994	86,783,566	82.00%	92,156,523	68.62%	-	-	-	-	-	-	-	-	-	-
	ROC	Shih, Kuan-yu	M	Jun.11,2018	3 Y	Jun.11,2018	-	-	-	-	-	-	-	-	Master of Economics, National Taiwan University Bachelor of Economics, National Chengchi University Researcher of the Department of Health of the Executive Yuan Assistant Researcher, Taiwan Institute of Economic Research Supervisor of the Association of Taiwan Public Issues Research	Assistant Researcher, Taiwan Institute of Economic Research	-	-	-	-
Director	ROC	Taiwan Sugar Cop.	-	Jun.11,2018	3 Y	Aug.31,1999	16,301,019	15.40%	17,800,712	13.26%	-	-	-	-	-	-	-	-	-	-
	ROC	You, Zhen-Wei	M	Jul. 15, 2019	Note2	Jul. 15, 2019	-	-	-	-	-	-	-	-	Master, Department of Urban Planning, National Cheng Kung University Deputy Director General of Industrial Development Bureau, Ministry of Economic Affairs Secretary General of Industrial Development Bureau, Ministry of Economic Affairs Acting Director of Sustainable Development Division, Industrial Development Bureau, Ministry of Economic Affairs Deputy Director of Industrial Park Division, Industrial Development Bureau, Ministry of Economic Affairs Executive Chief of Environmental Protection Center of Industrial Parks, Industrial Development Bureau, Ministry of Economic Affairs	Director General of Bureau of Energy, Ministry of Economic Affairs	-	-	-	-
Director	ROC	Taiwan Sugar Cop.	-	Jun.11,2018	3 Y	Aug.31,1999	16,301,019	15.40%	17,800,712	13.26%	-	-	-	-	-	-	-	-	-	-
	ROC	Jheng, Su-Hua	F	Jun.11,2018	3 Y	Mar.14,2017	-	-	-	-	-	-	-	-	Member of Labor Committee, Executive Yuan Honorary Chairman of the National Workers General Union Executive Secretary of New Taipei City Vehicle driver's professional union Chairman of the 2nd and 3rd Session National Workers' Federation of Trade Unions Executive Director of 25th session of Taipei County General Union Chairman of 25th and 26th session of Taipei County General Union Member of the Central Health Insurance Bureau	Member of Labor Committee, Executive Yuan Honorary Chairman of the National Workers General Union	-	-	-	-

Title	Nationality or place of registration	Name	Gender	Date of election (taking office)	Term of office	First elected date	Shares held at election		Shares held now		Shares held by spouse and minor children		Shares held under other's name		Main (education) experience	Position now concurrently served in this company and other company	The other head, director or supervisor is his/her spouse or a relative within the second degree of kinship			Note
							Shares	Ratio	Shares	Ratio	Shares	Ratio	Shares	Ratio			Title	Name	Relation	
															Hospital Total Payment Committee Member of the Labor Insurance Supervision Committee, Labor Committee, xecutive Yuan Task-based Representative of National Assembly Member of Basic Wage Review Committee, Labor Committee, Executive Yuan Member of 11th Session of Employment Stability Fund Committee, Ministry of Labor, Executive Yuan					
Director	ROC	Lu, Chun-Wei	M	Jun.11,2018	3 Y	Jun.19,2017	-	-	-	-	-	-	-	-	PhD, Department of Political Science, National Taiwan University Member of the National Financial Member of Executive Yuan National Development Fund - Investment M&A Investment Fund Review Committee Consultant of Taipei City Government (Industry Development Group) Independent Director of Taiwan Finance Corporation. Associate Research Fellow of Research Division II and National Economic Development Strategy Center, Taiwan Institute of Economic Research	Indipendent Director and Convener of Audit Committee of Mega Financial Holding Company Ltd Member of the National Financial Development Fund - Investment M&A Investment Fund Review Committee	-	-	-	-
Indipendent Director	ROC	Cheng, Chih-yang	M	Jun.11,2018	3 Y	Jun.11,2018	-	-	-	-	-	-	-	-	Master of Laws, University of Southern California, USA Master of Laws ,National Taiwan University Senior Attorney, Lee and Li Attorneys at Law Primaiy partment, LexCel Partments Attorneys at Law Partner, Chien Yeh Law Offices	Integrated Partner, TSAR & TSAI LAW FIRM	-	-	-	-
Indipendent Director	ROC	Huang, Shih-Chang	M	Jun.11,2018	3 Y	Jun.11,2018	-	-	-	-	-	-	-	-	Ph.D., Department of Finance, National Chengchi University Deputy Director, Taiwan Center, Chung-hua Institution for Economic Research Vice President, Chung-hua Institution for Economic Research Researcher, Chung-hua Institution for Economic Research Adjunct Assistant Professor, Department of Public Finance, National Chengchi University Adjunct Assistant Professor, Department of Public Finance and Tax Administration, National Taipei University of Business Executive Secretary, Asia Pacific Industrial Analysis Association	Deputy Director, Taiwan Center, Chung-hua Institution for Economic Research	-	-	-	-
Indipendent Director	ROC	Kao, Jung-Chih	M	Sep.23,2020	Note3	Sep.23,2020	-	-	-	-	-	-	-	-	Mater's degree in Law, National Taipei University Deputy secretary-general of New Power Party Chief officer and executive of Judicial Reform Foundation Dedicated attorney of Legal Aid Foundation, Banqiao Branch Attorney of Sunny Formosa Attorneys-At-Law	-	-	-	-	-

Note 1: He has served as a director of the company since Feb. 1, 2019, the term is till Jun. 10, 2021.

Note 2: He has served as a director of the company since Jul. 15, 2019, the term is till Jun. 10, 2021.

Note 3: He has served as an Independent director of the company since Sep. 23, 2020, the term is till Jun. 10, 2021.

Note 4: Where the chairperson of the board of directors and the general manager or person of an equivalent post (the highest level manager) of a company are the same person, spouses, or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness, necessity thereof, and

Title	Nationality or place of registration	Name	Gender	Date of election (taking office)	Term of office	First elected date	Shares held at election		Shares held now		Shares held by spouse and minor children		Shares held under other's name		Main (education) experience	Position now concurrently served in this company and other company	The other head, director or supervisor is his/her spouse or a relative within the second degree of kinship			Note
							Shares	Ratio	Shares	Ratio	Shares	Ratio	Shares	Ratio			Title	Name	Relation	
the measures adopted in response thereto (i.g. increase the positions of independent directors or there should be more than half of directors who are not employees or managers in the same time): The reason why the company's chairperson and general manager is the same person is to improve operation efficiency and execution of decision making, however, in order to strengthen the independence of board of directors, we have been actively cultivating suitable personnel for this position. In addition, the chairperson works closely with each director on the communication of company operation status and policy to carry out the governance of the company. In the future, the company may plan to increase positions of independent directors to improve the competency of board of directors and strengthen function of supervision. Currently we have actual measures as below: 1. Three of current independent directors have expertise in finance and accounting, legal and industry economy relatively, which allows efficient supervision competency. 2. The company will arrange training courses from Securities and Future Insitute and other external facilities for each director to improve the operation efficiency of board of directors. 3. Independent directors can fully involve discussion and provide suggestions for reference on each functional committee to carry out the governance of the company. 4. No more than half members of the board of directors are employees or managers.																				

(ii). Major shareholders of juristic person shareholders

April 25, 2021

Name of juristic person shareholders	Major shareholders of juristic person shareholders	Shareholding ratio
Taiwan Aerospace Corp.	National Development Fund, Executive Yuan	49.00%
	Cathay Life Insurance Company, Ltd.	9.96%
	Mega International Commercial Bank Co., Ltd.	6.02%
	CTBC Bank Co., Ltd.	5.00%
	TransGlobe Life Insurance Inc.	4.39%
	Evergreen Steel Corp.	4.05%
	Shin Kong Life Insurance Co., Ltd.	2.50%
	China Life Insurance Co., Ltd.	2.50%
	Taipei Fubon Commercial Bank Co., Ltd.	1.25%
Taiwan Sugar Corp.	Ministry of Economics	86.15%
	Northern Region Branch, National Property Administration, MOF	9.92%

(iii). When major shareholder of juristic person shareholders is a juristic person shareholder, the major shareholders of such juristic person shareholders

April 25, 2021

Name of juristic person shareholders	Major shareholders of juristic person shareholders	Shareholding ratio
National Development Fund, Executive Yuan	None (Governmental unit, not corporation organization)	-
Cathay Life Insurance Company, Ltd.	Cathay Financial Holdings Co., Ltd.	100.00%
Mega International Commercial Bank Co., Ltd.	Mega Financial Holding Company Ltd.	100.00%
CTBC Bank Co., Ltd.	CTBC Financial Holding Co., Ltd.	100.00%
TransGlobe Life Insurance Inc.	Chongweiyi Co., Ltd.	100.00%
Evergreen Steel Corp. (Note 1)	Evergreen International Corporation.	22.81%
	EVA Airways.	9.56%
	Continental Engineering Corp.	6.42%

Evergreen Steel Corp. (Note 1)	Chang Guohua	6.26%
	Chang Guoming	6.26%
	Chang Guozheng	6.26%
	Chang Yung-Fa Foundation	6.26%
	Cathay Life Insurance Co., Ltd.	3.77%
	Wei Da Development Co., Ltd.	3.21%
	TSRC Corporation	3.04%
Shin Kong Life Insurance Co., Ltd.	Shin Kong Financial Holding Co., Ltd.	100.00%
China Life Insurance Co., Ltd. (Note 2)	China Development Financial Holding Corporation	47.299%
	KGI securities	8.655%
	Videoland Inc.	2.42%
	Cathay Life Insurance Co., Ltd.	1.27%
	Ling-Lang Chan	1.24%
	Kuang-Ming Sung	0.72%
	IShares MSCI Taiwan Capped ETF	0.66%
	Chen,Shih-Chin	0.63%
	Norway Central Bank Investment Account entrusted to Citi (Taiwan) Commercial Bank	0.60%
	Pei-Ju Huang	0.60%
Taipei Fubon Commercial Bank Co., Ltd.	Fubon Financial Holding Co., Ltd.	100.00%
Ministry of Economics	None (Governmental unit, not corporation organization)	-
Northern Region Branch, National Property Administration, MOF	None (Governmental unit, not corporation organization)	-

Note 1: Based on the information of that company in August, 2020

Note 2: Based on the information of that company in April, 2021

(iv). The Professional Knowledge and Independence of the Directors and Supervisors

April 25, 2021

Condition Name	Have more than five years of work experience and the following professional qualifications			Compliance with independence (Note)												The number of other public offering companies in which he/she serves as independent director
	Lecturer or above position in the relevant department of public or private colleges and universities required for the commercial, legal, financial, accounting or corporate business.	Judges, prosecutors, lawyers, accountants or other specialized professional and technical personnel who had passed national examination and obtained certificates	Work experience required for commercial, legal, financial, accounting or corporate business	1	2	3	4	5	6	7	8	9	10	11	12	
Lu Tianlin			✓				✓		✓		✓	✓	✓	✓		-
Li Yuezong			✓	✓		✓	✓		✓	✓	✓	✓	✓	✓		-
Chen Jinming			✓	✓		✓	✓		✓	✓	✓	✓	✓	✓		-
Hsieh Hecheng			✓		✓	✓	✓		✓	✓	✓	✓	✓	✓		-
Lu Junwei			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
You Zhen-Wei			✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		-
Zheng Suhua			✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		-
Shi Guanyu			✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		-
Ke Renwei		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Huang Shizhang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Kao Jung- Chih		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note: If any member meets the following conditions during the two years prior to the election and during the term of office, please place a “✓” in the space below each condition code.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of the company or any of its affiliates. (The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.)
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under any other's name, in an aggregate amount of 1 percent or more of the total number of issued shares of the company or ranking in the top 10 in shareholding.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5 percent or more of the total number of issued shares of the company or ranks in the top 5 in shareholding.
- (6) Directors, supervisors or employees of other companies who are not controlled by the same person or more than half of the shares of the company are controlled by the same person (The same does not apply, however, in cases where concurrent independent directors of the

- company, parent company, subsidiary or subsidiary belonging to same parent company chosen under this act or location laws and regulations).
- (7) Directors (member of council), supervisors (supervisors) or employees of other companies or organizations who are not the same person or spouse with the company's chairman, general manager or equivalent (The same does not apply, however, in cases where concurrent independent directors of the company, parent company, subsidiary or subsidiary belonging to same parent company chosen under this act or location laws and regulations).
 - (8) Not a director, supervisor, managerial officer, or shareholder holding 5 percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. (The same does not apply, however, in cases where a particular company or institution holding more than 20% and less than 50% of the company's total issued shares and concurrent independent directors of the company, parent company, subsidiary or subsidiary belonging to same parent company chosen under this act or location laws and regulations).
 - (9) Not Professionals, sole proprietorships, partnerships, business owners of companies or institutions, partners, directors (member of council), supervisors (supervisors), managers and their spouses who did not provide audits for the company or related company and received no more than NTD 500,000 on business, legal, financial and accounting. The same does not apply, however, in cases where members of Salary and Remuneration Committee, Public Takeover Review Committee or Mergers and Acquisitions Special Committee who perform duties in accordance with Securities and Exchange Act or Business Mergers and Acquisitions Act.
 - (10) Not a spouse of or are related within the second degree of kinship to other managers, the directors.
 - (11) Not any of the circumstances in the subparagraphs of Article 30 of the Company Act.
 - (12) Not a director representing the agency or a juristic person or its representative based on Article 27 of the Company Act.

(v). General Manager, Assistant General Manager, Associates, Departments and Branches Officer Information

April 26, 2021

Title	Nationality	Name	Gender	Date of election (taking office)	Shares held		Shares held by spouse and minor children		Shares held under other's name		Main (education) experience	Position now concurrently served in other company	The manager is his/her spouse or a relative within the second degree of kinship			Note
					Shares	Ratio	Shares	Ratio	Shares	Ratio			Title	Name	Relation	
Chairman and General Manager	ROC	Lu, Tianlin	M	Nov.02,2016	388,752	0.289%	-	-	-	-	Master of Engineering, National Taiwan Ocean University The 6th National Non-Divisional Legislator of the Legislative Yuan Chairman of the Labor Committee of the Executive Yuan	Chairman of Taiwan Aerospace Corp. Director of Apex Flight Academy. Air Asia Company Ltd. (USA) Director · President None	None	None	None	Note 1
													None	None	None	None
Vice President of Military Aircraft Business Unit	ROC	Chao, Gaoen	M	Jan.01.2018	15,401	0.011%	-	-	-	-	Air Force Mechanical School, Mechanical Engineering Section Assistant Chief of Staff of Air Force Logistics Command Chief Specialist, Business Division, Air Asia Co., Ltd.	None	None	None	None	None
Vice President of Helicopter Business Unit	ROC	Tsai, Songling	M	Jan.01.2018	13,526	0.010%	15,288	0.011%	-	-	Master of Management, I-Shou University Director of Equipment Service Department, Army Aviation Base	None	None	None	None	None
Vice President	ROC	Gao, Jinlan	F	Jan.01.2018	48,076	0.036%	-	-	-	-	Master of Finance, Golden Gate University, San Francisco, USA Director of Finance Division, Air Asia Co., Ltd.	Air Asia Company Ltd. (USA) Treasurer	None	None	None	None
Vice President	ROC	Tsui, Renjun	M	Jan.01.2018	24,867	0.019%	-	-	-	-	Department of Applied Mathematics, Zhongzheng Institute of Technology Air Force F-16 Logistics Contact Officer Stationed in US	None	None	None	None	None
Vice President	ROC	Chao, Jinxian	M	Jan.01.2018	14,227	0.011%	-	-	-	-	Department of Political Science, National Taiwan University Leader of Songshan Supplementary Management Team of Air Asia Co., Ltd.	Air Asia Company Ltd. (USA) Director · Secretary	None	None	None	None
Vice President	ROC	Li, Zhonglin	M	Jan.01.2018	16,014	0.012%	-	-	-	-	Department of Business Administration, National Defense Management College Director of the Air Force Logistics Command Assistant General Manager, Business Division, Air Asia Co., Ltd.	None	None	None	None	None
Director of Chairman Office & Corporate Governance Officer	ROC	Huang, Chunshien	M	Nov. 04. 2020	6,736	0.005%	-	-	-	-	Department of sociology, National Chun Hsing University Manager of Planning & Marketing, Air Asia Co., Ltd.	None	None	None	None	None

Note 1: Where the chairperson of the board of directors and the general manager or person of an equivalent post (the highest level manager) of a company are the same person, spouses, or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness, necessity thereof, and the measures adopted in response thereto (i.g. increase the positions of independent directors or there should be more than half of directors who are not employees or managers in the same time):

The reason why the company's chairperson and general manager is the same person is to improve operation efficiency and execution of decision making, however, in order to strengthen the independence of board of directors, we have been actively cultivating suitable personnel for this position. In addition, the chairperson works closely with each director on the communication of company operation status and policy to carry out the governance of the company. In the future, the company may plan to increase positions of independent directors to improve the competency of board of directors and strengthen function of supervision. Currently we have actual measures as below:

1. Three of current independent directors have expertise in finance and accounting, legal and industry economy relatively, which allows efficient supervision competency.
2. The company will arrange training courses from Securities and Future Institute and other external facilities for each director to improve the operation efficiency of board of directors.
3. Independent directors can fully involve discussion and provide suggestions for reference on each functional committee to carry out the governance of the company.
4. No more than half members of the board of directors are employees or managers.

iii. Remuneration paid during the most recent fiscal year to Directors, Supervisors, General Manager, Assistant General Manager

(i). Remuneration Paid to Directors and Independent Directors

Unit: NT\$ (K)

Title	Name	Remuneration of Directors (Note 6)								The ratio of total A, B, C and D to the net profit after tax		Relevant remunertion for concurrently serves as employee								The ratio of total A, B, C, D E, F and G to the net profit after tax		Whether to receive the remuneration from the re-invested business other than subsidiary
		Wage(A)		Passion(B)		Director's bonus(C)		Business execution fee s(D)				Wage, award and special expenses, etc. (E)		Passion (F)		Employee's bonus(G) (Note 5)						
		This company	All companies in the financial report	This company	All companies in the financial report	This company	All companies in the financial report	This company	All companies in the financial report	This company	All companies in the financial report	This company	All companies in the financial report	This company	All companies in the financial report	This company		All companies in the financial report		This company	All companies in the financial report	
																Cash amount	Share amount	Cash amount	Share amount			
Chairman (Note 1)	Lu Tianlin	-	-	-	-	-	-	120	120	0.28%	0.28%	3,141	3,141	-	-	-	-	-	-	7.69%	7.69%	None
Director (Note 1)	Chen Jinming	-	-	-	-	-	-	120	120	0.28%	0.28%	-	-	-	-	-	-	-	-	0.28%	0.28%	None
Director (Note 1)	Shi Guanyu	-	-	-	-	-	-	120	120	0.28%	0.28%	-	-	-	-	-	-	-	-	0.28%	0.28%	None
Director (Note 1)	Hsieh Hecheng	-	-	-	-	-	-	120	120	0.28%	0.28%	721	721	-	-	-	-	-	-	1.99%	1.99%	None
Director (Note 1)	Lee Yueh Tsung (Note 3)							120	120	0.28%	0.28%									0.28%	0.28%	None
Director (Note 1)	You Zhen Wei (Note 4)	-	-	-	-	-	-	120	120	0.28%	0.28%	-	-	-	-	-	-	-	-	0.28%	0.28%	None
Director (Note 2)	Zheng Suhua	-	-	-	-	-	-	120	120	0.28%	0.28%	-	-	-	-	-	-	-	-	0.28%	0.28%	None
Director (Note 2)	Xu Chi Sheng (Note 5)	-	-	-	-	-	-	120	120	0.28%	0.28%	-	-	-	-	-	-	-	-	0.28%	0.28%	None
Director	Lu Junwei	-	-	-	-	-	-	-	-	0.85%	0.85%	-	-	-	-	-	-	-	-	0.85%	0.85%	None
Independent Director	Ke Renwei	360	360	-	-	-	-	-	-	0.42%	0.42%	-	-	-	-	-	-	-	-	0.42%	0.42%	None
Independent Director	Zheng Zhiyang (Note 3)	180	180	-	-	-	-	-	-	0.85%	0.85%	-	-	-	-	-	-	-	-	0.85%	0.85%	None
Independent Director	Huang Shizhang	360	360	-	-	-	-	120	120	0.28%	0.28%	3,141	3,141	-	-	-	-	-	-	7.41%	7.41%	None
Independent Director	Kao Jung- Chih (Note 4)	98	98	-	-	-	-	-	-	0.23%	0.23%	-	-	-	-	-	-	-	-	0.23%	0.23%	Nome

1. Please address in details about remuneration payment policy, system, standard and structure of Independent Directors and address in details about connections of amounts of remuneration based on factors including duties, risks, time of involvement, etc.

2. Except as disclosed in the above table, the director of company provide service to all companies in the financial report (such as consultants who are not employees): None.

Note 1: Legal representative of Taiwan Aerospace Corp.

Note 3: Resign on Jun. 30, 2020

Note 2: Legal representative of Taiwan Sugar Cop.

Note 4: Took office on Sep. 23, 2020

Note 5: On February 23, 2021, the board of directors decided to approve the payment of 2020 employees' bonus in cash for NT\$678 (K). The detail of proposed distribution amount for this year has not been approved, so the distribution amount is estimated according to the ratio of actual distribution amount last year.

Note6: Directors of the company only receive NTD 10,000 for business execution fees, as independent directors receive NTD 30,000 for regular wages. And according to Articles of Incorporation, no director's bonus paid to either directors or supervisors.

(ii). Remuneration of General Manager, Assistant General Manager

Unit: NT\$ (K)														
Title	Name	Wage(A)		Passion(B)		Award and special expenses, etc. (C)		Employee's bonus (D) (Note 1)				The ratio of total A, B, C and D to the net profit after tax		Whether to receive the remuneration from the re-invested business other than subsidiary
		This company	All companies in the financial report	This company	All companies in the financial report	This company	All companies in the financial report	This company		All companies in the financial report		This company	All companies in the financial report	
								Cash amount	Share amount	Cash amount	Share amount			
Chairman	Lu Tianlin	2,256	2,256	0	0	885	885	-	-	-	-	7.41%	7.41%	-
Vice President of Military Aircraft Business Unit	Chao Gaoen	1,771	1,771	108	108	390	390	-	-	-	-	5.36%	5.36%	
Vice President of Helicopter Business Unit	Tsai Songling	1,591	1,591	99	99	301	301	-	-	-	-	4.70%	4.70%	
Vice President	Gao Jinlan	1,411	1,411	87	87	318	318	-	-	-	-	4.29%	4.29%	
Vice President	Tsui Renjun	1,411	1,411	87	87	318	318	-	-	-	-	4.29%	4.29%	
Vice President	Chao Jinxian	1,411	1,411	87	87	271	271	-	-	-	-	4.17%	4.17%	
Vice President	Li Zhonglin	1,591	1,591	99	99	301	301	-	-	-	-	4.70%	4.70%	
Director of Chairman Office & Corporate Governance Officer (Note 2)	Huang, Chunshien	86	86	10	10	193	193	-	-	-	-	0.68%	0.68%	

Note 1: On February 23, 2021, the board of directors decided to approve the payment of 2020 employees' bonus in cash for NT\$678 (K). The detail of proposed distribution amount for this year has not been approved, so the distribution amount is estimated according to the ratio of actual distribution amount last year.

Note 2: Took office on Nov. 04, 2020

(iii).The name of managers who participate in the distribution of employees' bonus and the distribution situation

April 26, 2021

Unit NT\$ (K)

	Title	Name	Cash amount	Share amount	Total	The ratio of total to the net profit after tax(%)
Managers	General Manager	Lu Tianlin	-	-	-	-
	Vice President of Military Aircraft Business Unit	Chao Gaoen				
	Vice President of Helicopter Business Unit	Tsai Songling				
	Vice President	Gao Jinlan				
	Vice President	Tsui Renjun				
	Vice President	Chao Jinxian				
	Vice President	Li Zhonglin				
	Director of Chairman Office & Corporate Governance Officer	Huang, Chunshien				

Note: On February 23, 2021, the Board of Directors decided to approve the payment of 2020 employees' bonus in cash for NT\$678 (K). The detail of proposed distribution amount for this year has not been approved, so the distribution amount is estimated according to the ratio of actual distribution amount last year.

(iv).Compare and analyze the total remuneration as a percentage of net income stated in the parent company only financial reports or individual financial reports, paid by this company and by all consolidated entities (including this company) for the most recent 2 fiscal years to each of this company's directors, supervisors, general managers, and assistant general managers, and describe the policies, standards, and packages for payment of remuneration, the procedures for determining remuneration, and its linkage to business performance and future risk exposure.

1. Analysis of the total remuneration as a percentage of net income stated in the parent company only financial reports or individual financial reports, paid by this company and by all consolidated entities (including this company) for the most recent 2 fiscal years to each of this company's directors, supervisors, general managers, and assistant general managers

Unit NT\$ (K)

Title	2019			2020		
	Total remuneration	Net income	Percentage	Total remuneration	Net income	Percentage
Director	2,030	45,011	4.51%	1,958	42,388	4.62%
General managers, and assistant general managers	14,891		33.08%	15,083		35.59%
Total	16,921	45,011	37.59%	17,041	42,388	40.20%

Note: The Company established the Audit Committee on December 17, 2012 to replace the supervisor's authority, so there is no supervisor's remuneration.

2. Policies, standards, and packages for payment of remuneration, the procedures for determining remuneration, and its linkage to business performance and future risk exposure.

The remuneration of the Company's Directors and Independent Directors is governed by the Company's Articles of Association and the Company's "Regulations Governing the Remuneration of Directors and Managers," which only pays regular transportation expenses with no extra directors or supervisors' bonus.

The remuneration of the Company's Chairperson is governed by the Company's Articles of Association and the Company's "Regulations Governing the Remuneration of Directors and Managers." In addition to regular salary, year-end bonus will be given based on financial performance indicators, talent cultivation status, quality and risk control performance result. If any special contribution is performed, it will be reviewed by Remuneration Committee and reported to Board of Directors for bonus.

The remuneration of General Manager is governed by the Company's "Regulations Governing the Remuneration of Directors and Managers" The amount of the remuneration of the managers of the company shall take into account the general pay levels in the industry, the time spent by the individual and their responsibilities, the extent of goal achievement, their performance in other positions, and the compensation paid to employees holding equivalent positions in recent years. Also to be evaluated are the reasonableness of the correlation between the individual's performance and this company's operational performance and future risk exposure, with respect to the achievement of short-term and long-term business goals and the financial position of this company, then the Remuneration Committee shall review the result according to the "Regulations Governing the Remuneration of Directors and Managers" and submit it to for the resolution of Board of Directors.

iv. Corporate Governance Status

(i). Operation Status of Board of Directors

The board of directors has held 6 meetings in the most recent year, the attendance of the directors is as follows:

Title	Name	Actual attendance (sit in) to meeting	Attendance by proxy	Actual attendance to meeting (%)	Remark
Chairman	Lu Tianlin (Note 1)	6	0	100%	Shall attend 6 times.
Director	Chen Jinming (Note 1)	4	2	67%	Shall attend 6 times.
Director	Hsieh Hecheng (Note 1)	6	0	100%	Shall attend 6 times.
Director	Shi Guanyu (Note 1)	6	0	100%	Shall attend 6 times.
Director	Lee Yueh Zhong (Note 1)	6	0	100%	Shall attend 6 times.
Director	Zheng Suhua (Note 2)	5	1	84%	Shall attend 6 times.
Director	You Zhen Wei (Note 2)	4	2	67%	Shall attend 6 times.
Director	Lu Junwei	6	0	100%	Shall attend 6 times.
Independent Director	Ke Renwei	6	0	100%	Shall attend 6 times.
Independent Director	Zheng Zhiyang	3	0	100%	Dismissed on June 30, 2020. Shall attend 3 times.
Independent Director	Huang Shizhang	6	0	100%	Shall attend 6 times.
Independent Director	Kao Jung- Chih	2	0	100%	Elected on September 23, 2020. Shall attend 2 times.

Other items to be recorded:

- i. The Board of Directors shall state the board meeting's date, period, content of the proposal, and the opinions of all independent directors and the company's treatment on the independent director's opinion if any of the following circumstances occurs.
 - (i). Matters listed in Article 14-1 of the Securities and Exchange Act
The Company has set up the Audit Committee according to law, in accordance with Paragraph 1, Article 14-5 of the Securities and Exchange Act, the regulation of Article 14-3 of the same act is not applicable.
 - (ii). Except the foregoing matters, other resolution of board of directors on which an independent director has a dissenting or qualified opinion which is on record or stated in a written statement.
The independent directors of this company have no dissenting or qualified opinion on various proposals of the meetings of Board of Directors in 2019.
- ii. For the Director's recusal to the proposal with interest, the name of the director, the content of the proposal, the reasons for recusal and the participation in the voting shall be stated
 - (i). The 10th Board of Directors' meeting of the 8th Session on Feb. 29, 2020
 1. Name of director: Chairman, Lu Tianlin
 2. Content of the proposal: 2019 Year-End bonus Recommendations for Chairman and managers.
 3. Reasons for recusal and the participation in the voting
Chairman Lu Tianlin recused the meeting due to conflict of interest and avoided the discussion and resolution. The version of proposal revised by the Remuneration Committee and was unanimously approved by all attending directors.
 - (ii). The 15th Board of Directors' meeting of the 8th Session on December 23, 2020
 1. Name of director: Chairman, Lu Tianlin
 2. Content of the proposal: 2020 Year-End bonus Recommendations for Chairman and managers.
 3. Reasons for recusal and the participation in the voting
Chairman Lu Tianlin recused the meeting due to conflict of interest and avoided the discussion and resolution. The version of proposal revised by the Remuneration Committee and was unanimously approved by all attending directors.

Note 1: Legal representative of Taiwan Aerospace Corp.

Note 2: Legal representative of Taiwan Sugar Cop.

iii. TWSE/ORC listed company should disclose self valuation cycle, period, evaluation range, method and evaluation contents of Board of Directors. The evaluation is listed as below:

The Company has established the performance evaluation system of the Board of Directors. The Board of Directors also approved the performance evaluation methods of the Board of Directors to elevate the operating function of the Board of Directors. The internal performance evaluation of the Board of Directors is carried out once a year; the external performance evaluation is carried out once in three years by an external professional independent organization or a team of external experts and scholars.

1. Please find below the content regarding the internal performance evaluation of the directors in 2020 of the Company, after evaluation, the result of evaluation in 2020 is defined as “Good.”)

Evaluation Cycle	Evaluation Period	Evaluation Range	Evaluation Method	Evaluation Contents
Annual	Evaluation on performance of Board of Directors from Jan 1 st to Dec 31 st , 2020	Performance evaluation of The Board Individual Directors, Individual Board members and Functional committee	Self-assessment on Board operations, self-assessment on Board members, and self-assessment on functional committees.	(i). Performance evaluation on Board of Directors: Involvement of company operation, decision-making quality, composition and structure, election and continuation study and internal control. (ii). Performance evaluation on directors (self or peer): control of company goal and mission, recognition of director's duty, involvement of company operation, management and communication of internal relationships, profession of a director and continuation study and internal control. (iii). Performance evaluation on functional committee: involvement of company operation, recognition of the duty, decision-making quality, composition and member election and internal control.

2. In August 2020, the Company appointed KPMG Advisory Services Co Ltd for the external performance evaluation of the Board of Directors (duration 2020/1~2020/12). KPMG and its executive experts have no business relationship with the Company, and consequently own its independence. The content of the evaluation included the establishment of efficient Board of Directors, the efficient operation of the Board of Directors, professional development and further studies, corporate forecast, duty fulfillment, the management of operation level, the creation of company culture, the communications with stakeholders, the evaluation of performance, in total 9 aspects. The assessment is carried out by three means: survey, data analysis and interview. KPMG Advisory Services Co Ltd handed in the report of the performance evaluation of the Board of Directors on January 5, 2021, which is included in the report to board meeting on February 23, 2021. Please find below the conclusion of general comment:

The Board of Directors of the Company has formulated relevant policies and procedures according to relevant decrees and domestic indicators of corporate governance, and the Board of Directors consists of directors with relevant professions and competencies, properly distribute work according to their experience in order to effectively put into effects relevant functions of the Board of Directors and Functional Committee. The result of overall evaluation is “between common and good”. During the process of evaluation, it is discovered that there is still room for optimization of the professional development, further studies and the management of operation level in the nine aspects of evaluation for the Board of Directors, as well as the professional development and further studies in the six aspects of evaluation for the members of the Board of Directors. Relevant advice is listed below as the references to the planning of improvement in decision-making. In the meantime, the Company drew up responses to the improvement below:

The Advice on Optimization	The Responses to Future Improvement in the Company
Investigate the demand and advice of further studies for the directors, and consider the industry features of the Company, the change of decrees and the overall direction of development to plan professional further studies for the directors, in order to assist directors in exerting functions. In addition, consider helping directors with learning by means of home/video simultaneous training.	1. Expect to provide continuous development plan for directors in order to effectively assist directors in strengthening their knowledge and skills. 2. Expect to provide continuous development plan for directors in order to effectively assist directors in strengthening their knowledge and skills.
Concerning the successor plan of members of the Board of Directors and the management team, advise to include the mid to long term analysis of talent demand, the development plan of internal talents and the election plan of external talents. Consider seeking external experts in human resource for relevant design and advice of talent development, optimization the link between performance evaluation and remuneration.	1. Expect to provide continuous development plan for directors in order to effectively assist directors in strengthening their knowledge and skills. 2. In 2021, the successor plan has been included as one item of the performance evaluation for managers.
Due to the fact that currently the chairman functions as the general manager, with references to the 3.0 blueprint of sustainable governance regarding corporate governance, in the future will gradually promote that the seats of listed company independent directors should not be less than 1/3 of the director seats, advise the Company to increase the seat of independent directors.	In 2021 the Board of Directors expects a thorough election, will comply with the 3.0 planning of corporate governance, increasing the seats of independent directors to 4, which will hit the target of exceeding 1/3 of the director seats.

iv. Goal to strengthen competency of Board of Directors of the current year and the most recent year (i.g. composition of audit committee and increase of information transparency) and evaluation execution status.

- i). The company has composited Audit Committee and Remuneration Committee and also assigned personnel to disclose information of online declaration operation, company info collection and disclosure to ensure info that may affect decision-making of shareholders and stakeholders can be disclosed properly and timely.
- ii). The company has set up regulation for Board of Directors performance evaluation and method.
- iii). The 2020 average attendance rate of directors has decreased from 92.3% to 90%, comparing to 2019. The company will keep planning meeting time and invite directors to participate in the video conference, to increase the attendance rate.
- iv). Since each director is busy with business and hard to schedule time for refresher courses, the company will arrange 2021 courses earlier for directors to acquire related information more conveniently and keep the core value and advantages and ability of profession.
- v). Since the company is in aviation maintenance industry, which is special, and directors are re-elected every year, the company will improve the explanation with newly-elected directors to help them understand duties, the company's characteristic and risk so that directors will be able to make professional and proper judgements for company's operation.
- vi). Currently the Company schedules 4 communication meetings for accountants and independent directors on an annual basis. The accountants also participate in the board meeting 4 times per year. From 2021 on, directors will be invited to join the communication meetings so that directors and accountants can exchange opinions and interact adequately.
- vii). At present the chairman functions as the general manager. To comply with the strategies and the goals of new corporate governance blueprint, the Company will add independent directors up to 4 seats in the comprehensive election of directors in 2021, and strengthen the formulation of the company succession plan.

(ii). Operation Status of Audit Committee

The audit committee of the company consists of three independent directors. The audit committee is designed to assist the board of directors in fulfilling the quality and integrity of the company in supervising the accounting, auditing, financial reporting process and financial control. The main considerations include auditing of financial statements and accounting policies and procedures, internal control systems and related policies and procedures, raising funds or issuing securities, legal compliance, information security, corporate risk management, qualifications, independence and performance assessment of CPA, appointment, dismissal or remuneration of CPA and self-assessment questionnaire of audit committee assessment appraisal.

The Audit Committee has held 6 meetings in the most recent year, the attendance of the independent directors is as follows:

Title	Name	Actual attendance to meeting	Attendance by proxy	Actual attendance (sit in) meeting (%)	Remark
Independent Directors	Ke Renwei	6	0	100%	shall attend 6 times
	Zheng Zhiyang	3	0	100%	Dismissed on June 30, 2020. Shall attend 3 times.
	Huang Shizhang	6	0	100%	shall attend 6 times
	Kao Jung- Chih	2	0	100%	Elected on September 23, 2020. Shall attend 2 times.

Other items to be recorded:

- i. The operation of the Audit Committee shall state the board meeting's date, period, content of the proposal, resolution of Audit Committee and the company's opinion on resolution of Audit Committee if any of the following circumstances occurs.

(i). Matters listed in Article 14-5 of the Securities and Exchange Act

1. The 10th Board of Directors' meeting of the 8th Session on February 20, 2020, reviewed the proposal of this company's 2020 Business report, financial statements and consolidated financial statements. After review of the 10th Audit Committee meeting of the 3rd Session on February 20, 2020, the proposal as proposed was unanimously approved by the all attending independent directors. The treatment of this company to the opinion of audit committee: Report to Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.
2. The 11th Board of Directors' meeting of the 8th Session on March 26, 2020, reviewed the proposal of this company's 2019 "Internal control statement". After review of the 11th Audit Committee meeting of the 3rd Session on March 26, 2020, the proposal as proposed was unanimously approved by the all attending independent directors. The treatment of this company to the opinion of audit committee: Report to Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.
3. The 11th Board of Directors' meeting of the 8th Session on March 26, 2020, reviewed the proposal of this company's "Internal control statement". After review of the 11th Audit Committee meeting of the 3rd Session on March 26, 2020, the proposal as proposed was unanimously approved by the all attending independent directors. The treatment of this company to the opinion of audit committee: Report to Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.
4. The 13th Board of Directors' meeting of the 8th Session on August 5, 2020, reviewed the proposal of this company's "Internal control statement". After review of the 13th Audit Committee meeting of the 3rd Session on August 5, 2020, the proposal as proposed was unanimously approved by the all attending independent directors. The treatment of this company to the opinion of audit committee: Report to Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.

5. The 15th Board of Directors' meeting of the 8th Session on December 23, 2020, reviewed the proposal of 2021 annual audit plan. After review of the 15th Audit Committee meeting of the 3rd Session on December 23, 2020, the revised proposal suggested by the Independent Director, Ke was approved by the all attending independent directors. The treatment of this company to the opinion of audit committee: Report to the Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by the all attending directors and substitute directors based on suggestion of the Audit Committee. (ii). Except the foregoing matters, other resolution not be approved by the audit committee but approved by more than two-thirds of all directors: None.
ii. For the Independent Director's recusal to the proposal with interest, the name of the independent director, the content of the proposal, the reasons for recusal and the participation in the voting shall be stated: none. iii. Communication between independent directors and internal audit supervisors and CPA (shall include important matters, methods and results of communication on the company's financial and business conditions) (i). The audit supervisor submits an audit report to the independent directors in the month following the completion of the audit items. The independent directors have no objections. (ii). The independent director has no objection to the audit report of the audit supervisor. (iii). The audit supervisor will report the audit plan for the next year before the end of each fiscal year, and report it to the board of directors for resolution after being approved by the audit committee. (iv). The Company has provided contact telephone numbers and email addresses between independent directors (members of the Audit Committee) and internal audit supervisors for direct contact and communication each other. The audit supervisors of the company shall sit in each audit report of the board of directors and consult the independent directors (members of the audit committee). (v). The company's annual internal control effectiveness assessment and internal control statement shall be submitted to the Audit Committee for review. (vi). The annual financial report and semi-annual financial report of the company shall be submitted to the board of directors for resolution after approval by more than one-half of all members of the audit committee. Prior to the review of the financial report, the Audit Committee will discuss and communicate with the CPA in advance about the results of the audit.

(iii). The Difference Situation and Reason between Corporate Governance Operation Situation and Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies
	Y	N	Summary	
i. Does this company promulgate and disclose its own Rules for Corporate Governance Practice according to the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and review the implementation effectiveness?	V		This company has promulgated "Rules for Corporate Governance Practice" and disclose it on the Market Observation Pose System and the website of this company.	No significant difference
ii. Company shareholding structure and shareholders' equity (i) Does the company have an internal operating procedure to deal with shareholder's suggestions, doubts, disputes and litigation matters, and implement it according to procedures?	V		(i) The company has a spokesperson and agency spokesperson system to properly handle issues such as shareholder's suggestions, doubts, disputes, etc., it involves in litigation matters, all of them shall be handled by hired legal counsel.	No significant difference

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies																																																																																	
	Y	N	Summary																																																																																		
(ii) Does this company retain a register of major shareholders who own a relatively high percentage of shares and have controlling power, and of the persons with ultimate control over those major shareholders?	V		(ii) We have good relationship with major shareholders and may retain a register of major shareholders who own a relatively high percentage of shares and have controlling power, and of the persons with ultimate control over those major shareholders, and report the shared held by directors, supervisors and major shareholders according to the regulation of the Securities and Exchange Act.	No significant difference																																																																																	
(iii) Does the company establish, implement, and manage risk management and firewall mechanisms between affiliated enterprises?	V		(ii) The Company has established the “Regulations on the Management of Group enterprises, Specific Companies and stakeholders” and other internal control and internal audit rules for supervising the subsidiaries.	No significant difference																																																																																	
(iv) Does the company have internal regulations that prohibit insiders from using information not unpublished in the market to buy and sell securities?	V		(i) The Board of Director approved “the Operational Procedures for Handling Material Information and Preventing Insider Trading”. It states that “directors, supervisors, managers and other employees shall not involve in any transaction of the Company’s stock or any other forms of security”.	No significant difference																																																																																	
iii. Composition and duties of the Board of Directors																																																																																					
(i) Does the formation of Board of Directors come from a diversified policy and such policy has been implement?	V		(i) According to the operation points of corporate governance and the procedure of director election at the Company, the election of directors at the Company must consider the overall arrangement of the Board of Directors. The members of the Board of Directors must be equipped with knowledge, skills and literacy required by the duty execution. The overall abilities must include abilities of operation judgment, accounting and finance analysis, operation management, crisis handling, industry knowledge, prospective of international market, leadership and decision-making. Please find below the relevant assessment and refer to company website for details. <table><tr><th>Title</th><th>Name</th><th>Gender</th><th>Industry Knowledge</th><th>Finance and Accounting</th><th>Practice of Law</th><th>Operation Management & Operation Judgment</th><th>Leadership decision</th><th>Crisis management & international market outlook</th></tr><tr><td>Chairman</td><td>Tian-Lin Lu</td><td>M</td><td>✓</td><td></td><td>✓ (Labor)</td><td>✓</td><td>✓</td><td>✓</td></tr><tr><td>Director</td><td>Jin-Ming Chen</td><td>M</td><td>✓</td><td></td><td></td><td>✓</td><td>✓</td><td>✓</td></tr><tr><td>Director</td><td>Yueh-Tzong Lee</td><td>M</td><td></td><td></td><td>✓ (Labor)</td><td>✓</td><td>✓</td><td></td></tr><tr><td>Director</td><td>Guan-Yu Shih</td><td>M</td><td>✓</td><td>✓</td><td></td><td>✓</td><td>✓</td><td>✓</td></tr><tr><td>Director</td><td>He-Chen g Hsieh</td><td>M</td><td>✓</td><td></td><td></td><td>✓</td><td></td><td></td></tr><tr><td>Director</td><td>Su-Hua Zheng</td><td>F</td><td></td><td></td><td>✓ (Labor)</td><td>✓</td><td>✓</td><td></td></tr><tr><td>Director</td><td>Zhen-Wei i Yu</td><td>M</td><td></td><td></td><td></td><td>✓</td><td>✓</td><td>✓</td></tr><tr><td>Director</td><td>Jun-Wei Lu</td><td>M</td><td>✓</td><td>✓</td><td></td><td>✓</td><td>✓</td><td>✓</td></tr></table>	Title	Name	Gender	Industry Knowledge	Finance and Accounting	Practice of Law	Operation Management & Operation Judgment	Leadership decision	Crisis management & international market outlook	Chairman	Tian-Lin Lu	M	✓		✓ (Labor)	✓	✓	✓	Director	Jin-Ming Chen	M	✓			✓	✓	✓	Director	Yueh-Tzong Lee	M			✓ (Labor)	✓	✓		Director	Guan-Yu Shih	M	✓	✓		✓	✓	✓	Director	He-Chen g Hsieh	M	✓			✓			Director	Su-Hua Zheng	F			✓ (Labor)	✓	✓		Director	Zhen-Wei i Yu	M				✓	✓	✓	Director	Jun-Wei Lu	M	✓	✓		✓	✓	✓	No significant difference
Title	Name	Gender	Industry Knowledge	Finance and Accounting	Practice of Law	Operation Management & Operation Judgment	Leadership decision	Crisis management & international market outlook																																																																													
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Evaluation items	Operation situation										The Difference Situation and Reason to Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Y	N	Summary								
(ii) Does the company voluntarily set up other functional committees besides setting up the remuneration committee and the audit committee according to law?	V		Independent Director	Ren-Wei Ke	M		✓		✓	✓	No significant difference
			Independent Director	Rong-Zhi Kao	M			✓	✓	✓	
(iii) Does the company have a board performance assessment method and its assessment method, and conduct performance assessment and report the assessment to Board of Directors with using it as reference for remuneration and nomination of independent directors every year and regularly?	V		Independent Director	Shi-Zhang Huang	M	✓	✓		✓	✓	No significant difference
Regarding the age of directors at the Company, 4 are between 60 and 70, 2 are between 50 and 60, 5 are 50 and under. The nomination and election of the members of the Board of Directors at the Company abide by company regulations, adopting the system of candidate nomination. Apart from the evaluation of candidate education, experience and qualification, consult stakeholders and comply with “The Method of Director and Supervisor Election” and “The Principles of Corporate Governance” to ensure the diversity and independence of the members of the Board of Directors. The Company has drawn up the guidelines for the diversity of the members of the Board of Directors as per the need of company operation, the type and development of operation, etc. 1. At least one female director: at present the Company has hit the target by electing 1 female director, which accounts for 9% of the entire members of the Board of Directors. 2. None of the consecutive term of independent directors exceeds 9 years, to ensure the independence and transparency of the operation of the Board of Directors: at present none of the consecutive term of independent directors exceeds 6 years, and the age is between 35 and 50. 3. Plan to increase the seat of independent directors from the previous 3 to 4, hoping to give more advice to operation and management through the knowledge, personal insight and business judgment of independent directors from different fields and backgrounds: the Company expects to increase the nomination of independent directors in the thorough reelection of the Board of Directors of 2021 so as to hit the target. The diversification of the board of directors is also disclosed on the company's official website.											
(ii) The Company has set up an audit committee and a remuneration committee. In the future, other functional committees will be added depending on the company's operating conditions and related laws and regulations. (ii) The company has established a performance assessment method for the board of directors and its assessment methods, and conducts performance assessment on a regular basis every year. The company reports the assessment to the board of directors every year and regularly.											

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies
	Y	N	Summary	
(iv) Does the company regularly assess the independence of visa accountants?	V		(i) The company regularly evaluates the independence and competence of CPA and submits it to the board of directors on Feb. 23, 2021 for deliberation and approval. The CPA firm also issued an "Independence Statement".	No significant difference
iv. Whether the TWSE/TPEX Listed Companies have set up a corporate governance designated (part-time) unit or personnel responsible for corporate governance related matters (including but not limited to providing information required by directors and supervisors to conduct business, handling matters related to the board of directors' and shareholders' meeting, handling company registration and change registration, production of meeting minutes of the board of directors' and shareholders' meeting, etc.)?	V		On November 4, 2020 through the approval of the Board of Directors, appointed Supervisor Jun-Hsien Huang from Chairman Office to be the manager of corporate manager, strengthen the functions of the Board of Directors and guarantee the interests of shareholders. Supervisor Jun-Hsien Huang has 3-year experience in the affairs related to corporate governance regarding the Board of Directors and shareholder meetings at the Company, meeting the qualification of corporate governance manager in Article 23 of the rules in the arrangement of listed company directors and duty exercise, also not holding any other concurrent posts at the Company. The main duties of corporate governance manager at the Company include carrying out affairs related to meetings of the Board of Directors and shareholders, producing minutes of board meetings and shareholder meetings, assisting directors in taking office and continuing with further studies, providing directors with information required by business execution, assisting directors in complying with decrees, etc. Please find below the situation of business execution regarding corporate governance in 2020: 1. Assist independent directors and directors in executing duties, provide necessary information and arrange to continue with further studies: (1) Provide members of the Board of Directors with information upon taking office, specifically regulations related to corporate governance and essential rules regarding the area of company operation, and irregularly provide updated information regarding latest decree amendment, etc. (2) Provide directors with company information when required, maintaining the flow of communications between board members and the department of managers. (3) Assist directors with arranging relevant individual meetings with internal audit managers or certified public accountants so as to understand the business demand for company finance according to the code of practice concerning corporate governance. (4) According to the industry feature of the Company and directors needs, assist directors with annual refresher courses and course arrangement. 2. Assist with the procedures of board meetings and shareholder meetings along with resolutions in compliance: (1) Report the operation situation of corporate governance at the company in board meetings, ensure company shareholder meetings and board meetings meet relevant laws and the code and standard of corporate governance. (2) Assist directors with complying with duty exercise in Company Act, Securities and Exchange Act and other	No significant difference

Evaluation items	Operation situation					The Difference Situation and Reason to Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies																														
	Y	N	Summary																																	
			relevant regulations while executing business or coming to board resolutions, precisely avoid his/her participation in board meeting motions related to his/her own interests. (3) Take responsibilities of checking the release of important news regarding the essential resolutions of shareholder meetings and board meetings, ensuring the legitimacy and correctness of the content of important news, in order to guarantee the information equivalence of investor trading. 3. Notify directors of the scheduled board meeting 7 days before, convene meetings and provide meeting materials. Notify the director(s) beforehand in case the motion requires interest avoidance, complete the minutes of board meeting within 20 days after the meeting. 4. Carry out preregistration of the date of shareholder meetings, create meeting notifications, meeting agendas and minute books and carry out the announcement within the statutory period, carry out change of company registration in case of by-laws amendment or director reassignment or reelection. Please find below the situation of refresher training in 2020: <table><tr><th colspan="2">Date of Training</th><th rowspan="2">Organizer</th><th rowspan="2">Course</th><th rowspan="2">Training hours</th><th rowspan="2">Total training hours in the current year</th></tr><tr><th>From</th><th>To</th></tr><tr><td>11/12</td><td>11/12</td><td>Accounting Research and Development Foundation</td><td>Competent authority “assists company in elevating abilities of financial report self-editing” Policy Analysis and Management Practice of Internal Control</td><td>6</td><td rowspan="4">18</td></tr><tr><td>11/13</td><td>11/13</td><td>Accounting Research and Development Foundation</td><td>Latest Policy Analysis of Corporate Governance and Establishment of “Corporate Governance Personnel” Compliance Practice of Audit</td><td>6</td></tr><tr><td>11/25</td><td>11/25</td><td>Accounting Research and Development Foundation</td><td>The Investigation and Case Study of Relevant Legal Liability in The Malfeasance of Financial Reports “Fund Flow”</td><td>3</td></tr><tr><td>12/03</td><td>12/03</td><td>Accounting Research and Development Foundation</td><td>The Case Study and Legal Liability Discussion of “Securities Fraud of Surrogate QFIIs”</td><td>3</td></tr></table>				Date of Training		Organizer	Course	Training hours	Total training hours in the current year	From	To	11/12	11/12	Accounting Research and Development Foundation	Competent authority “assists company in elevating abilities of financial report self-editing” Policy Analysis and Management Practice of Internal Control	6	18	11/13	11/13	Accounting Research and Development Foundation	Latest Policy Analysis of Corporate Governance and Establishment of “Corporate Governance Personnel” Compliance Practice of Audit	6	11/25	11/25	Accounting Research and Development Foundation	The Investigation and Case Study of Relevant Legal Liability in The Malfeasance of Financial Reports “Fund Flow”	3	12/03	12/03	Accounting Research and Development Foundation	The Case Study and Legal Liability Discussion of “Securities Fraud of Surrogate QFIIs”	3	
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v. Does the company establish communication channels with stakeholders (including but not limited to shareholders, employees, customers and suppliers), set up stakeholder areas on the company's website, and respond appropriately to important corporate social responsibility issues that stakeholders concern?	V		The company has a spokesperson and its agent system. It discloses the contact telephone number of the spokesperson at the MOPS. It also has a smooth communication channel for employees and exposes relevant information on the website of the TWSE to ensure that stakeholders have sufficient information for their judgement in protection of their rights and interests.				No significant difference																													

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Y	N	Summary	
vi. Does the company appoint a professional stock agency to handle the affairs of the shareholders' meeting?	V		The company has appointed a professional stock agency to handle the affairs of the shareholders' meeting.	No significant difference
vii. Disclosure of information				
(i) Does the company set up a website to expose financial business and corporate governance information?	V		(i) The website of this company: http://www.airasia.com.tw ; Further, the other relevant information is uniformly published in the MOPS.	No significant difference
(ii) Does the company adopt other methods of information disclosure (such as setting up an English website, designating a person to be responsible for collecting and exposing company information, implementing a spokesperson system, and placing the process of institutional investor conferences on the company's website)?	V		(ii) The company has a designated person responsible for exposing the collection of information and implementing the spokesperson system.	No significant difference
(iii) Does the company disclose and declare annual financial report within 2 months after the end of the fiscal year and also disclose and declare financial report of Q1 to Q3 and operation status of every month before regulated deadline?			(iii) The company has disclosed and declared annual financial report within 2 months after the end of the 2019 fiscal year and also disclosed and declared financial reports of Q1 to Q3 and operation status of every month with the regulated deadline.	No significant difference
viii. Does the company have other important information that helps to understand the operation of corporate governance (including but not limited to employee's rights, care for employees, investor relations, supplier relations, stakeholder rights, directors' and supervisors' in-service training, , implementation of risk management policies and risk metrics, implementation of customer policies, company's purchase of liability insurance for directors and supervisors, etc.)?	V		(i) Employee's rights: The company attaches great importance to the rights and interests of employees and strives for a harmonious labor-management relationship. In addition to regular labor-management meetings, the company sends representatives to participate in the board of directors' or supervisors' meeting and labor-management meetings convened by the union, and fully communicates with the labor representatives; on major labor issues, the company will first to listen to union's opinions, in order to reach a consensus, to ensure the harmonious relationship between labor and management and to reach the sustainable development of enterprises. (ii) Care for employees For employee welfare measures, please refer to the description of "Labour Relations" on page 86~87 of this annual report. (iii) Investor relations The Company will promptly announce relevant information on the website of the MOPS in accordance with relevant regulations. The company also has a spokesperson, an acting spokesperson and stock affair specialists to answer the questions of the company at any time to maintain the good relationship with investors.	No significant difference No significant difference No significant difference

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies
	Y	N	Summary	
			(iv) Supplier relations: For the company's procurement and contract operations, the main spirit is to create a fair competition field, looking for good manufacturers, in order to purchase at a reasonable price. (v) Stakeholder rights In addition to continually improving our skill and capability, this company also pursues good business performance and strives to achieve the mission of "care for employees, serve customers, and feedback to shareholders". Therefore, it has a promise for proper care shareholder, customers, suppliers, employees and society. Report will be sent to Board of directors to explain execution status of communications with stakeholders. The company website consists of "Stakeholder Section" and other diversified communication channels so as to respond to every sort of stakeholder appeal and expectation properly and effectively. (vi) Director and supervisor's training situation: The directors and independent directors of the Company have professional background and experience in management practices, and regularly arrange appropriate refresher courses for directors and make them publicly available at MOPS. (vii) Implementation of risk management policies and risk metrics: The Company laid down "The Policies and Procedures of Risk Management" in December, 2020, report relevant items of risk management and resolutions to the Board of Directors and the Audit Committee every quarter. (viii) Implementation of customer policies: The company adheres to the principle of good faith operation, maintains a good supply relationship with customers, strengthens contact with customers, and properly arranges the entry schedule and delivery schedule of customers' aircraft, engines and components.	No significant difference No significant difference No significant difference No significant difference No significant difference
			(ix) Company's purchase of liability insurance for directors and supervisors: The directors of the company exercise their powers in accordance with the law during their term of office and this company has purchase liability insurance for all directors.	No significant difference
ix. Please explain the improvement of the company's corporate governance assessment results released by the Corporate Governance Center of the Taiwan Stock Exchange Co., Ltd. in the past years, and propose priorities and measures for those who have not yet improved (companies not in the list to be assessed may be exempted from this item): The result of "The Assessment of Corporate Governance" in 2020 of the Company is company of 5%~20%, scoring 84 points and better than company of 21%~35% in 2019. Later we will strive to improve the successor plan of essential management level along with the business explanation of corporate governance. The measures of improvement: has included the successor plan of essential management level in the tracing report in the board meetings in 2021, and explained the successor plan of directors and management level in the annual report of 2020, disclosing relevant affairs of corporate governance, the executive focus as well as the situation of refresher trainings.				

(iv). Remuneration Committee

1. Members of remuneration committee

Type of identity (Note 1)	Condition Name	Have more than five years of work experience and the following professional qualifications			Compliance with independence (Note 2)										The number of other public offering companies in which he/she serves as members of remuneration committee	Remark
		Lecturer or above position in the relevant department of public or private colleges and universities required for the commercial, legal, financial, accounting or corporate business.	Judges, prosecutors, lawyers, accountants or other specialized professional and technical personnel who had passed national examination and obtained certificates	Work experience required for commercial, legal, financial, accounting or corporate business	1	2	3	4	5	6	7	8	9	10		
Independent director	Ke Renwei		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	None
Independent director	Huang Shizhang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	None
Independent director	Kao Jung- Chih		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	None

Note 1: Please fill in director, independent director or other in the column of Type of identity.

Note 2: If any director or supervisor meets the following conditions during the two years prior to the election and during the term of office, please place a “✓” in the space below each condition code.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under any other's name, in an aggregate amount of 1 percent or more of the total number of issued shares of the company or ranking in the top 10 in shareholding.
- (4) Not manager of (1) or not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs of (2) and (3).
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5 percent or more of the total number of issued shares of the company or ranks in the top 5 in shareholding.
- (6) Directors, supervisors or employees of other companies who are not controlled by the same person or more than half of the shares of the company are controlled by the same person (The same does not apply, however, in cases where concurrent independent directors of the company, parent company, subsidiary or subsidiary belonging to same parent company chosen under this act or location laws and regulations).
- (7) Directors (member of council), supervisors (supervisors) or employees of other companies or organizations who are not the same person or spouse with the company's chairman, general manager or equivalent (The same does not apply, however, in cases where concurrent independent directors of the company, parent

company, subsidiary or subsidiary belonging to same parent company chosen under this act or location laws and regulations).

- (8) Not a director, supervisor, managerial officer, or shareholder holding 5 percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. (The same does not apply, however, in cases where a particular company or institution holding more than 20% and less than 50% of the company's total issued shares and concurrent independent directors of the company, parent company, subsidiary or subsidiary belonging to same parent company chosen under this act or location laws and regulations).
- (9) Not Professionals, sole proprietorships, partnerships, business owners of companies or institutions, partners, directors (member of council), supervisors (supervisors), managers and their spouses who did not provide audits for the company or related company and received no more than NTD 500,000 on business, legal, financial and accounting. The same does not apply, however, in cases where members of Salary and Remuneration Committee, Public Takeover Review Committee or Mergers and Acquisitions Special Committee who perform duties in accordance with Securities and Exchange Act or Business Mergers and Acquisitions Act.
- (10) Not been a person of any conditions defined in Article 30 of the Company Act.

2. Remuneration Committee Operation Information

(1) There are 3 members in the remuneration committee of this company.

(2) Term of members in this session: June 11, 2018 to June 10, 2021. There were 5 meetings in the most recent year. The qualifications and attendance of the members are as follows:

Title	Name	Actual attendance (sit in) to meeting	Attendance by proxy	Actual attendance to meeting (%)	Remake
Convener	Ke Renwei	4	0	100%	Shall attend 4 times.
Member	Zheng Zhiyang	3	0	100%	Dismissed on June 30, 2020. Shall attend 3 times.
Member	Huang Shizhang	4	0	100%	Shall attend 4 times.
Member	Kao Jung- Chih	1	0	100%	Elected on September 23, 2020. Shall attend 1 times.
Other items to be recorded:					
i. The board of directors shall state the board meeting's date, period, content of the proposal, the resolution of the board of director and the company's treatment of remuneration committee's opinion, if the board of director refuses or amends the proposal of remuneration committee (for example, the wage remuneration determined by board of directors is better the proposal of remuneration committee the difference and reason shall be clearly stated): None.					
ii. The remuneration committee shall state the remuneration committee's meeting date, period, content of the proposal, the resolution of the board of director and treatment to all member's opinion and opinions of all members if resolution of remuneration committee on which any member has a dissenting or qualified opinion which is on record or stated in a written statement: None.					
iii. The dates, session, contents. resolutions of Remuneration Committee meetings in the recent year and handling of company's opinions on the Remuneration Committee are as follow:					
(i) The 10 th Board of Directors' meeting of the 8 th Session on February 20, 2020, reviewed the proposal of remuneration of employees. After review of the 8 th Remuneration Committee meeting of the 2 nd Session on February 20, 2020, the proposal as proposed was unanimously approved by the all attending members. The treatment of this company to the opinion of Remuneration Committee: Report to Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.					

- (ii) The 10th Board of Directors' meeting of the 8th Session on February 20, 2020, reviewed the proposal of year-end bonus of Chairman and general managers. After review of the 8th Remuneration Committee meeting of the 2nd Session on February 20, 2020, the proposal as proposed was unanimously approved by the all attending members. The treatment of this company to the opinion of Remuneration Committee: Report to Board of Directors. Chairman Lu Tianlin recused due to benefit conflict; Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.
- (iii) In the eleventh board meeting of the eighth term on March 26, 2020, deliberated on the settlement of length of service as per the old system of Labor Pension Act for managers of the Company. Through the ninth review of the second term by Remuneration Committee on March 26, 2020, and through all remuneration members in participation, the motion was unanimously approved as proposed; the handling of the Company regarding the opinions of Remuneration Committee: proposed to the Board of Directors, the motion was unanimously approved as proposed by all directors and proxies in participation.
- (iv) The 12th Board of Directors' meeting of the 8th Session on May 6, 2020, reviewed amendment of "Regulation for Directors and Managers Remuneration Management." After review of the 10th Remuneration Committee meeting of the 2nd Session on May 6, 2020, the proposal as proposed was unanimously approved by the all attending members. The treatment of this company to the opinion of Remuneration Committee: Report to Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.
- (v) The 15th Board of Directors' meeting of the 8th Session on December 23, 2020, reviewed the amendment of "Regulation for Board of Directors Performance Assessment." After review of the 11th Remuneration Committee meeting of the 2nd Session on December 23, 2020, the proposal as proposed was unanimously approved by the all attending members. The treatment of this company to the opinion of Remuneration Committee: Report to Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.
- (vi) The 15th Board of Directors' meeting of the 8th Session on December 23, 2020, reviewed 2021 working plan of the Remuneration Committee. After review of the 11th Remuneration Committee meeting of the 2nd Session on December 23, 2020, the proposal as proposed was unanimously approved by the all attending members. The treatment of this company to the opinion of Remuneration Committee: Report to Board of Directors. Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors.
- (vii) In the fifteenth board meeting of the eighth term on December 23, 2020, deliberated on the remuneration of new managers of the Company. Through the eleventh review of the second term by Remuneration Committee on December 23, 2020, Supervisor Jun-Hsien Huang excused himself due to interests; after the discussion among all remuneration members in participation, suggested corporate governance managers should have planned in the direction of full-time duty, while the supervisory differential pay for managers should be consistent, and the amended version of remuneration suggested by all members was approved; the handling of the Company regarding the opinions of Remuneration Committee: proposed to the Board of Directors, Supervisor Jun-Hsien Huang excused himself due to interests; after the discussion among all directors and proxies, the remuneration suggested by Remuneration Committee was unanimously approved.
- (viii) The 15th Board of Directors' meeting of the 8th Session on December 23, 2020, reviewed proposal of company's 2020 year-end bonus of Chairman and managers. After review of the 11th Remuneration Committee meeting of the 2nd Session on December 23, 2020, Director Huang Juneshin recused due to benefit conflict; the proposal as proposed was unanimously approved by the all attending members. The treatment of this company to the opinion of Remuneration Committee: Report to Board of Directors. Chairman Lu Tianlin, vice president Gao Jinlan, director Huang Juneshin recused due to benefit conflict; Resolution of board of directors: the proposal as proposed was unanimously approved by all attending directors..

(v). Fulfilling social responsibility and the Difference Situation and Reason to Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies												
	Y	N	Summary													
i. Does the company execute risk assessment of environment, society and company management related to company operation and set up related policies or strategies based on the principle of materiality?	V		The company’s internal risk management policy is to take precautions in advance to reduce the loss caused by risks. The company has also compositioned Management Committee to recognize, evaluate, process and monitor potential risks that may affect the company on achieving goals. According to the materiality principle of corporate social responsibility, the Company carried out relevant risk assessment of essential issues, according to the risks after evaluation, formulated relevant risk management policies below: <table><tr><th>Major Issue</th><th>Item of Risk Assessment</th><th>Management Strategies</th></tr><tr><td>Environment</td><td>Energy and Resource Saving Waste Reduction and Recycling</td><td>Set up solar green energy equipments; consider energy-saving efficiency as the top priority in terms of equipment procurement and repair. In compliance with the regulations of aviation maintenance, raw materials related to the process of aircraft maintenance are all properly managed, sorted and recycled, while packaging materials are reused.</td></tr><tr><td>Society</td><td>Occupational Safety Staff Health</td><td>Regularly hold fire drills and Industrial training sessions every year, convene occupational safety and health meetings every quarter, strengthen operational audits, and prevent employees from exposing to the danger in worksites. Every year carry out staff health check and keep track of the health conditions of employees at high risk or assist in seeking medical care. In response to the emerging infectious disease, offer alcohol disinfection and temperature measurement in suitable sites.</td></tr><tr><td>Corporate Governance</td><td>Social Economy and Regulation Compliance</td><td>Carry out internal control system to ensure all personnel in the company and operation abide by relevant regulations.</td></tr></table>	Major Issue	Item of Risk Assessment	Management Strategies	Environment	Energy and Resource Saving Waste Reduction and Recycling	Set up solar green energy equipments; consider energy-saving efficiency as the top priority in terms of equipment procurement and repair. In compliance with the regulations of aviation maintenance, raw materials related to the process of aircraft maintenance are all properly managed, sorted and recycled, while packaging materials are reused.	Society	Occupational Safety Staff Health	Regularly hold fire drills and Industrial training sessions every year, convene occupational safety and health meetings every quarter, strengthen operational audits, and prevent employees from exposing to the danger in worksites. Every year carry out staff health check and keep track of the health conditions of employees at high risk or assist in seeking medical care. In response to the emerging infectious disease, offer alcohol disinfection and temperature measurement in suitable sites.	Corporate Governance	Social Economy and Regulation Compliance	Carry out internal control system to ensure all personnel in the company and operation abide by relevant regulations.	No significant difference
Major Issue	Item of Risk Assessment	Management Strategies														
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Corporate Governance	Social Economy and Regulation Compliance	Carry out internal control system to ensure all personnel in the company and operation abide by relevant regulations.														
ii. Whether the company has set up a corporate social responsibility designated (part-time) unit or personnel? Is the board of directors authorizing the senior management to handle and report the situation to the board of directors?	V		This company has promulgated “Rules for Corporate Social Responsibility Best Practice Principles”, the designated (part-time) unit to promote corporate social responsibility is the Chairman’s office, responsible for the presentation and implementation of corporate social responsibility policies, systems or related management policies and specific promotion plans, and will report to the board of directors regularly.	No significant difference												
iii. Developing a sustainable environment (i) Does the company establish a suitable environmental management system based on its industrial characteristics?	V		(i) In order to achieve actual eco-friendly performance with meeting requirements of regulations and environmental policy of the Company and improving at the same time, the Company establish the environment management system based on Specs in ISO14000 EMS.	No significant difference												

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
	Y	N	Summary	
(ii) Is the company committed to improving the efficiency of the use of resources and using recycled materials that have a low impact on the environmental load?	V		In the spirit of “cherishing natural resources”, we combine the core business of environmental protection with the trust of our customers to create the concept of “sustainable operation” and “reward the society”, continue to implement waste reduction work, and allocate qualified personnels to perform waste management work. Taking into account the factors such as the interaction between the company's industrial characteristics and the environment, in the spirit of cradle to grave, in the process of aircraft maintenance from the procurement of raw materials to the final aircraft delivery, the business waste can be fully managed, cleaned, treated and reused to effectively in order to prevent negative environmental impacts. The company adopts environmental protection policies, reduces waste, implements resource classification and recycling, and occasionally promotes energy saving measures in office and living areas. Concerning the project of administration building under the plan of the Company, the design and planning will abide by nine indicators of green building: energy savings, water conservation, water soil content, biodiversity, indoor environmental quality, CO2 emissions reduction; construction waste reduction, garbage and sewage improvements, all things considered, conduct adaptive design, construct environment-friendly building and exert corporate social responsibility.	No significant difference
(iii) Does the company assess the potential risks and opportunities of climate change for companies now and in the future, and take measures to address climate-related issues?	V		We have assessed the potential risks and opportunities of climate change to the company now and in the future, and has included risk management, actively promoted energy saving and carbon reduction, and installed solar green power generation equipment.	No significant difference
(iv) Does the company make statistics on the greenhouse gas emission, water usage and total weight of waste in the past 2 years and set up policies for energy saving and carbon reduction, decreasing of greenhouse gas emission and usage of water and other waste management?	V		The emission of greenhouse gas was equivalent to 2,275.12 tons CO ₂ e for 2019 and to 2,397.93 tons CO ₂ e for 2020 after the investigation. Water usage is 11,745 tons and 10,769 tons respectively. Total weight of waste is 115.30 tons and 110.27 tons respectively. As for the ratio of emission contribution, the purchased electricity is primary with 98.0%. In order to lower environmental impact caused by greenhouse gas emitted because of the company operation, we keep promoting energy saving and carbon reduction strategies to effectively reduce the emission of greenhouse gas and regulating objectives for improvement and tracking. Actual measures such as install energy-saving lighting, replace old air-conditioners with energy-saving types, install solar power generator devices. The company has completed the solar power system, the total capacity in 2020 was 3,341,834 kilowatt hour, reducing 1,737,753 tons of carbon.	No significant difference
iv. Maintain social welfare				
(i) Does the company formulate relevant management policies and procedures in accordance with relevant regulations and international human rights conventions?	V		(i) The company has established working rules and related personnel management regulations in accordance with the labor law regulations as the basis for company management. In order to establish a gender equality workplace, the company implements a system of parental leave without payment, and also provides family care leave and physique leave. The Company complies with all national regulations and international labor human rights norms, including international labor conventions, the UN Universal Declaration of Human Rights and other norms. In 2020, this company was elected as a good institution for labor-management harmony in Tainan City.	No significant difference

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
	Y	N	Summary	
(ii) Does the company regulate or implement reasonable employee welfare policy (including remuneration, leaves and other welfares) and properly reflect managerial performance or results on employee's remuneration?	V		The company has provided several welfare policies for employees, besides labor insurance, health insurance, retirement pension contribution and parental leave, which are regulated by law, yearly health examination, bonus and coupons for 3 national holidays, wedding subsidy and condolence and group insurance are also included. In addition, 1%~3% of company's profit will be contributed as employee's remuneration and in order to promote the harmony between labor and capital, the company also signs group contracts with the labor union.	No significant difference
(iii) Does the company provide a safe and healthy working environment for employees and regularly implement safety and health education for employees?	V		The Company gives priority to "Staff Safety", aiming at zero disaster in the workplace, send security team members to carry out every sort of safety and health inspection at least 3 times per week, e.g. inspection and maintenance of fire-fighting equipments, factory visit, control of special operation areas, qualification review of special operation personnel, control of smoking areas, security check on buildings, in order to ensure staff safety on work. In addition, regarding 4 occupational accidents and 8 commuting accidents of 2020 safety and health indicators, each case was investigated and analyzed, and publishing "An Warning of Occupational Safety" to avoid similar accidents. Conduct one employee health check and many safety and health staff training sessions along with announcement on an annual basis, implement "Workplace Safety and Health Week" activities every year, take preventive and control measures as per the objectives that have been promised or set and the level of recognized harm and risk, through "staff training", "diagnosis and counseling", "audit" and many other methods to reinforce Workplace safety and health facilities, healthy environment and management function, and guarantee the safety and health of operational personnel. The "External Training 2020" of the Company included stationary crane as per the rules in occupational safety and health training, organic solvent line manager, hypoxia line manager, specified chemical substances line manager, dust line manager, first-aid personnel training, in total 51 person-times in the initial training along with the refresher training. The "Internal Training 2020" included trainings for newcomers and refresher trainings for current employees as per the rules in occupational safety and health training, liberal education regarding dangerous and harmful materials, confined space and other trainings, in total 7 sessions and 388 person-times, as well as production of poster, warning of occupational safety, worksite safety and health announcement, in total 27 times the entire year. In 2020, was awarded Excellent Promotion Unit for Safety Culture by Department of Labor in Tainan City.	No significant difference
(iv) Does the company establish efficient training program of career competency for employees?	V		In order to cultivate good talents, the company is working on improving maintenance capability, increasing numbers of aircraft maintenance certifications, regulating training for employees and holding both domestic and oversea training to enhance professional skills so employees are able to provide competitiveness and long-term development in return for the company. On the other hand, in cooperation with the demand for corporate business development, give priority to train current employees to repair various types of models in the light of company competitiveness and	No significant difference

Evaluation items	Operation situation			The Difference Situation and Reason to Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies
	Y	N	Summary	
			long-term development. In addition, the Company is in industry-academia cooperation and intern training program with many universities and colleges, assisting trainees in quickly adapting to the work environment during the internship, effectively inheriting the healthy corporate culture, selecting enterprising individuals to extend and renew the contract with the Company.	
(v) Does the company follow related rules and international principles on products, health, safety, and privacy of the served customers and marketing and labeling and set up related policies and complaint process for protecting customer's right?	V		The company cooperates to maintain secrecy due to the involvement with national defense confidentiality. In addition to satisfying quality and lead time, the company also implements satisfaction survey of customers regularly to maintain good relationships with customers. Aircrafts repaired at the company go through customs inspection, license inspection, quarantine of personnel, animal and plant, safety check and aviation security in accordance with national's policy. The company also providing caring to the health of oversea technical representatives. The company's product repairs and services are subject to the relevant domestic laws and regulations and the provisions of the International Civil Aviation Administration. In 2019, the company was awarded the "AS9110" certification representing a certain quality management system standard to ensure flight safety and reliability.	No significant difference
(vi) Does the company regulate supplier management policy to demand suppliers to obey related standard on environment, job safety and sanitation or labor rights and tracking execution status?	V		The company has Regulations for Supplier Management to ensure the stability of material. Supplier evaluations takes place annually as well as random training for environment protection and job safety and sanitation to assist suppliers to obey regulations and company rules and improve public safety and sanitation performance. If a supplier involves with violation of CSR and environmental protection and does not improve after being told, the company will terminate or cease the contract at any time.	No significant difference
v. Does the company use international common criterion or indication as reference to compose CSR report or reports that disclose non-financial related info of the company? Does the report acquire assure or confirmed opinions from a third-party certification unit?		V	The implementation of corporate social responsibility by the company is handled in accordance with instructions of the competent authorities and relevant laws and regulations. The company has set up a corporate social responsibility zone on the website, and will disclose relevant information to the company's website and MOPS according to the actual operation situation.	The company does not have CSR report yet, will have one depends on company's development and regulations in the future.
vi. If this company promulgate its own rules for corporate governance practice according to "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", please describe the difference between its operation and these rules: In order to implement corporate social responsibility, the company has established "Rules for Corporate Governance Practice", and it will continue to implement and execute it with all colleagues of the company according to the norms and spirit of "Rules for Corporate Governance Practice".				
vii. Other important information that helps to understand the operation of corporate social responsibility: The company has set up a corporate social responsibility zone on the website, and will disclose relevant information to the company's website and MOPS in the future according to the actual operation situation.				

(vi).The company's fulfillment of the integrity management situation and adopted measures and The Difference Situation and Reason to Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies

Evaluation items	Operation situation			The Difference Situation and Reason to Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
	Y	N	Summary	
i. Establishing integrity management policies and programs				
(i) Does the company express its commitment to integrity management policies and practices in its regulations and external documents, as well as the commitment of the board of directors and management to actively implement business policies?	V		(i) In order to implement the integrity management policy and actively guard against dishonesty, the Company has established the " Ethical Corporate Management Best Practice Principles", "Integrity Operation Procedures and Conduct Guidelines" and "Ethical Code of Conducts" to specifically regulate the board of directors, management and all employees on matters to be aware of when performing business.	No significant difference
(ii) Does the company adopt preventive measures for the situations in respective Subparagraphs in Paragraph 2, Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies or dishonest business operation with higher risk within the other business scope?	V		(ii) The company's Ethical Corporate Management Best Practice Principle has adopt preventive measures for the situations in respective Subparagraphs in Paragraph 2, Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies or dishonest business operation with higher risk within the other business scope. And establish an effective accounting system and internal control system, review from time to time, and ensure that the implementation of the system continues to be effective.	No significant difference
(iii) Does the company have a plan to prevent dishonesty, and specify operating procedures, behavioral guidelines, disciplinary and grievance systems for violations in each program?	V		(iii) The company has established the "Ethical Corporate Management Best Practice Principles", "Integrity Operation Procedures and Conduct Guidelines" and "Ethical Code of Conducts", as well as operation procedures for precautions of dishonest behavior, which will be regularly reviewed and revised. The company also does random training and make announcements to employees.	No significant difference
ii. Implementation of integrity operation				
(i) Does the company assess the integrity record of the person to whom it deals with, and specify the terms of good faith in its contract with the transaction partner?	V		(i) In accordance with the "Ethical Corporate Management Best Practice Principle", of this company, the legality and credibility of business counterpart shall be taken into consideration, in order to avoid transactions with person with disciplinary records. And the in the relevant contract, the doctrine of integrity behaviors shall be specified. If the counterpart involves an act of dishonesty, the contract may be terminated or cancelled at any time.	No significant difference
(ii) Does the company set up a designated (part-time) unit that promotes corporate integrity management under the board of directors, and make it regularly (at least 1 time per year) report its implementation to the board of directors on ethical management policy and precaution plan on dishonest behavior and supervision of execution status?	V		(ii) In order to improve the management of integrity operation, Management Division of this company is responsible for the formulation of the integrity operation policy and prevention plan, and is supervised and implemented by the auditing unit and regularly reports to the board of directors. This time reported the situation of execution to the Board of Directors on December 23, 2020.	No significant difference

Evaluation items	Operation situation			The Difference Situation and Reason to Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
	Y	N	Summary	
			Please find below the situation of execution in 2020: 1.Carried out three announcement sessions for the ethical management of corporate governance, with the vice general manager or Human Resource being the trainer to carry out announcement towards employees, each session lasted half an hour, in total 122 person-times, 62 hours per person. 2.Carried out an announcement of "The Principles of Ethical Management" towards new employees: which is included in the teaching materials for new employees, with the aid of employment contracts, caused all of the new employees to state that they will conscientiously comply with the principles of ethical management: in 2020 the number of new employee amounted to 114.	
(iii) Does the company have a policy to prevent conflicts of interest, provide a proper presentation channel, and implement it?	V		(iii) This company has already promulgated the "Ethical Corporate Management Best Practice Principle", "Integrity Operation Procedures and Conduct Guidelines" and "Ethical Code of Conducts" to prevent conflicts of interest. The company will set up an investor zone, a corporate governance zone, a corporate social responsibility zone and a stakeholder zone on the company's website to facilitate the reference of shareholders and stakeholders, and will set up a stakeholder contact platform as a solution for stakeholders' communication channels for suggestions doubts and disputes to ensure the interests of stakeholders.	No significant difference
(iv) Has the company established an effective accounting system and internal control system for the implementation of integrity management, and plan to establish related audit plan based on risk assessment of dishonest behavior checked by internal audit unit? And does the company check the obedience of precaution plan on dishonest behavior or entrusted with CPAs to perform checks?	V		(iv) The Company has established an "Accounting System" and an "Internal Control System", and the Audit Department has established and implemented an annual audit plan in accordance with relevant regulations, and continues to track improvements to implement integrity management.	No significant difference
(v) Does the company regularly hold internal or external education training of integrity management?	V		(v) Through the departmental meeting, the company promotes to employees and make them understands the company's integrity management philosophy and norms.	No significant difference
iii. The operation status of company's whistle-blowing system				
(i) Does the company have a specific whistle-blowing and reward system, and establish a convenient reporting channel, and assign appropriate personnel to the person being accused?	V		(i) The company has a proper reporting channel for employees and related personnel to report any improper business practices, which are handled by the company management directly in person. Any violation of the company's ethical standards of employment will be severely punished according to the company's rules for rewards and punishments.	No significant difference

Evaluation items	Operation situation			The Difference Situation and Reason to Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
	Y	N	Summary	
(ii) Does the company set the investigation standard operating procedures and related confidentiality mechanisms for accepting the report?	V		(ii) The company has a chairman's mailbox, a union's opinion mailbox and a designated personnel unit to handle employee's complaints. A reporter may report it by letters, emails and etc., and the designated person will handle it. The company's website has set up a stakeholder liaison platform as a communication channel for handling stakeholder's suggestions, doubts and disputes. In addition, the Company has also established the "Whistle-blowing System" in Personnel Handbook Chapter 9, the internal control system- personal management system in Section 9 and Ethical Code of Conducts to protect the reporter and regulate the confidentiality mechanisms and reward/punishment mechanisms, in order to ensure the stakeholders' right and interest. A rigorous reporting mechanism allows stakeholders to communicate messages in a safe and confidential manner.	No significant difference
(iii) Does the company take measures to protect the reporter from improper disposal due to the report?	V		(iii) The company provides reporting channels and takes appropriate protective measures in accordance with the laws to maintain the personal data and privacy of the reporter in confidential.	No significant difference
iv. Strengthen information disclosure Does the company disclose its content of integrity management practices and promotion of effectiveness on its website and MOPS?	V		This company has disclosed relevant information on the MOPS. The company also set up website and the address is http://www.airasia.com.tw ; it includes corporate governance operation and disclose corporate governance operation status and company's important regulations, such as "Rules for Corporate Governance Practice", "Ethical Corporate Management Best Practice Principle" and "Integrity Operation Procedures and Conduct Guidelines".	No significant difference
v. If the company has established its own Ethical Corporate Management Best Practice Principle according to " Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please state difference between its operation and the Principles: This company has established "Ethical Corporate Management Best Practice Principle", all company's operation complies with those Principles. No significant difference.				
vi. Other important information that helps to understand the company's integrity management operations (such as the company's review and revision of its established Ethical Corporate Management Best Practice Principle): The Company will pay attention to the development of the relevant norms of domestic or foreign integrity management at all times, and encourage the directors, managers and employees to make suggestions to review and improve the company's integrity management policies and measures in to enhance the implementation of the company's integrity management. The company's ethical management policy was revised and approved by Board of Directors on February 20, 2021. The company has also set up a corporate governance zone on the website, this company will disclose the actual operation situation and relevant information to the company's website and MOPS.				

(vii). Resignation and Discharge Summary of the company

April 20, 2020

Job Title	Name	Date of duty beginning	Date of discharge	Reason of resignation or discharge
				None

- (viii).If company has set up Rules for Corporate Governance Practice and relevant regulations, it should disclose its inquiry method:

This company has set up the Rules for Corporate Governance Practice and relevant regulations and has disclosed it in the Corporate Governance zone on this company's website. In the future, relevant information will be disclosed on the company's website and MOPS according to the actual operation situation.

- (ix).Other important information that is sufficient to enhance the understanding of the operation of corporate governance:

Succession planning for directors and important managerial personnel

The successor's cultivation plan is related to the Company's sustainable management. The purpose of the plan is to deal with organizational management and achieve business goals. In addition, the company can avoid expected or unpredictable supervisory changes, such as the departure or retirement of managers, and the operation problems caused the company to suffer losses.

The director election of the Company is based on the system of candidate nomination. Shareholders are authorized to nominate candidates and select directors (including independent directors) nominated by shareholders from the candidate list by means of voting in shareholder stated meetings. The term of director lasts for three years.

Most of the shareholders of the Company are juridical people utilizing government fund transferred to investment. Regarding the planning of successors to directors, overall the successors to director representatives should have the capabilities mentioned in the chapter regarding the reinforcement of the competency of the Board of Directors in "The Principles of Corporate Governance"; to comply with the law, independent directors must obtain professional qualification and work experience, etc, its successor plan comes from professionals familiar with industry, official and university as the main guidelines of the election, and according to the law, ensure the independence of all the members of the Board of Directors, the result of his/her annual performance evaluation of the Board of Directors are essential reference to decide whether he or she will be appointed further. In order to improve the duty exercise of directors and keep up with the times, regularly schedule refresher courses every year, assist in elevating the professional competencies of directors, with the range encompassing subjects related to corporate governance, such as finance, accounting, business development, commerce, law, information, risk management, internal control system, corporate social responsibility, etc. The content is in compliance with regulations or the update on internal and external environmental condition along with relevant

applications and projects regarding the demand for future development, so as to perfect the successor plan.

Concerning the successor plan of the essential management level, the Company has 6 vice general managers and factory directors around 10 in charge of supervising company business. 6 vice general managers of the Company were excellent factory directors elected internally, who became company managers reviewed and approved by the Board of Directors in 2018. The five-year successor plan aims to deepen the awareness of operational concepts and cultivate every sort of skills regarding operations management by means of job rotation, being expatriates, agency system, experience sharing and consulting, and through the meetings of Department of Business, the projects and strategic meetings, etc, in order to comprehensively cultivate the diversified operation management abilities of the essential management level, so as to avoid the talent gap as a result of retirement or resignation. In addition, for the long-term development of the Company, aim to deepen every level of company talents, strengthen the depth of management level by reinforcing individual consulting and work interaction along with duty experience gaining and job rotation.

(x). Implementation status of internal control system

1. Internal Control System Statement

Public Company internal control system statement

Indicates that both design and execution are effective

(This statement applies in compliance with laws and regulations when all laws and regulations are complied with)

Air Asia Co., Ltd

Internal control system statement

Date: March 23, 2021

For the Internal control system of this company in 2019, based on the results of self-assessment, hereby we declare as follows:

- i. The Company is aware that the establishment, implementation and maintenance of the internal control system is the responsibility of the board of directors and managers of the Company. The Company has established this system. The purpose is to reach the goals as providing reasonable results in terms of operational effectiveness and efficiency (including profitability, performance and asset security, etc.), report with reliability, timeliness and transparency and compliance with relevant laws and regulations, in order to provide reasonable assurance.
- ii. The internal control system has its inherent limitations. Regardless of how well the design is perfected, an effective internal control system can only provide reasonable assurance of the achievement of the above three objectives. Moreover, due to changes in the environment and conditions, the effectiveness of the internal control system may change. Once any error is identified, the company will take correction action immediately.
- iii. The company judges whether the design and implementation of the internal control system is effective based on the judgment items of the effectiveness of the internal control system as stipulated in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "RGECSPC"). The internal control system judgment items used in the "RGECSPC" is based on the process of management control, and the internal control system is divided into five components: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and communication, and 5. Monitoring activities. Each component also includes several items. Please refer to the "RGECSPC" for the above items.
- iv. The Company has adopted the judgment items in the above internal control system to judge and evaluate the effectiveness of the design and implementation of the internal control system.
- v. Based on the results of the previous assessment, the Company believes that the company's internal control system (including supervision and management of subsidiaries) on December 31, 2019, including the understanding of the effectiveness and efficiency objectives of the operation, and reporting are reliable, timely and transparent. The design and implementation of the internal control system related to the compliance with relevant laws and regulations are effective and may reasonably ensure the achievement of the above objectives.
- vi. This statement will become the main content of the company's annual report and public statement, and will be made public. If the content of the above disclosure is illegal or concealed, it will involve in legal liabilities such as Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
- vii. This statement was approved by the board of directors of the company on March 23, 2021. Among the 11 directors, 0 dissented, and the rest agreed to the contents of this statement. Here we shall also express such situation.

Air Asia Co., Ltd

Chairmen:



Signature or stamp



General Manager:



Signature or stamp

2. If the company entrusted CPA to review the internal control system, it should disclose the CPA review report: None.

(xi). In the most recent year and up to the print date of annual report, the punishment received by company and its internal personnel according to law, the punishment given by company to its internal personnel due to violation of regulations of internal control system, major defects and improvement situation: None.

(xii). In the most recent year and up to the print date of annual report, important resolutions of the shareholders' meeting and the board of directors

1. Important resolutions of the shareholders' meeting and implementation of them

Date	Important resolutions of the shareholders' meeting	Implementation
Jun. 17, 2020 General Shareholders' Meeting	Recognition	
	(1) Recognition of 2019 Business Report and Financial Statements	Executed as resolved
	(2) Recognition of 2019 surplus distribution proposal	Cash dividends NTD 9,609,600 was allotted to shareholders on August 28, 2020 (NTD 0.08 per share)
	Discussion	
	(1) Approval of capital reserve to increase capitalization to issue new shares	Cash dividends NTD 110,510,400 was allotted to shareholders on November 14, 2020 (NTD 0.92 per share)
	(2) Approval of proposal of amendment of "Article of Incorporation" of the company	Executed as resolved, the company has announced on MOPS on June 17, 2020.
	(3) Approval of proposal of Amendment to the Rules of Procedures for Shareholders' Meeting	Executed as resolved, the company has announced on MOPS on June 17, 2020.
Sep. 23, 2020 First Extraordinary General Meeting	Discussion	
	(1) Approval of proposal of amendment of "Article of Incorporation" of the company	Executed as resolved, the company has announced on MOPS on September 23, 2020.
	(2) Approval of proposal of amendment the "Procedures for Election of Directors"	Executed as resolved, the company has announced on MOPS on September 23, 2020.
	(3) Approval of proposal of amendment the "Procedures for Acquisition and Disposal of Assets"	Executed as resolved, the company has announced on MOPS on September 23, 2020.
	Election Matter	
	To elect a new Independent Director to fill the vacancy	Jung-Chih Kao was elected as an independent director.

2. Important resolutions of Board of Directors

Date	Important resolutions of Board of Directors	Independent director holds dissenting or qualified opinion	Implementation
Feb. 20, 2020	(1) Approval of discussion application of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(2) Approval of amnendement of “Procedures for Ethnical Management and Guidelines for Conduct” advised by the Audit Committee.	None	Revision completed
	(3) Approval of amendement of “Apporval Authority Table.”	None	Revision completed
	(4) Approval of Empolyee Remuneration Allotment of 2019.	None	Executed as resolved
	(5) Approval of proposal of 2019 Business report, financial statements and consolidated financial statements.	None	Executed as resolved
	(6) Approval of proposal of 2019 Year-End Bonus Adjustment of Directors and Managers.	None	Executed as resolved
Mar. 26, 2020	(1) Approval of discussion application of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(2) Approval of proposal of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(3) Approval of proposal of “Internal Control Statement” of 2019.	None	Reviewed and announced.
	(4) Approval of amendement of “Internal Control System.”	None	Executed as resolved
	(5) Approval of amnendement of “Procedures for Ethnical Management and Guidelines for Conduct” advised by the Audit Committee.	None	Executed as resolved
	(6) Approval of amendement of “Corporate Social Responsibility Best Practice Principles.”	None	Executed as resolved
	(7) Approval of amemdent of “Rules of Shareholder Meeting.”	None	Executed as resolved
	(8) Approval of amendement of “Criterion of Board of Directors.”	None	Executed as resolved
	(9) Approval of amendement of “Organization Rules of the Remuneration Committee.”	None	Executed as resolved
	(10) Approval of amendement of “Organization Rules of the Audit Committee.”	None	Executed as resolved
	(11) Approval of amendement of “Company Manageent Best Practice Principles.”	None	Executed as resolved
	(12) Approval of 2019 surplus distribution.	None	Executed as resolved
	(13) Approval of proposal of transfer capital surplus to issue new shares.	None	Revision completed
	(14) Approval of proposal of discussion of related agenda of 2020 regular Shareholder meeting.	None	Executed as resolved and announced on Mar. 26, 2020.
	(15) Approval of proposal of seniority settlement from old system of labor retirement of Managers.	None	Executed as resolved
May 6, 2020	(1) Approval of discussion application of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(2) Approval of proposal of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(3) Approval of proposal of amendment of “Article of Incorporation” of the company	None	Executed as resolved
	(4) Approval of proposal of “Remuneration Management of Directors and Managers.”	None	Executed as resolved

Date	Important resolutions of Board of Directors	Independent director holds dissenting or qualified opinion	Implementation
Aug. 5, 2020	(1) Approval of discussion application of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(2) Approval of proposal of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(3) Approval of the formulation related to capital surplus transferred to capital increase and issue new shares	None	Executed as resolved
	(4) Approval of amendent of “Internal Control System”	None	Executed as resolved
	(5) Approval of proposal of amendment of “Article of Incorporation” of the company	None	Executed as resolved
	(6) Approval of proposal of amendment of “Codes of Ethical Conduct”	None	Executed as resolved
	(7) Approval of proposal of amendment of “Procedures for Election of Directors”	None	Executed as resolved
	(8) Approval of amement of “Rules of Shareholder Meeting.”	None	Executed as resolved
	(9) Approval of amendent of “Criterion of Board of Directors.”	None	Executed as resolved
	(10) Approval of amendent of “Organization Rules of the Remuneration Committee.”	None	Executed as resolved
	(11) Approval of the amendment of “The Range and Rules of Independent Director Duties”	None	Executed as resolved
	(12) Approval of amendent of Regulations for Year-End Bonus” None Executed as resolved	None	Revision completed
	(13) Approval of proposal of “Organization adjustment”	None	Executed as resolved
	(14) Approval of the abolishment of “The Operation Points in Reduction Assessment of Accounts Receivable”	None	Executed as resolved
	(15) Approval of electing a new Independent Director to fill the vacancy	None	Executed as resolved and announced on Aug. 6, 2020.
	(16) Approval of proposal of discussion of related agenda of 2020 First Extraordinary General Meeting	None	Executed as resolved and announced on Aug. 26, 2020.
	(17) Approval of proposal of appointment Members of remuneration committee	None	Executed as resolved
Nov. 4, 2020	(1) Approval of discussion application of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(2) Approval of proposal of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(3) Approval of amendent of “Organization Rules of the Remuneration Committee.”	None	Revision completed
	(4) Approval of the commission of corporate governance supervisors and managers	None	Executed as resolved
Dec.23, 2020	(1) Approval of proposal of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(2) Approval of proposal of amendment of “Performance assessment method for the board of directors” advised by Remuneration Committee	None	Revision completed
	(3) Approval of the formulation of “The Policies and Procedure of Risk Management”	None	The formulation has been completed

Date	Important resolutions of Board of Directors	Independent director holds dissenting or qualified opinion	Implementation
	(4) Approval of proposal of 2021 work plan of Remuneration Committee	None	Executed as resolved
	(5) Approval of 2021 Annual Audit Plan advised by the Audit Committee	None	Revision completed
	(6) Approval of proposal of annual budget of 2020.	None	Executed as resolved
	(7) Approval of the remuneration of new managers as per the suggested remuneration of Remuneration Committee	None	The remuneration of new managers has been adjusted
	(8) Approval of proposal of 2020 Year-End Bonus of Chairman and Directors	None	Executed as resolved
Feb.23, 2021	(1) Approval of discussion application of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(2) Approval of amendent of “Ethnical Management Policy.”	None	Executed as resolved
	(3) Approval of amnedent of “Procedures for Ethnical Management and Guidelines for Conduct” advised by the Audit Committee	None	Executed as resolved
	(4) Approval of Empolyee Remuneration Allotment of 2020 advised by Remuneration Committee	None	Expect to announce as per the pay schedule of employee remuneration
	(5) Approval of proposal of 2020 Business report, financial statements and consolidated financial statements.	None	Executed as resolved
	(6) Approval of 2019 surplus distribution	None	Executed as resolved
	(7) Approval of proposal of transfer capital surplus to issue new shares.	None	Executed as resolved
Mar. 23, 2021	(1) Approval of proposal of “Recognition of credit line of financial institutions”	None	Executed as resolved
	(2) Approval of proposal of “Internal Control Statement” of 2020	None	Reviewed and announced on Mar. 24, 2021
	(3) Approval of proposal of amendment of “Article of Incorporation” of the company	None	Executed as resolved
	(4) Approval of amemdent of “Rules of Shareholder Meeting”	None	Executed as resolved
	(5) Approval of proposal of new directors and independent directors	None	Executed as resolved and announced on Mar. 26, 2021
	(6) Approval of proposal of “Relevant issues on acceptance of nominations for director candidates”	None	Executed as resolved and announced on Mar. 26, 2021
	(7) Approval of proposal of discussion of related agenda of 2021 regular Shareholder meeting.	None	Executed as resolved and announced on Mar. 26, 2021

(xiii). In the most recent year and up to the print date of annual report, resolution of Board of Directors on which the chairman or supervisor has a dissenting opinion which is on record or stated in a written statement: None.

(xiv). In the most recent year and up to the print date of annual report, the summary of resignation or dismissal of chairman, general manager, accounting supervisor,

financial supervisor, internal audit supervisor and R&D supervisor: None.

v. Information on CPA professional fees

Name of CPA firm	Name of CPA		Duration	Remark
KPMG	Su Yen-Ta	Chen Hui-Yuan	Jan. 2020~Dec. 2020	

Unit NT\$ (K)

Range of amount		Item of fees	Audit fees	Non-audit fees	Total
1	Less than 2,000 (K)		✓	✓	✓
2	2,000(K)(Included)~4,000(K)				
3	4,000(K)(Included)~6,000(K)				
4	6,000(K)(Included)~8,000(K)				
5	8,000(K)(Included)~10,000(K)				
6	10,000(K)(Included) above				

- (i). When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are one quarter or more of the audit fees paid thereto, the amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed

Unit NT\$ (K)

Name of CPA firm	Name of CPA	Audit fees	Non-audit fees					CPA verification duration	Remark
			System design	Registration	Human Resource	other	sum		
KPMG	Su Yen-Ta Chen Hui-Yuan	1,370	-	-	-	510	510	Jan. 2020~ Dec. 2020	Others including the procedure reporting of agreement, the audit of profit-seeking enterprise income tax return, the audit of business tax direct deduction, and the service fee of capital surplus transferred to capital increase.

- (ii). When the company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amounts of the audit fees before and after the change and the reasons shall be disclosed: Not applicable.
- (iii). When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 10 percent or more, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed: Not applicable.

vi. Information on replacement of CPA: Not applicable.

vii. Where the company's chairman, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: None.

viii. In the most recent year and up to the print date of annual report, any transfer of equity interests and/or pledge of or change in equity interests by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent

(i). Changes in the shareholding of directors, supervisors, managers and major shareholders

Title	Name	2020		Up to Apr. 25, 2021	
		Increase (decrease) number of shares held	Increase (decrease) number of shares pledged	Increase (decrease) number of shares held	Increase (decrease) number of shares pledged
Juristic Person Director and 10% Major shareholder	Taiwan Aerospace Corp.	8,593,957	-	79,000	-
Representative of Juristic Person Director	Taiwan Aerospace Corp. Representative: Lu Tianlin	29,752	-	-	-
Representative of Juristic Person Director	Taiwan Aerospace Corp. Representative: Chen Jinming	-	-	-	-
Representative of Juristic Person Director	Taiwan Aerospace Corp. Representative: Shi Guanyu	-	-	-	-
Representative of Juristic Person Director	Taiwan Aerospace Corp. Representative: Hsieh Hecheng	5,549	-	-	-
Representative of Juristic Person Director	Taiwan Aerospace Corp. Representative: Li Yuezong	-	-	-	-
Juristic Person Director and 10% Major shareholder	Taiwan Sugar Corp.	1,499,693	-	-	-
Representative of Juristic Person Director	Taiwan Sugar Corp. Representative: Yu Chengwei	-	-	-	-
Representative of Juristic Person Director	Taiwan Sugar Corp. Representative: Cheng Suhua	-	-	-	-
Director	Lu Junwei	-	-	-	-

Title	Name	2020		Up to Apr. 25, 2021	
		Increase (decrease) number of shares held	Increase (decrease) number of shares pledged	Increase (decrease) number of shares held	Increase (decrease) number of shares pledged
Independent Director	Ke Renwei	-	-	-	-
Independent Director	Huang Shizhang	-	-	-	-
Independent Director	Zheng Zhiyang (Note 1)	-	-	-	-
Independent Director	Kao Jungchih (Note 2)	-	-	-	-
Vice President of Military Aircraft Business	Chao Ganan	1,297	-	-	-
Vice President of Helicopter Business	Tsai Songlin	1,139	-	-	-
Vice president	Chao Jinxian	1,198	-	-	-
Vice president	Tsui Jenchun	2,095	-	-	-
Vice president	Gao Jinlan	4,050	-	-	-
Vice president	Lee Chunlin	1,349	-	-	-
Corporate Governance Officer	Huang Chunshien (Note 3)	736	-	(2,000)	-

Note 1: Resign on Jun. 30, 2020

Note 2: Newly-elected on Sep. 23, 2020

Note 3: Took office on Nov. 4, 2020

(ii). The counterpart of transfer of equity interest is a stakeholder: None.

(iii). The counterpart of pledge of equity interest is a stakeholder: None.

ix. Relationship information, if among the company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another

April 25, 2021
Unit: share; %

Name	Shares held by him/herself		Shares held by spouse and minor children		Shares held under other's name		If among the company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another, the title/name and the relationship		Remark
	Shares	Ratio	Shares	Ratio	Shares	Ratio	Title (or name)	Relationship	
TAIWAN AEROSPACE CORP.	92,156,523	68.62%	-	-	-	-	None	None	-
TAIWAN AEROSPACE CORP. Representative: Lu Tianlin	388,752	0.29%	-	-	-	-	None	None	-
Taiwan Sugar Corp.	17,800,712	13.26%	-	-	-	-	None	None	-
Taiwan Sugar Corp. Representative: Chen,Chao-I	-	-	-	-	-	-	None	None	-
Chengchang Investment Co., Ltd.	2,744,196	2.04%	-	-	-	-	None	None	-
Chengchang Investment Co., Ltd. Representative: Lee, Shihtsung	-	-	-	-	-	-	None	None	-
Mega Venture Capital Co., Ltd.	1,632,540	1.22%	-	-	-	-	None	None	-
Mega Venture Capital Co., Ltd. Representative: Lin, Ruiyun	-	-	-	-	-	-	None	None	-
Taishin Securities	1,147,367	0.85%	-	-	-	-	None	None	-
Hsuan-Mming Hung	655,200	0.49%	-	-	-	-	None	None	-
Tzu- Li Tao	478,946	0.36%	-	-	-	-	None	None	-
Hsing-Han Liu	399,997	0.30%	-	-	-	-	None	None	-
Tien-Lin Lu	388,752	0.29%	-	-	-	-	None	None	-
International Bills Finance Corp.	368,421	0.27%	-	-	-	-	None	None	-

x. The number of shares held by the company, the number of shares held by the company's directors, supervisors, the personnel whose positions are managerial or higher, and the number of shares of the same investee enterprise which are held by the entities directly or indirectly controlled by the company. Calculate the consolidated shareholding percentage of the above categories

Unit: share; %

Re-invested businesses	Investment by this company		Investment by Director, Supervisor, manager and he entities directly or indirectly controlled by the company		Consolidated investment	
	shares	Ratio	shares	Ratio	shares	Ratio
Air Asia Company Ltd. (USA)	10,000	100.00%	-	-	10,000	100.00%

IV. Fund-raising situation

i. Capital and shares

(i). Capital source

1. Process of capital formation

April 26, 2021

Unit: NT\$ (K);(K) shares

Year/ Month	Par Value(N T\$)	Approved Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Capital source	Offset the capital with property other than case	Number of approving document
55, Jan	100	800	80,000	608	60,800	Incorporating capital	None	-
87, Sep	10	28,280	282,800	28,280	282,800	Capital reserve to capital increase	None	-
95, Jun	25	80,000	800,000	48,280	482,800	Capital increase	None	Jin(84)Shang106850
96, May	25	80,000	800,000	68,280	682,800	Capital increase	None	Jin(85)Shang107987
99, Jun	20	160,000	1,600,000	103,000	1,030,000	Capital increase	None	Jin(88)Shang123263
05, Aug	10	130,000	1,300,000	33,000	330,000	Capital decrease	None	Jin Shou Zhong Zi No.09432745400
06, Mar	11	130,000	1,300,000	69,364	693,636	Capital increase by Private placement	Creditor's rights to capital increase 312,000(K)	Jin Shou Zhong Zi No.09501048250
08, Oct	10	130,000	1,300,000	83,241	832,408	Earning to Capital increase	None	Jin Shou Zhong Zi No.09701271970
09, Oct	10	130,000	1,300,000	90,023	900,230	Earning to Capital increase	None	Jin Shou Zhong Zi No.09801227430
10, Sep	10	130,000	1,300,000	95,587	955,874	Earning to Capital increase	None	Jin Shou Zhong Zi No.09901213330
12, Sep	10	130,000	1,300,000	105,830	1,058,296	Earning to Capital increase	None	Jin Shou Zhong Zi No.10101196960
17, Jan	17.5	130,000	1,300,000	107,830	1,078,296	Capital increase	None	Jin Shou Zhong Zi No.10601008030
18, Feb	22	130,000	1,300,000	122,208	1,222,080	Capital increase	None	Jin Shou Zhong Zi No.10701023290
19, Mar	10	130,000	1,300,000	120,120	1,201,200	Cancel treasury shares: 2,088,000 shares	None	Jin Shou Shang Zi No.10801017950
20, Dec.	10	180,000	1,800,000	131,171	1,311,710	Capital surplus to capital increase	None	Jin Shou Shang Zi No.1091226690

2. Type of shares

April 26, 2021

Unit: share

Type of shares	Approved capital			Remark
Normal (No physical issuance)	Circulating shares	Unissued shares	Total	The company's shares are listed shares
	134,292,080	45,707,920	180,000,000	

3. Information on the general declaration system: Not applicable.

(ii). Structure of Shareholders

April 25, 2021

Structure of Shareholders Amount	Government agencies	Financial institutions	Other legal entities	Individuals	Foreign institution s and foreigners	Total.
Number of persons	0	4	11	2,701	18	2,734
Shares held	0	1,159,591	114,351,906	18,540,403	240,180	134,292,080
Shares held %	0.00%	0.86%	85.15%	13.81%	0.18%	100.00%

(iii). Equity dispersion

April 25, 2021

Shares held range			Number of shareholders	Shares held	Shares held %
1	to	999	628	145,532	0.11%
1,000	to	5,000	1,531	2,886,451	2.15%
5,001	to	10,000	252	1,815,688	1.35%
10,001	to	15,000	113	1,340,451	1.00%
15,001	to	20,000	52	899,380	0.67%
20,001	to	30,000	47	1,119,786	0.83%
30,001	to	40,000	25	862,396	0.64%
40,001	to	50,000	14	630,996	0.47%
50,001	to	100,000	40	2,625,328	1.95%
100,001	to	200,000	11	1,442,079	1.07%
200,001	to	400,000	14	3,908,509	2.91%
400,001	to	600,000	1	478,946	0.36%
600,001	to	800,000	1	655,200	0.49%
800,001	to	1,000,000	0	0	0.00%
1,000,001 above			5	115,481,338	85.99%
Total			2,734	134,292,080	100.00%

(iv).List of major shareholders

April 25, 2021

Shares Name of major shareholder	Shares held(share)	Shares held (%)
Taiwan Aerospace Corp.	92,156,523	68.62%
Taiwan Sugar Cop.	17,800,712	13.26%
Chengchang Investment Co., Ltd.	2,744,196	2.04%
Mega Venture Capital Co., Ltd.	1,632,540	1.22%
Taishin Securities	1,147,367	0.85%
Hsuan-Mming Hung	655,200	0.49%
Tzu- Li Tao	478,946	0.36%
Hsing-Han Liu	399,997	0.30%
Tien-Lin Lu	388,752	0.29%
International Bills Finance Corp.	368,421	0.27%

(v). The Share's Market Price, Net Worth, Earnings and Dividend Policy for the Past Two Years (up to the print date of the annual report)

Year			2019	2020	Up to April 26, 2021
Items					
Share's Market Price	Highest		25.80	19.15	25.75
	Lowest		17.80	9.60	15.05
	Average		20.65	15.87	21.18
Net Worth per share	Before distribution		NT\$13.35	NT\$12.48	Note 2
	After distribution		NT\$12.15	Note 1	Note 2
Earning per share	Weighted average shares (in thousand shares)		131,202	131,171	Note 2
	Earning per share		NT\$0.34	NT\$0.32	Note 2
Dividend per share	Cash dividend		NT\$0.08	NT\$0.15	Note 2
	Bonus Shares	Stock Dividend from Retained Earnings	-	Note 1	Note 2
		Stock Dividend from Capital Reserve	-	Note 1	Note 2
	Accumulated unpaid dividends		-	-	-
Investment compensation analysis	P/E ratio		60.94	50.75	Note 2
	P/D ratio		259.00	108.27	Note 2
	Dividend yield		0.00	0.01	Note 2

Note 1: The resolution of the Board of Directors was passed on February 23, 2021, but has not yet been resolved by the shareholders' meeting.

Note 2: The company's first quarterly report for 2021 has not been reviewed by CPA.

(vi). Company dividend policy and implementation status

1. Dividend policy as set out in the company's articles of association

The company's dividend policy is distributed according to the principle of stability and balance. In addition to taking into account the profit of the shareholders, it should also take into account the impact of the company's operations. The company may distribute the entire annual distributable surplus in consideration of factors such as finance, business and operation aspects, and plan to propose to revise the dividend policy in 2020 company's regulations to "contribute 50% at least of available surplus of the current year as dividends to shareholders. The distribution of surplus is prioritized by cash dividends and may be also distributed by stock dividends. However, the proportion of stock

dividends is not more than 50% of the total dividends. In the current year, if the company has no surplus to be distributed, or although there is surplus, but the surplus amount is much lower than the actual distribution amount of the company's previous year's surplus, or depending on the company's financial, business and operation aspects, etc., it may distribute all or part of the reserve according to the laws or regulations of competent authority.

2. The situation of the proposed dividend distribution in this shareholders' meeting

On February 23, 2021, the Board of Directors of the Company resolved to allot a shareholder's cash dividend of NT\$0.15 per share and stock dividend of NT\$0.44 per share for a total of NT\$77,390,926. It is still to be discussed at the 2021 annual shareholders' meeting.

3. Explanation when the dividend policy is expected to change: None.

(vii). The impact of the proposed bonus shares at the shareholders' meeting on the company's operating performance and earnings per share: Not applicable.

(viii). Remuneration of employees, directors and supervisors

1. The percentage or scope of remuneration for employees, directors and supervisors contained in the company's articles of incorporation

The remuneration of all directors of the company is authorized to Board of Directors to be paid according to the industry's usual level of agreement. If a director is a company official, the remuneration is determined by reference to the industry's usual level. The remuneration of independent directors authorizes the Board of Directors to be determined based on the level of participation, contribution to the company and reference of the usual level of other public offering companies.

If the company makes a profit in the year, it should set aside 1%~3% for the employee's remuneration. However, if the company still has accumulated losses, the amount of remuneration should be retained in advance.

If the company's annual final accounts have surpluses, the company should first pay taxes in accordance with the law and make up for past losses, then 10% of the balance may be set aside as the statutory surplus reserve; however, this shall not apply if the statutory surplus reserve has reached the total paid-in capital of the company; and special reserve shall be set aside or rotated according to laws and regulations. If there is still a balance, accompanying the undistributed surplus at the beginning of the period, distributed according to resolution of shareholders' meeting drafted and proposed by the Board of Directors.

2. The basis for estimating the amount of employee bonus and remuneration to directors/supervisors, the basis for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period.

The employee's remuneration is based on the estimated amount of the management's estimated disbursement. If, subsequently, there is a significant difference between the actual allotment amount and the estimated amount as determined by the shareholders' meeting, it will be included in the profit and loss of the following year.

3. The distribution of remuneration resolved by the Board of Directors

- (1) Distribution of cash bonuses or stock bonuses to employees, and remuneration to directors and supervisors. If there is any discrepancy between such an amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, reasons therefor, and how it is treated shall be disclosed:

A. Employee cash remuneration: On February 23, 2021, the board of directors of the company decided to allocate the employee remuneration for 2020 totaled NT\$678,133.

B. Employee stock remuneration: None.

C. Director's or supervisors' remuneration: No allotment of remuneration in accordance with company's articles of incorporation.

- (2) Proposed allotment amount of employee stock remuneration and its the proportion in the total post-tax net profit and total employee numeration in the parent company only financial report or individual financial report in the current period: Not applicable.

4. Actual distribution of remuneration for employees, directors and supervisors in the previous year:

The 2019 annual employee remuneration is NT\$1,121,478, which is paid in cash; there is no remuneration for the directors and supervisors are paid.

(ix).The situation in which the company bought back the shares of the company (action completed): None.

ii. Bonds implementation status (Note1):

Type (Note 2)	First domestic unsecured convertible bonds (Note 5)	Second domestic unsecured convertible bonds (Note 5)
Issue date	Jul. 9, 2018	Jul. 10, 2019
Par value	NTD 100,000	NTD 100,000
Issue and deal location (Note 3)	N/A	N/A
Issue price	Issued by par value	Issued by par value
Total value	NTD200,000,000	NTD300,000,000
Interest rate	0%	0%
Expiration date	3 year Expiration date: Jul. 9, 2022	5 year Expiration date: Jul. 10, 2024
Assurance institution	None	None
Trustee	Taishin International Bank Co., Ltd.	Taishin International Bank Co., Ltd.
Underwriting institution	Taishin Securities Co., Ltd	Taishin Securities Co., Ltd
Certificated lawyer	Lawyer, Chiu Lifei	Lawyer, Chiu Lifei
Certificated CPA	EY Taiwan CPA, Lin Suwen/Yang Tsihei	EY Taiwan CPA, Lin Suwen/Yang Tsihei
Repayment	Except for the repayment by the company, sell of the bond holders or person who convert, when it comes to expiration, the company will repay per par value along with interest by cash.	Except for the repayment by the company, sell of the bond holders or person who convert, when it comes to expiration, the company will repay per par value along with interest by cash.
Outstanding principal	NTD175,700,000	NTD265,000,000
Redemption or prepayment clauses	Please refer to Article 18 and 19 of “Regulations for first domestic unsecured convertible bonds” issued by the company.	Please refer to Article 18 and 19 of “Regulations for second domestic unsecured convertible bonds” issued by the company.
Limitation Clauses (Note 4)	None	None
Name of credit evaluation institution, date and evaluation result of bonds	N/A	N/A

Type (Note 2)		First domestic unsecured convertible bonds (Note 5)	Second domestic unsecured convertible bonds (Note 5)
Other rights	The number of ordinary shares, overseas depository receipts or other marketable securities converted (exchange or subscription) as of the date of publication of the annual report	Value that executed convertible bonds: NTD 24,300,000; 1,278,941 stock in total converted to normal stock	Value that executed convertible bonds: NTD 35,000,000; 1,842,099 stock in total converted to normal stock
	Issuance and conversion (exchange or subscription) method	Please refer to of “Regulations for first domestic unsecured convertible bonds” issued by the company.	Please refer to Article 18 and 19 of “Regulations for second domestic unsecured convertible bonds” issued by the company.
Regulation for issuing, converting, exchanging or stock subscription, possibility of dilution of equity under the terms and conditions of issuance, and effect on shareholder equity.		No Significant impact	No Significant impact
Name of the entrusted custodian institution to exchange the subject		None	None

Note 1: The handling of corporate bonds includes public and private equity corporate bonds under processing. Public equity corporate bonds under processing refer to those that have been effective (approved) by the Association; private equity corporate bonds under processing refer to those that have been approved by the board of directors.

Note 2: The number of fields depends on the actual number of adjustments.

Note 3: Listed by overseas corporate debtors.

Note 4: Such as restricting the payment of cash dividends, foreign investment, or requiring to maintain a certain proportion of assets, etc

Note 5: Private fundraiser and should be marked in a prominent way.

Note 6: For convertible corporate bonds, corporate bonds that are exchanged, corporate bonds that are collectively declared or issued, or corporate bonds with options, you should disclose the information about the converted corporate bonds, the information about the exchange of corporate bonds, the status of the corporate bonds that are declared and the options that are included Corporate debt information.

Convertible Corporate Bonds Information

Type (Note 1)		First Domestic unsecured convertible corporate bonds		
Item	Year	2019	2020	As a date of Apr. 26, 2021 (Note 4)
Market price of the convertible	Highest	106.45	103.00	123.00
	Lowest	101.10	97.50	100.00

Type (Note 1)		First Domestic unsecured convertible corporate bonds		
Year		2019	2020	As a date of Apr. 26, 2021 (Note 4)
Item				
corporate bonds (Note 2)	Average	103.04	100.51	108.76
Price of conversion		20.80	19.00	19.00
Date of issued and issued price of conversion		Jul. 9, 2019 NTD 21.80	Jul. 9, 2019 NTD 21.80	Jul. 9, 2019 NTD 21.80
Way to execute obligation of conversion (Note 3)		Issue new share	Issue new share	Issue new share

Type (Note 1)		Second Domestic unsecured convertible corporate bonds		
Year		2019	2020	As a date of Apr. 26, 2021 (Note 4)
Item				
Market price of the convertible corporate bonds (Note 2)	Highest	106.20	103.00	122.95
	Lowest	100.85	97.20	100.00
	Average	102.67	99.77	110.90
Price of conversion		20.90	19.00	19.00
Date of issued and issued price of conversion		Jul. 10, 2019 NTD 21.90	Jul. 10, 2019 NTD 21.90	Jul. 10, 2019 NTD 21.90
Way to execute obligation of conversion (Note 3)		Issue new share	Issue new share	Issue new share

Note 1: The number of fields depends on the actual number of adjustments.

Note 2: If there are multiple trading locations for overseas corporate bonds, they are listed separately according to trading locations.

Note 3: Deliver shares that are already issued or issue new shares.

Note 4: Information should be from the same year on the date of publication of the annual report.

iii. Preferred shares: None.

iv. Overseas Depository Receipts: None.

v. Employee Stock Options: None.

vi. Restricted Stock Awards: None.

vii. Issuance of New Shares for Acquisition or Exchange of Other Companies' Shares.

viii. Financing Plans and Implementation: As of the first quarter of 2021, the company's previous funding plans for the issuance or private placement of securities have been completed.

V. Operations Profile

i. Business Content

(i). Business Scope

1. Main content of the business

- (1) Repair, leasing and trading of aircraft and related equipment, manufacture and assembly of aerospace parts and equipment, repair of precision industrial equipment, and agents and consultants for the above-mentioned businesses.
- (2) The overall logistics support and entrusted operation management of the fleet.

2. The proportion of business

Unit: NT\$(K)

Products	Year	2020	
		Amount	%
Aircraft maintenance		745,238	19.13
Fleet maintenance and pricing of repair, supply and assembly of aircraft		452,041	11.61
Outsourcing repair and sale of aviation materials		768,199	19.72
Spare parts and accessory repair (self-repair)		1,929,613	49.54
Total		3,895,091	100.00

3. Current commodity (service) item

- (1) Aircraft and helicopter maintenance, repair, refurbishment and testing.
- (2) Processing and repair of parts and components for aircraft and helicopters.
- (3) Aircraft and helicopter engine overhaul and test.
- (4) Aircraft and helicopter airframe system and structural modification.
- (5) Aircraft and helicopter avionics overhaul and test.
- (6) Aircraft propeller renovation.
- (7) Helicopter rotor blade overhaul.
- (8) Aircraft and helicopter original spare parts for sale.
- (9) High-precision alloy steel, aluminum alloy and titanium alloy mechanical parts such as aero-engines and parts, aerospace components, aircraft structures and engines, aircraft structural sub-assemblies, parts manufacturing tools and

trusses.

(10)Fleet management and factory entrusted operation.

(11)The Training of Civil Aviation Personnel

4. New product (service) for project development

(1) Capacity building up of Depot level maintenance and support for P-3C Anti-submarine aircraft.

(2) Helicopter avionics system upgrade and modification development.

(3) Implementation of maintenance software RAMCO to increase control efficiency, customer's satisfaction and competitiveness.

(4) Development BL20200 series life-saving equipment and FE-75900 for container maintenance capability.

(ii). Industry overview

1. Industry status, development and relevance of upstream, midstream and downstream

For aircraft maintenance service industry, based on industrial characteristics and flight safety considerations, its upstream is mainly for foreign aerospace-class original equipment manufacturer of aircraft and engine manufacturing or qualified repairers authorized by the original equipment manufacturer; downstream is the government unit governed by the governmental procurement procedure regulations or the domestic and international air transport industry. The company is required to obtain the upstream original authorized certification and be selected as a qualified aircraft maintenance center by the downstream government or the domestic and international air transport industry after field assessment in order to perform related maintenance business.

(1) Domestic market

A. Government military strategic commercial maintenance

a. Army, TH-67, OH-58D and CH-47SD Helicopter strategic commercial maintenance projects have been undertaken by this company. It has entered the contract continuation or cooperated with the military services to transform the contract and introduce the efficiency logistics services. At present, it is estimated that the operating value will be maintained at about NT\$260 million per year under stable operation.

b. The management right of new contract from Air Force Second Logistics Commands' state-owned private-operating projects has been

obtained by this company. The business scope includes Taichung accessories factory and Pingtong aircraft maintenance factory. The contract period is from January 1, 2018 to December 31, 2022, for 5 years (the contract amount is NT\$13.36 billion), and it can be renewed once (for 5 years).

c. The original contract of Air Force Songshan Base Command Rehabilitation and Supply Team Delegating Private Operation Project ended on December 31, 2013. The new contract has been implemented on January 1, 2014. It is estimated that by 2021, an annual turnover of NT\$150 million will be maintained.

d. The contract of Air Force Automatic Flight management System delegating commercial maintenance project has been obtained by this company. The contract period is from January 1, 2019 to December 31, 2022, for three years (the contract amount is NT\$128 million), and it may be extended for three years.

e. The commission management and maintenance of the fleet of UH-60M Black Hawk helicopters of National Airborne Service Corps has been obtained by the Company through contract signing, the term of contract is from January 1, 2021 to December 31, 2025, in total 5 years. (The value of contract is 1.05 billion NTD.)

f. The preventive maintenance and repair provider maintenance followed by the procurement of entire aircraft painting of the fleet of Beech fixed-wing aircrafts with National Airborne Service Corps has been obtained by the Company through contract signing, the term of contract is from October 20, 2020 to December 3, 2024, in total 5 years. (The value of contract is 80 million NTD.)

B. Aircraft and engine component repair

The total contract value is estimated to be approximately NT\$30~60 million per year (the business is subject to customer demand, and the fluctuations are huge and it is not easy to estimate the occupancy rate).

C. Aviation materials trading

The total contract value is estimated to be NT\$10~100 million per year (the business is subject to customer demand, and the fluctuations are huge and it is not easy to estimate the occupancy rate).

(2) Foreign market

A. Aircraft maintenance

As comprehensively seen in the transportation and maintenance market in the area, affected by the economic growth of various regions, the increase in transportation demand has also led to, including, transportation and maintenance growth in aviation industry. Among them, the narrow-body passengers (cargo) aircraft in the Asia-Pacific region are the most popular, and low-cost airlines have sprung up like mushrooms and threaten traditional air transport operators.

The company's maintenance business and the main organization shall take the Boeing B727, B737, Airbus A320 and Bombardier Dash-8 Q300/400 series single-aisle narrow-body passenger aircraft as the main customer. Major customers are throughout the Northeast Asia (Russia Sakhalin: Aurora; Japan: Japan Transocean Airlines, Peach Aviation; South Korea: t'way, Eastar Jet, Jeju air); Southeast Asia (Thailand: Orient Thai Airlines Indonesia: Airfast); Oceania (Hawaii: Trans air; Guam: APA), etc. Recently, in the strong international competition, we also had slight gain. We have The Nok Air of Thailand, South Korea's Air Incheon and Air Busan. Pan Pacific Airlines of the Philippines, VietJet Air of Vietnam and Cambodian Airways to be arranged to let aircraft be into the factory. And we continually strive for customers in the emerging areas. In 2020, although the number of maintenance dropped to 44 due to the pandemic, the department of business adjusted strategies by turning to the demand for contact and return/parking, actively establishing ATR maintenance capability during the period of pandemic prevention, hoping to expand the service range after the pandemic drew to a close and increase the company revenue. In response to the effectiveness of pandemic prevention in the country, provide relevant supplementary services and subsidies so as to encourage clients to pay a visit.

Line Maintenance has been established in major domestic airports in Taoyuan, Taichung, Tainan and Kaohsiung in 2019. In the future, the company will establish this in Songshan airport to meet the requirement from customer to provide immediate repair service, Covid-19 continues to spread and affect the international air transport, existing customers are fewer than goods, and the flight line maintenance will focus on the competition for the service of full agency for cargo aircrafts to elevate the capability. Plan to complete the enhanced service of cargo aircraft release authorization of Boeing B737CL, and expect to expand the company is

this competitive aviation maintenance market and serve more and more customers.

B. Aircraft and engine components repair

For the aircraft components repair from Korean Air Force, the Thai Army, and the police unit, the annual contract amount is about NT\$10-20 million.

2. Various development trends and competition situations of products

(1) In aspect of aircraft maintenance

In recent years, with the economic growth of China and Southeast Asia in the Asia-Pacific region, they have become the world's major factories and important economies. Their economic growth has driven the demand for transportation to rise rapidly. The demand for airports and fleets has grown substantially, and the demand for station and aircraft maintenance has increased rapidly.

According to the global aviation fleet and MRO market forecast, in the MRO business, fleet maintenance accounts for about 10% of airline costs, while industry and market analysts predict that global MRO will grow at a 3.0% CAGR affected by COVID-19. In 2031, it will reach a value of 117.7 billion, while the Asia-Pacific region forecasts a growth of 3.5%. China and India will grow at a high rate of 7.9% and 6.4% respectively, with engine maintenance being the largest global market component (48%). The second is heavy-duty maintenance (19%) and components (18%), while line maintenance is about 15%. The air transport industry in the Asia-Pacific region has entered a period of rapid development in recent years, and the development of Europe and the United States has matured and slowed down; coupled with overcapacity and fierce competition in those regions, and considering the growth of the Asia-Pacific market and the low cost of labor, many multinational manufacturers involved in third-party business in this region and have the determination to enter the market. They may invest a wholly-owned subsidiary or they can establish a joint venture with airlines and MROs. This may enable airlines to invest their main spirit and cost into the rapidly changing aviation industry, and let the powerful MRO have unlimited opportunities.

(2) Analysis of competitiveness

Main products	This company	China Airlines (including Mandarin Airlines)	Evergreen Aviation Technologies Corp.	Taiwan Aerospace Corp.
Aircraft airframe maintenance	FAA/CAA/CAAC/DGCA/JCAB/KoreaMOLIT/CAAV/CAAP/BCAA/Russia/SSCA/CAY/LDCA/CAAT/San Marino CAA/DCA Marshall Islands Client's aircrafts maintenance A318/319/320/321, B727/737, BN-2 Series, Cessna 208B, Dash-8-Q400, KingAir 200/300 Series, B1900, MD-80/90 Series, Bell 206, Government and Military C-130, S-2T, T-34, E-2T, E-2K, 500MD, FK-50, AH-1W, UH-1H, TH-67, CH-47, OH-58, BV234, S-70C, UH-60M, P-3C	FAA/CAA/EASA/CAAC/CAD/Korea MOLIT/DCA/CAAM/CAAS/ CAAP, self-owned fleet repair A306/310/318/319/320/321/330/340/350 Series, B737/747/777, ERJ-190	FAA/CAA/EASA/CAAC/JCAB/BVC Self-owned fleet all stages repair B737NG/742/743/744/747-8/767 series /777 series /787 series ATR72, B747 and B767 freighter modified from passenger aircraft	IDF, F-5E/F, F-16, AT-3, AH-1W, UH-1H, S-70C, 500MD repair and civil aircraft A321, B737/747/787, CL-350, S-92/H92, C-27J, LJ70/75, MRJ etc. Manufacturing of part of aircraft body and structural parts
Engine and component repair	CFM56, LEAP-1A, IAE V2500, PW1100G, T-53, JT8D, PT6A-25A/65B, PT6T, PW150, A250, GTCP-85 series APU and aircraft, engine accessories maintenance energy for 1,500 items	GE90-115B, CF6-80E1, CF6-80C2, CFM56-5C, CFM56-7B, PWC-901, 131-9B and GTCP-331-350C etc., full energy for engine, the accessories of above aircraft maintenance energy for 1,800 items	GE CF6-80C2/CF6-80E1 Series, GE90-115B, GEnx-1B/-2B,T700, repair of above aircraft and engine accessories	HTF7000, CT7, TFE-1042, TFE731, T53-L-701A, T53-L13B etc., Engine repair and component manufacturing of listed above aircraft
Aviation materials trading	Aviation materials of military services and National Airborne Service Corps	-	Aviation materials of military services	Aviation materials of military services

(3) Competitive advantage analysis

The domestic aerospace industry is in a situation of imperfect competition, such as China Airlines and EVA Air, each with different aircraft fleets; Taiwan Aerospace Corp. is actively engaged in the production of civil aviation equipment after privatization; this company is a maintenance center. The capital and operation size of each company is quite different, the business type and content are also various.

In the competition of domestic business, companies have no consistency in market competition policy and decision-making. In particular, aviation maintenance industry is essentially different from manufacturing industry. Therefore, several domestic aerospace companies may focus on their own oligopolistic occupations, sometimes may collaborate for common goals, or competing for their own interests. This makes the market and business indiscriminate. In the pursuit of maximum profits, they compete with each others, even they reduce each other's profits and space after failure of cooperation. Therefore, regardless of the form of competition, this company must maintain a high degree of competitive advantage if it wishes to survive and sustain development.

(iii). Overview of technology and R&D

1. The company's research and development expenditure in 2020: The Company aims at aircraft maintenance. Since maintenance must be in compliance with the technical order of manufacturer, we have no plan for research and development in the short term.
2. Significant R&D results are as follows: None.

(iv). Long-term and short-term business development plans

1. Short-term business development plans

In the aircraft maintenance business, in addition to consolidating the existing business, this company will actively accelerate the development of foreign commercial (such as: foreign commercial client fleet) and government agencies (such as: helicopter repair project) aircraft maintenance business. In response to the economic growth of Northeast Asia and Southeast Asia, this company will drive the demand for air transportation; at the same time, taking advantage of Taiwan's geographical location and advantages, we will strive to include single-aisle commercial aircraft of other low-cost airlines and air transport operators from Japan, South Korea, Vietnam, the Philippines, Thailand, Indonesia, Cambodia, Bangladesh, Laos, Myanmar, Russia and Nepal to enter

the factory for maintenance services. Moreover, we shall cooperate with the government to continue implementing military strategic commercial maintenance business, in order to strive for relevant military aircraft systems and performance improvement cases.

Referring to the mainstream market and the aircraft selected by aircraft transport operators, we shall conduct profit analysis, review investment returns, establish testing and maintenance capability for new aircraft and auxiliary equipment and focus on personnel training, quality improvement. At the same time, it will strengthen the acquisition of licenses, data collection, and analysis of working hours to increase utilization rate and production efficiency.

Due to the impact of Covid-19, most of the foreign air carriers canceled scheduled maintenance plans or transferred to local maintenance providers. The strategic focus will shift to the enhanced cooperation with domestic airlines along with the partnership with rental firms, competing for the grand examination for parking and return in order to increase the revenue. In addition, encourage existing foreign airliner clients to pay a visit continuously. The Company also assists their technical representatives with relevant pandemic prevention scheme during their stay in Taiwan, so as to increase the convenience and the incentive during their residence.

AS9110 is the quality management system standard unanimously recognized by the international aviation maintenance industry and the current aviation industry MRO generally adopts EASA certification. And NADCAP is recognized for special products and production process certification in the International Aviation Industry, the company has certification from AS9110 in 2019 and will keep working on getting EASA and NADCAP certifications. This will have long-term and positive benefits on both business promotion and customer sources.

2. Long-term business development plans

Compete for the development capability of industrial cooperation: F-16 model hydraulic pressure HYD-II manufactured by the accessory factory in Taichung has been certified 20 maintenance capabilities for hydraulic pressure components. Later the industrial cooperation items regarding F-16 model still have hydraulic pressure HYD-I industrial cooperation – 9 items for realizable technology transfer, 1 item for oxygen regulator industrial cooperation - realizable technology transfer and 16 items for P-3C propeller system industrial cooperation - realizable technology transfer. After the capability establishment and certification have been completed, not only can it be included in the transfer

capability list of GOCO with 2nd Air Force Logistics Area Command to accept the commission of air force work, but also expected to be included in the third-party operation execution.

Improving the quality of production, maintenance processes and value of accessories, we shall gradually promote the increase in quantity into increase in quality, expand the unstable sporadic case-by-case maintenance business into a long-term fleet service. This company will increase its capability development into a comprehensive narrow-body passenger aircraft and helicopter repair center in the Asia-Pacific region. In addition, by expanding chrome plating capability in Taichung for civil aircraft to enter supply chain of International aviation and expand the company's market in this industry.

ii. Overview of market and production/sales situation

(i). Market analysis

1. Sales (providing) area of major commodities (services)

The company's main business is the repair of aircraft and related equipment. The scope of business marketing depends on the actual maintenance business. Currently, in addition to the domestic armed forces, airlines and government agencies, the marketing channels of foreign countries have been extended to Europe, United States, Africa, Central and South American markets, and Asia-Pacific countries such as Thailand, Vietnam, Cambodia, Philippines, South Korea, Indonesia, Malaysia, Singapore, etc. In terms of business passenger aircraft, the company will slowly move to project management services, aircraft maintenance, modification and other project areas. The main customers include domestic and other customers in the Asia Pacific region.

2. Market share

With years of experience in aircraft maintenance and aviation materials trading, the company strives for stable development in the field of aircraft and derivative services; and is actively pursuing business opportunities in the field of business passenger aircraft and large civil aircraft logistics maintenance services, and strives for certain possession in the relevant market.

3. The future supply and demand situation and growth of the market

Please refer to the descriptions in the current status and development of the industry, relevance of the upstream, midstream and downstream, as well as the development trend and competition of the products

4. Advantages, disadvantages and countermeasures of competitive niche and development prospects

(1) Competitive niche and advantages

A. Hub location

Taiwan is located in the hub location of the Asia-Pacific region with the highest growth rate of global air transportation.

B. Rich maintenance experience

The company has accumulated more than 70 years of maintenance capability, experienced staff and maintenance licenses issued by the civil aviation administration of various countries and the maintenance licenses authorized by each aerospace original equipment manufacturer.

C. A number of international professional certifications

Over the years, the company has successively signed strategic alliances with international aircraft manufacturing companies such as Lockheed Martin and Sikorsky Aircraft Corporation, and introduced the advanced technology, including the establishment of technical database, reception of aircraft blueprint, personnel and technical training, and equipment tools and authorized manufacturing of equipment tools and verification for special equipment reception, etc. Under the transfer of the original technology, the company has become the repair center certified by 13 international aerospace original equipment manufacturer and obtained the authorization certificates of 16 national civil aviation bureaus. It has become one of the few domestic professional manufacturers with both military and civil aircraft maintenance capability.

D. Favorable national defense policy

The government has stepped up to expand the defense industry into a huge domestic demand-type military aircraft maintenance market, and the company has undertaken a number of strategic military and civil aircraft commercial maintenance projects from the Ministry of National Defense and the Ministry of the Interior, which will facilitate the development of international aircraft maintenance business based on the Taiwan market.

E. Complete aviation material authorization

This company has obtained the exclusive agency right for the sales of aviation materials related to the internationally renowned aerospace

manufacturers and is a professional repair factory certified by them.

F. Qualifications to enter the logistics maintenance service industry of high-precision manufacturing equipment

The company has aeronautical logistics support system with aerospace level, and has a complete manufacturing logistics processing facilities and sufficient manufacturing space to enter the high-precision logistics service industry.

G. Best quality and fast delivery schedule

The company has more than 70 years of extensive maintenance experience, and insists on quality and fast and accurate delivery schedule in maintenance work, and has established an excellent reputation in the aircraft maintenance market.

(2) Disadvantages

A. Labor costs

The labor cost is higher than that of some Southeast Asian countries such as China, Philippines, Indonesia, etc., and some Southeast Asian countries have plans to expand and maintain factories. The competition is fierce.

B. Technology licensing costs

The technology and aviation materials are controlled by the original manufacturer, resulting in increase of maintenance costs, and because the original manufacturer has a two-handed strategy for domestic aerospace maintenance, and the military has no professional and fair qualifications assessing ideology for military aircraft maintenance and bidding operations, the company's advantages of continuing exclusive licensing will face challenges.

C. Complicated models for maintenance

The aircraft models in the domestic civil and military aircraft maintenance market are numerous, mixed and the number is small. The maintenance capability is not integrated or re-invested.

(3) Countermeasures

A. Strengthen production scheduling with clients

Strengthen the communication with customers, and properly arrange the entry schedule and delivery schedule of customers' aircraft, engines and components.

B. Employee production shift

In line with the schedule and quantity of customer's demand, the shift system will be implemented to improve the use and productivity of the factory and shorten the delivery schedule.

C. Global strategic alliance

Establish a global network of aircraft maintenance relationships by participating in large-scale cooperation programs and working with internationally renowned aerospace manufacturers.

D. Strengthening education and professional knowledge

Strengthen the education and training of aircraft engine and component maintenance expertise and management capabilities, and strive to improve quality and efficiency, in order to reduce operating costs.

(ii). Important use and production process of the main products

The company's main business items are to provide repair, modification, leasing and trading of aircraft and related equipment, including various types of aircraft inspection and maintenance services, passenger aircraft modification, age inspection and life extension, military aircraft maintenance inspection, fleet management and maintenance and whole aircraft commercial maintenance projects. The main purpose is to maintain and ensure the safety of the aircraft.

(iii). Supply status of main raw materials

The company's main business is military and commercial aircraft (fixed-wings and helicopter) airframe maintenance, military engine overhaul, various types of hydraulic, transmission, aircraft and other components repair and sales of various aviation materials and accessories. The company carries out various maintenance work according to the FAA regulations of the United States Federal Aviation Administration, national civil aviation regulations of various countries and OEM regulations. Aviation materials procurement and supply are subject to aviation safety airworthiness inspection standards, and the aviation materials shall be purchased from respectively original aircraft manufacturers and original engine manufacturers such as Boeing, McDonnell Douglas, Bell, Hawker Beechcraft Corporation, Honeywell, P&WC, Breeze-Eastern, Collins Aerospace and Rolls- Royce and other

original manufacturers and Aviation Suppliers Association qualified manufacturers.
The source and supply of major maintenance materials are relatively stable.

(iv).A list of any suppliers and clients accounting for 10 percent or more of the company's total procurement (sales) amount in either of the 2 most recent fiscal years, the amounts and percentage bought from (sold to)

1. Major suppliers' information for the last two years: This company has no supplier whose total procurement (sales) amount accounts for 10 percent or more.

Unit: NT\$(K); %

2019				2020			
Name	Amount	Ratio in net annual purchase (%)	Relation with issuer	Name	Amount	Ratio in net annual purchase (%)	Relation with issuer
None	-	-	-	Supplier A	256,220	11.18	None

The company's main business items are the repair, leasing and trading of aircraft and related equipment, the manufacture and assembly of aviation parts and equipment, the repair of precision industrial equipment and the sale of aviation materials. The inspection business needed by the customer has different stage requirements depending on the age of the aircraft. Therefore, the maintenance demand is not fixed every year. Thus, the purchase situation of the company depends on the customer's maintenance requirements, resulting in the annual order of the suppliers may change.

2. Major customers information for the last two years

Unit: NT\$(K); %

2019				2020			
Name	Amount	% of 2019 total net Revenue	Relation with issuer	Name	Amount	% of 2020 total net Revenue	Relation with issuer
Client A	1,893,932	48.40	None	Client A	2,344,659	60.20	None
Client B	548,712	14.02	None	Client B	493,878	12.68	None

The company's main business items are the repair, leasing and trading of aircraft and related equipment, the manufacture and assembly of aviation parts and equipment, the repair of precision industrial equipment and the sale of aviation materials. The inspection business needed by the customer has different stage requirements depending on the age of the aircraft. Therefore, the maintenance demand is not fixed every year. Thus, the sales situation of the company depends on the customer's maintenance requirements, resulting in the annual order may change.

(v). Production value in the last two years

Unit: NT\$(K)

Main products \ Year	2019			2020		
	Production capacity	Production output	Production value	Production capacity	Production output	Production value
Aircraft maintenance	-	150	968,568	-	79	687,728
Fleet maintenance and pricing of repair, supply and assembly of aircraft	-	Note 1	330,603	-	Note 1	369,428
Outsourcing repair and sale of aviation materials	-	Note 2	1,056,333	-	Note 2	707,043
Spare parts and accessory repair (self-repair)	-	Note 3	1,176,470	-	Note 3	1,940,156
Total	-		3,531,974	-		3,704,355

Note 1: Because the nature of business is to undertake the maintenance operated to the whole fleet, the control points are calculated at a proper rate, so the capacity and output cannot be calculated.

Note 2: Because the nature of business is aviation material trading and outsourcing maintenance of spare parts, the product items are highly variable and the unit and pricing model are different, so the capacity and output cannot be calculated.

Note 3: Because the nature of business is self-repair of aviation materials spare parts, the product items are highly variable and the unit and pricing model are different, so the capacity and output cannot be calculated.

(vi).Sales volume in the last two years

Unit: NT\$(K)

Main products \ Year	2019				2020			
	Domestic sales		Export		Domestic sales		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Aircraft maintenance	58	563,724	92	573,562	39	474,901	40	270,337
Fleet maintenance and pricing of repair, supply and assembly of aircraft	Note 1	399,824	Note 1	-	Note 1	452,041	Note 1	-
Outsourcing repair and sale of aviation materials	Note 2	1,088,699	Note 2	5,911	Note 2	757,116	Note 2	11,083
Spare parts and accessory repair (self-repair)	Note 3	1,279,952	Note 3	1,619	Note 3	1,926,587	Note 3	3,026
Total		3,332,199		581,092		3,610,648		284,443

Note 1: Because the nature of business is to undertake the maintenance operated to the whole fleet, the control points are calculated at a proper rate, so the capacity and output cannot be calculated.

Note 2: Because the nature of business is aviation material trading and outsourcing maintenance of spare parts, the product items are highly variable and the unit and pricing model are different, so the capacity and output cannot be calculated.

Note 3: Because the nature of business is self-repair of aviation materials spare parts, the product items are highly variable and the unit and pricing model are different, so the capacity and output cannot be calculated.

iii. Number of employees, average length of service, average age and education contribution ratio of employees in the last two years and up to the print date of annual report

April 26, 2021

Year		2019	2020	Up to Apr. 26, 2021
Number of employees	Chairman's office	13	15	13
	General Manager's office	4	4	4
	Assistant General Manager's office	2	2	2
	Factory Manager / (Assistant) Director / Rector	23	22	22
	Team Leader	62	66	66
	Assistant Team Leader	28	26	26
	Employee	925	965	941
	Total	1057	1100	1074
Average age		45.6 years old	45.8 years old	46.4 years old
Average length of service		7Y4M	7Y7M	7Y10M
Education distribution ratio	Doctor	0.00%	0.00%	0.00%
	Master	8.99%	9.30%	9.60%
	College	65.84%	66.10%	64.90%
	High School	24.03%	23.70%	24.60%
	Under High School	1.14%	0.9%	0.90%

iv. Information of environmental protection expenditure

- (i). The total amount of losses and dispositions due to environmental pollution in the most recent year up to the print date of annual report: None.
- (ii). Future countermeasures and possible expenses: None.

V. Labor Relations

(i). Current important labor agreements and implementation

1. Employee welfare measures and implementation situation

- (1) All employees of the company participate in labor insurance and national health insurance; the company insures all employees for group insurance. All payment items are handled in accordance with the relevant regulations.
- (2) The company established the employee welfare committee on October 17, 1967, and the company and employees shall set aside welfare funds to plan, promote and implement various welfare measures. The project covers the congratulations and condolences of employees' weddings and funerals, and distributes vouchers for the three holidays, wedding gifts, maternity gifts, birthday gifts, hospitalization condolences, retirement condolences, funeral grants and self-selected benefits.
- (3) The company handles employee health checks every year, provides three-week benefits for employees, wedding and funeral subsidies, and welfare measures such as transportation to and from Pingtong aircraft maintenance factory
- (4) The union provides welfare measures for their members on subsidies such as hospitalization condolences, wedding gifts, and funeral and condolences.

2. Education and training

- (1) According to the relevant regulation of Civil aviation Act, qualified repair factory must have professional training personnel with sufficient knowledge and experience to perform maintenance, preventive maintenance or modification and other work.
- (2) In order to let the employees fully understand the relevant laws and regulations of aircraft maintenance, the company's Quality Assurance Maintenance and Training Center has regular and irregular training courses. Further, in response to the needs of international aviation organizations, civil aviation authorities or technology of original equipment manufacturer the employee will receive various maintenance related training courses abroad or outsourcing training.
- (3) To handle the training of the chief officer, arrange the supervisors and business-related personnel to accept the training of relevant courses such as aviation safety, leadership, finance, risk management, procurement, etc., and upgrade and make them have the competent functions.
- (4) Proceed cooperation of industry and academy, in addition to cultivating technical manpower, we also provide colleagues with professional knowledge

and technology to cooperative schools as industry teachers to expand career development.

- (5) Through methods of aircraft maintenance training course and encouraging and coaching employees to obtain licenses for cultivation of reserved talent of technical manpower, in order to promote high-quality manpower.

3. Retirement system and implementation situation

- (1) In order to take care of the economic life of employees after they leave the workplace, the company has established a labor retirement reserve supervision committee in accordance with the relevant provisions of the Labor Standards Act to coordinate the management of related businesses.
- (2) To those employees whom the Labor Pension Act may apply, the company also pays monthly pensions in compliance with regulations.

4. Situation of various employee rights maintenance measures

In addition to promulgation of work rules according to the laws and regulations, this company also clearly regulates various labor conditions and protect the rights and interests of employees, and establish employees' warfare committee in accordance with the laws. Employees' various rights and interests can be handled fairly and reasonably through the above channels.

5. Negotiation between labor and management

This company has promulgated the "Rules for Prevention of Workplace Sexual Harassment" and "Reporting System" and holds labor and management meetings in compliance with laws and regulations. This company shall provide employees with a comfortable working environment, and set up a smooth communication channel (such as grievance line and mailbox); so far, the labor relations are quite harmonious.

- (ii). Loss in labor disputes in the most recent year (up to the print date of annual report):
Currently there are 2 dispute cases under judicial review by Tainan District Court and no loss occurred by now.
- (iii). The company has been awarded the "Labor-Management Harmony Unit" and the "Second Session of Five-Heart Excellent Enterprise" medals by the competent authority.
- (iv). The company and the union had signed a group agreement on November 24, 2016 and November 10, 2017, June 15, 2018, November 14, 2019 and September 17, 2020 respectively.

vi. Significant contracts (up to the print date of annual report)

Nature of contract	Counterpart	Starting and ending date of the contract	Main content	Restrictions
Labor agreement	Armaments Bureau, MND	Oct.1,2017~Dec. 31, 2024	OH-58D Helicopter strategic military aircraft commercial maintenance project	-
Labor agreement	MND	Apr.1, 2019~Mar. 31, 2026	CH-47SD Helicopter strategic whole aircraft commercial maintenance project	-
Sales agreement	MND	Jan.01,2018~Dec. 31, 2022	Air Force Second Logistics Command Military Factory Delegating Private Operation Project	-
Sales agreement	MND	Jan.1, 2014~Dec. 31, 2021	Air Force Songshan Base Command Rehabilitation and Supply Team Delegating Private Operation Project	-
Labor agreement	MND	Jan.1, 2019~Dec. 31, 2021	Automatic Flight management System Delegating Commercial maintenance Project	-
Sales agreement	MND	Jan. 1, 2019~Dec. 31, 2023	Automatic Flight management System technical order update procurement	-
Sales agreement	MND	Jan.17, 2018~Dec. 31, 2019	TFE731-2-2L engine parts and accessories open for sale project	-
Labor agreement	MND	Sep.1, 2016~Dec. 31, 2023	TH-67 Helicopter strategic fleet commercial maintenance project	-
Labor agreement	National Airborne Service Corps	Jan.1, 2021~Dec. 31, 2025	The commission management and maintenance of the fleet of UH-60M Black Hawk helicopters	-
Labor agreement	DAPA, Korea	Aug. 31, 2018~ Apr. 30, 2020	Attachment maintenance of Bell 412	-
Labor agreement	DAPA, Korea	Sep. 30, 2019~ Nov. 30, 2021	CH-47 Escaping equipment maintenance	-
Labor agreement	DAPA, Korea	Jul. 30, 2020~ Nov. 30, 2021	KUN-1 cargo hanging equipment maintenance	-
Technical cooperation agreement	BreezeEastern, LLC	Mar.7,2019~ Permanently	BE life-saving crane and cargo crane system	-
Technical cooperation agreement	Columbia Helicopters. Inc.	Jan. 8, 2019~ Permanently	CH-47SD Helicopter repair	-

Nature of contract	Counterpart	Starting and ending date of the contract	Main content	Restrictions
Technical cooperation agreement	Northrop Grumman	Jan.1, 2009~Jul. 31, 2027	E-2T Repair TAA (TA3557-08)	-
Technical cooperation agreement	Triumph Engine Control Systems, LLC	Aug.1,1994~ Permanently (Mar.8, 2019 amand agreement)	Fuel control system	-
Technical support and maintenance factory agreement	RollS-Royce Corporation	Dec.4, 2018~Dec. 31, 2026	M250 Engine	-
Sales agreement	Jeju Air Co. Ltd.	Mar.20, 2019~Jun. 28, 2024	737 Series type aircraft fleet maintenance contract	-
Sales agreement	Peach Aviation Ltd.	Jun.1, 2020~May 31, 2025	A320 Fleet maintenance contract	-
Sales agreement	Aurora Airlines	Dec.1, 2017~Dec. 31, 2022	Dash-8 & A319, A320 Fleet maintenance contract	-
Sales agreement	Japan Transocean Air Co.,Ltd.	May 24, 2017~May 24, 2022	737 Series maintenance contract	-
Sales agreement	PT Airfast Indonesia	Sep.1, 2015~Aug. 31, 2020	MD-82, MD-83 Fleet maintenance contract	-
Sales agreement	Vietjet Aviation JSC	Oct.9,2018~Sep. 30, 2020	A320 Fleet maintenance contract	-
Sales agreement	Cambodia Airways Co., Ltd.	Jan.1, 2018~Jan. 1, 2021	A319, A320, A321 Fleet maintenance contract	-
Sales agreement	T'way Air Co., Ltd.	Jan.1, 2020~Apr. 30, 2022	737-800 Fleet maintenance contract	-
Sales agreement	Thai Vietjet	May 1,2019~ Apr. 30, 2021	The Contract of A320 Fleet Maintenance	-
Sales agreement	Merx Aviation Servicing Limited	Dec. 1,2020~ Dec. 31 2025	The Contract of A320 and 737 Series Fleet Maintenance	-
Sales agreement	Avolon Aerospace Leasing Limited	Apr. 16, 2020~ Permanently	The Contract of A320 and 737 Series Fleet Maintenance	-
Sales agreement	Strong Aviation Co., Ltd.	Jul. 8, 2020~Jul. 7, 2025	BN2 Fleet Maintenance Contract	-
Sales agreement	AirAsia Berhad	Dec. 1, 2019~ Nov. 30, 2021	The Agreement of A320/321CEO/NEO Standard Groundwork	-
Sales agreement	Philippines AirAsia, Inc.	Feb. 1, 2020~ Feb. 1,,2022	The Agreement of A320/321CEO/NEO Standard Groundwork	-

Nature of contract	Counterpart	Starting and ending date of the contract	Main content	Restrictions
Sales agreement	Thai AirAsia Co. Ltd.	Mar. 16, 2020~ Mar. 15, 2021	The Agreement of A320/321CEO/NEO Standard Groundwork	-
Sales agreement	Air P & B Co., Ltd.	Jan. 9, 2019~ Jan. 9, 2024	The Agency Agreement of 737-800 and A319/320/321 Standard Groundwork	-
Sales agreement	Thai Summer Airways Co., Ltd.	Jun.1, 2020~May 31, 2022	The Agreement of 737-800 Standard Groundwork	-
Sales agreement	PT Batik Air Indonesia	Sep. 1, 2019~ Aug. 31, 2020	The Agreement of 737-800/900 and A320 Standard Groundwork	-
Sales agreement	Fly Gangwon	Dec. 1, 2019~ Nov. 30, 2020	The Agreement of 737-800NG Standard Groundwork	-
Sales agreement	JC (Cambodia) International Airlines Co., Ltd.	Jan. 1, 2020~ Dec. 31, 2022	The Agreement of A319/320/321 Standard Groundwork	-
Sales agreement	MET Air International INC.	Oct. 16, 2020~ Oct. 15, 2022	The Agency Agreement of 737-CL Standard Groundwork	-
Sales agreement	S.F. Airlines Company LTD.	Jun. 19, 2019~ Jun. 18, 2020	The Agreement of 737/757/767 Standard Groundwork	-
Sales agreement	Thai Lion Mentari Co., Ltd.	Oct. 1, 2019~ Sep. 30, 2020	The Agreement of 737-800/900ER Standard Groundwork	-
Sales agreement	Taiwan Sky Ground Service	May 15, 2019~ May 14, 2021	The Agency Agreement of A320 and 737 Family Standard Groundwork	-
Sales agreement	China Airlines Limited	Feb. 1, 2016~ Feb. 1, 2021	The Agreement of 737-800 Standard Groundwork	-
Sales agreement	Cathay Pacific Airways Limited	Jul. 22, 2019~ Jul. 21, 2020	The Agreement of A320/330 Standard Groundwork	-
Sales agreement	Mandarin Airlines Co., Ltd.	Mar. 28, 2014~ Permanently	The Contract of Aircraft on call Maintenance Manpower and Equipment Support	-
Sales agreement	ST Engineering Aerospace Supplies Pte. Ltd.	Jul. 22, 2019~ Jul. 21, 2022	The Rental, Exchange and Maintenance of 737 and A320 Series Aviation Materials, GTA of Restored Items	-
Sales agreement	UNI AIR	Jul. 23, 2008~ Permanently	The Contract of Aircraft Maintenance	-
Sales agreement	Hong Kong Dragon Airlines Limited	Jul. 22, 2019~ Jul. 21, 2020	The Agreement of A320/330 Standard Groundwork	-

Nature of contract	Counterpart	Starting and ending date of the contract	Main content	Restrictions
Sales agreement	National Airborne Service Corps	Oct. 20, 2020~ Dec. 3, 2024	The preventive maintenance and repair provider maintenance followed by the procurement of entire aircraft painting of the fleet of Beech fixed-wing aircrafts	-
Loan agreement	Taiwan Cooperative Bank	Mar. 26, 2019~Mar. 26, 2024	5-year mid-term loan	-
Loan agreement	Jih Sun International Bank, Ltd	Jul.18, 2019~Jul.18 2021	2-year mid-term loan	-
Loan agreement	Far Eastern Int'l Bank	Aug. 20, 2019~Aug. 20, 2021	3-year mid-term loan	-
MOU	Lockheed Martin	Mar.23, 2017~ Permanently	MOU for C-130, P-3C, F16 types	-

VI. Financial overview

i. Condensed balance sheet and comprehensive income statement in the recent five years

(i). International Financial Reporting Standards (IFRS)

1. Combined Concise Balance Sheet- IFRS

Unit:NT\$(K)

Item \ Year		Financial information in recent five years(Note)				
		2016	2017	2018	2019	2020
Current asset		1,403,674	1,227,429	2,502,452	3,377,057	3,274,208
Property, plant and equipment		720,941	712,843	709,079	703,719	693,231
Right-of-use assets		-	-	-	269,456	258,315
Intangible assets		3,952	3,327	2,870	6,351	5,148
Other assets		133,356	204,386	202,566	188,930	154,445
Total assets		2,261,923	2,147,985	3,416,967	4,545,513	4,384,347
Current Liabilities	Before distribution	531,231	478,359	1,416,037	1,757,907	1,949,088
	After distribution	698,367	631,119	1,536,157	1,767,517	1,968,764
Non-current liabilities		257,317	212,494	324,873	1,183,858	799,868
Total liabilities	Before distribution	788,548	690,853	1,740,910	2,941,765	2,748,956
	After distribution	955,684	843,613	1,861,030	2,951,375	2,769,632
Interests attributable to parent company owner		1,473,375	1,457,132	1,676,057	1,603,748	1,636,391
Capital		1,058,475	1,078,296	1,222,080	1,201,200	1,311,710
Capital reserve		138,095	153,095	365,749	273,054	162,544
Retained earnings	Before distribution	276,504	225,692	129,262	129,417	162,195
	After distribution	109,368	72,932	119,652	119,807	142,519
Other interests		301	49	139	77	(58)
Treasury stock		-	-	(41,173)	-	-
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	1,473,375	1,457,132	1,676,057	1,603,748	1,636,391
	After distribution	1,306,239	1,304,372	1,555,937	1,594,138	1,616,715

Note: The financial reports of the above years are all verified by the CPAs.

2. Combined Concise Statement of Comprehensive Income-IFRS

Unit: NT\$(K)

Item \ Year	Financial analysis for the past five years (Note 1)				
	2016	2017	2018	2019	2020
Operating Revenue	2,733,461	2,417,744	2,719,354	3,913,291	3,895,091
Operating margin	436,182	394,294	312,324	381,317	190,736
Operating income	237,376	148,933	14,240	78,753	(40,241)
Non-operating income and expenses	(3,913)	(907)	(6,380)	(19,341)	73,469
Income from continuing operations before income tax	233,463	148,026	7,860	59,412	33,228
Net income of continuing business units	195,588	123,393	15,405	45,011	42,388
Loss of suspended business unit	-	-	-	-	-
Net income	195,588	123,393	15,405	45,011	42,388
Other comprehensive income, net of tax	(4,311)	(7,321)	(7,868)	(10,260)	(135)
Total comprehensive income	191,277	116,072	7,537	34,751	42,253
Net income attributable to stockholders of the parent company	195,588	123,393	15,405	45,011	42,388
Net income attributable to non-controlling interests	-	-	-	-	-
Total comprehensive income attributable to stockholders of the parent company owner	191,277	116,072	7,537	34,751	42,253
Total comprehensive income attributable to non-controlling interests	-	-	-	-	-
Earnings per share(NT\$) (Note 2)	1.85	1.14	0.13	0.37	0.32

Note 1: The financial reports of the above years are all verified by the CPAs.

Note 2: Earnings per share is calculated by retroactively adjusting the number of ordinary shares after the annual surplus to capital increase according to the proportion of capital increase.

3. Concise Individual Balance Sheet--IFRS

Unit: NT\$(K)

Item \ Year		Financial information in recent five years (Note)				
		2016	2017	2018	2019	2020
Current asset		1,399,680	1,223,826	2,498,816	3,373,583	3,270,987
Property, plant and equipment		720,941	712,843	709,079	703,719	693,231
Right-of-use assets		-	-	-	269,456	258,315
Intangible assets		3,952	3,327	2,870	6,351	5,148
Other assets		137,312	207,953	206,164	192,368	157,630
Total assets		2,261,885	2,147,949	3,416,929	4,545,477	4,385,311
Current Liabilities	Before distribution	531,193	478,323	1,415,999	1,757,871	1,949,052
	After distribution	698,329	631,083	1,536,119	1,767,481	1,968,728
Non-current liabilities		257,317	212,494	324,873	1,183,858	799,868
Total liabilities	Before distribution	788,510	690,817	1,740,872	2,941,729	2,748,920
	After distribution	955,646	843,577	1,860,992	2,951,339	2,768,596
Interests attributable to parent company owner		1,473,375	1,457,132	1,676,057	1,603,748	1,636,391
Capital		1,058,475	1,078,296	1,222,080	1,201,200	1,311,710
Capital reserve		138,095	153,095	365,749	273,054	162,544
Retained earnings	Before distribution	276,504	225,692	129,262	129,417	162,195
	After distribution	109,368	72,932	119,652	119,807	142,519
Other interests		301	49	139	77	(58)
Treasury stock		-	-	(41,173)	-	-
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	1,473,375	1,457,132	1,676,057	1,603,748	1,636,391
	After distribution	1,306,239	1,304,372	1,555,937	1,594,138	1,616,715

Note: The financial reports of the above years are all verified by the CPAs.

4. Concise Individual Statement of Comprehensive Income-IFRS

Unit: NT\$(K)

Item \ Year	Financial analysis for the past five years (Note 1)				
	2016	2017	2018	2019	2020
Operating Revenue	2,733,461	2,417,744	2,719,354	3,913,291	3,895,091
Operating margin	436,182	394,294	312,324	381,317	190,736
Operating income	237,464	149,017	14,323	78,810	(40,157)
Non-operating income and expenses	(4,001)	(991)	(6,463)	(19,398)	73,385
Income from continuing operations before income tax	233,463	148,026	7,860	59,412	33,228
Net income of continuing business units	195,588	123,393	15,405	45,011	42,388
Loss of suspended business unit	-	-	-	-	-
Net income	195,588	123,393	15,405	45,011	42,388
Other comprehensive income, net of tax	(4,311)	(7,321)	(7,868)	(10,260)	(135)
Total comprehensive income	191,277	116,072	7,537	34,751	42,253
Net income attributable to stockholders of the parent company	195,588	123,393	15,405	45,011	42,388
Net income attributable to non-controlling interests	-	-	-	-	-
Total comprehensive income attributable to stockholders of the parent company owner	191,277	116,072	7,537	34,751	42,253
Total comprehensive income attributable to non-controlling interests	-	-	-	-	-
Earnings per share(NT\$) (Note 2)	1.85	1.14	0.13	0.37	0.32

Note 1: The financial reports of the above years are all verified by the CPAs.

Note 2: Earnings per share is calculated by retroactively adjusting the number of ordinary shares after the annual surplus to capital increase according to the proportion of capital increase.

(ii). The CPAs who conduct verification in the recent 5 years and their audit opinion

Year	Name of CPA	Audit opinion
2016	Lin Suwen, Yang Zhihui	No reserved opinion
2017	Lin Suwen, Yang Zhihui	No reserved opinion
2018	Lin Suwen, Yang Zhihui	No reserved opinion
2019	Lin Suwen, Yang Zhihui	No reserved opinion
2020	Su Yenta, Chen Huiyuan	No reserved opinion

ii. Financial analysis for the past five years

(i). International Financial Reporting Standards (IFRS)

1. Combined Financial Analysis- IFRS

Item (Note 2) \ Year		Financial analysis in recent five years (Note 1)				
		2016	2017	2018	2019	2020
Financial structure	Debt to asset ratio (%)	34.86	32.16	50.94	64.71	62.68
	Long term capital to property, plant and equipment ratio (%)	240.06	234.22	282.18	396.12	256.03
Solvency	Current ratio (%)	264.23	256.59	176.72	192.10	167.98
	Quick ratio (%)	185.23	186.50	102.08	105.23	111.48
	Interest coverage ratio (times)	45.69	39.89	2.45	4.85	2.24
Operating capacity	Payable turnover rate(times)	4.17	3.38	2.92	2.93	2.98
	Average cash recovery day	88	108	125	125	122
	Inventory turnover rate (times)	6.42	5.68	3.59	2.76	2.86
	Payable turnover rate(times)	13.77	14.83	18.78	12.52	11.76
	Days sales outstanding	57	64	102	132	128
	Property, plant and equipment turnover rate (times)	3.71	3.37	3.82	5.53	5.57
	Total asset turnover rate (times)	1.25	1.09	0.97	0.98	0.87
Profitability	Return on assets (%)	9.17	5.73	0.71	1.56	1.42
	Return on equity (%)	14.19	8.42	0.98	2.74	2.61
	Pre-tax net profit to paid-in capital ratio (%)	22.05	13.72	0.64	4.94	2.53
	Net profit (loss) rate (%)	7.15	5.10	0.56	1.15	1.08
	Earnings per share (NT\$)	1.85	1.14	0.13	0.37	0.32
Cash flow	Cash flow ratio (%)	17.53	31.17	(79.79)	(35.27)	10.83
	Cash flow adequacy ratio (%)	125.11	80.99	(45.02)	(63.60)	(85.72)
	Cash reinvestment ratio (%)	3.76	(0.73)	(45.80)	(21.78)	6.45
Leverage	Operating leverage	11.06	15.23	176.28	46.90	(92.99)
	Financial leverage	1.02	1.02	1.60	1.37	0.60

Please indicate the reasons for the changes in the financial ratios in the last two years. (Increasing or decreasing by 20% as follows:)

1. The decrease in interest coverage ratio and profitability items is due to the decrease in net profit after tax.
2. The increase in cash flow ratio and cash reinvestment ratio is due to the increase in net cash inflow from operating activities.
3. The decrease in the cash flow adequacy ratio is due to the decrease in inventory and cash dividend.
4. The decrease in operating leverage and financial leverage is due to decreased operating profit.

2. Individual Financial Analysis-IFRS

Item (Note 2)		Year	Financial analysis in recent five years (Note 1)				
			2016	2017	2018	2019	2020
Financial structure	Debt to asset ratio (%)		34.86	32.16	50.94	64.71	62.68
	Long term capital to property, plant and equipment ratio (%)		240.06	234.22	282.18	286.44	256.03
Solvency	Current ratio (%)		263.49	255.85	176.47	191.91	167.82
	Quick ratio (%)		184.49	185.76	101.82	105.04	111.32
	Interest coverage ratio (times)		45.69	39.89	2.45	4.85	2.24
Operating capacity	Payable turnover rate (times)		4.17	3.38	2.92	2.93	2.98
	Average cash recovery day		88	108	125	125	122
	Inventory turnover rate (times)		6.42	5.68	3.59	2.76	2.86
	Payable turnover rate (times)		13.77	14.83	13.98	12.52	11.76
	Days sales outstanding		57	64	102	132	132
	Property, plant and equipment turnover rate (times)		3.71	3.37	3.82	5.53	5.57
	Total asset turnover rate (times)		1.25	1.09	0.97	0.98	0.87
Profitability	Return on assets (%)		9.17	5.73	0.71	1.56	1.42
	Return on equity (%)		8.95	8.42	0.98	2.74	2.61
	Pre-tax net profit to paid-in capital ratio (%)		22.05	13.72	0.64	4.94	2.53
	Net profit (loss) rate (%)		7.15	5.10	0.56	1.15	1.08
	Earnings per share(NT\$)		1.85	1.14	0.13	0.37	0.32
Cash flow	Cash flow ratio (%)		17.55	31.19	(79.78)	(35.27)	10.83
	Cash flow adequacy ratio (%)		125.15	81.04	(44.99)	(78.58)	(85.69)
	Cash reinvestment ratio (%)		3.76	(0.72)	(45.86)	(21.80)	6.46
Leverage	Operating leverage		11.05	15.23	175.26	46.87	(93.18)
	Financial leverage		1.02	1.02	1.60	1.37	0.59
Please indicate the reasons for the changes in the financial ratios in the last two years. (Increasing or decreasing by 20% as follows:)							
1. The decrease in interest coverage ratio and profitability items is due to the decrease in net profit after tax.							
2. The increase in cash flow ratio and cash reinvestment ratio is due to the increase in net cash inflow from operating activities.							
3. The decrease in the cash flow adequacy ratio is due to the decrease in inventory and cash dividend.							
4. The decrease in operating leverage and financial leverage is due to decreased operating profit.							

Note 1: The financial reports of the above years are all verified by the CPAs.

Note 2: The calculation formula of financial analysis items is as follows:

1. Financial structure

- (1) Debt to asset ratio = Non-current liabilities / Total assets
- (2) Long term capital to property, plant and equipment ratio = (Total equity + Non-current liabilities) / Net property, plant and equipment

2. Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – Inventories – Prepaid expenses) / Current liabilities
- (3) Interest coverage ratio = Net earnings before income tax and interest expenses / Current interest expense

3. Operating capacity

- (1) Receivable (including Trade receivables and Notes receivables arising from operating activities) turnover rate = Net sales / Balance of Average receivable for each period (including Trade receivables and Notes receivables arising from operating activities)
- (2) Average cash recovery day = 365 / Receivable turnover rate
- (3) Inventory turnover rate = Cost of goods sold / Average inventory balance
- (4) Payable (including Accounts payable and Notes payable arising from operating activities) turnover rate = Cost of goods sold / Balance of Average payable for each period (including Accounts payable and Notes payable arising from operating activities)
- (5) Days sales outstanding = 365 / Inventory turnover rate
- (6) Fixed assets turnover rate = Net sales / Net average fixed assets
- (7) Total asset turnover rate = Net sales / Average total assets

4. Profitability

- (1) Return on assets = [After-tax profit and loss + Interest expenses × (1 – Tax rate)] / Average total assets
- (2) Return on equity = After-tax profit and loss / Average total equity
- (3) Net profit rate = After-tax profit and loss / Net sales
- (4) Earnings per share = (Profit and losses attributable to parent company owner – Preferred share dividends) / Weighted average shares issued

5. Cash flow

- (1) Cash flow ratio = Operating Net Cash Flow / Current liabilities
- (2) Net cash flow adequacy ratio = Net cash flow from operating activities within the last five years / (Capital expenditure + Inventory increase + Cash dividend) within the last five years
- (3) Cash reinvestment ratio = (Net cash flow from operating activities – Cash dividend) / (Gross property, plant and equipment + Long-term investment + Other non-current assets + working capital) °

6. Leverage

- (1) Operating leverage = (Net Operating Revenue – operating variable cost and expense) / operating income
- (2) Financial leverage = operating income / (operating income – interest expense)

iii. Audit Report of Audit Committee in the Latest Annual Financial Report

Audit Report of Audit Committee

The Business Report, Financial statements and Proposal for profit distribution of 2020 prepared by the Board of Directors have been audited and certified by Su, Yen-Ta, Chen, Hui-Yuan of KPMG. After reviewing such documents, this Audit Committee found no nonconformity, in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. We hereby submit this report.

To

Air Asia Co., Ltd 2021 Shareholders' Annual Meeting

Convener of Audit Committee: Ko Jen-Wei



February 23, 2021

- iv. Consolidated Financial statement for the most recent fiscal year : Please refer to Appendix 1.
- v. Parent company only financial statement for the most recent fiscal year: Please refer to Appendix 2.
- vi. If the company or its affiliates have experienced financial difficulties in the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, the annual report shall explain how said difficulties will affect the company's financial situation.

The finance and business are both independent between the Company and its affiliates with no financial difficulties in the most recent fiscal year and during the current fiscal year up to the date of publication of this annual report.

VII. Review and analysis of financial status and financial performance and their risk issues

i. Financial status

Unit: NT\$(K)

Item \ Year	2020	2019	Difference		Analysis of Change (Note)
			Amount	%	
Current asset	3,274,208	3,377,057	(102,849)	(3.05)	-
Property, plant and equipment	951,546	973,175	(21,629)	(2.22)	-
Intangible assets	5,148	6,351	(1,203)	(18.94)	-
Other assets	154,445	188,930	(34,485)	(18.25)	-
Total assets	4,385,347	4,545,513	(160,166)	(3.52)	-
Current liabilities	1,949,088	1,757,907	191,181	10.88	-
Non-current liabilities	799,868	1,183,858	(383,990)	(32.44)	1
Total liabilities	2,748,956	2,941,765	(192,809)	(6.55)	-
Capital	1,311,710	1,201,200	110,510	9.20	-
Capital reserve	162,544	273,054	(110,510)	(40.47)	2
Retained earnings	162,195	129,417	32,778	25.33	3
Other interests	(58)	77	(135)	(175.32)	-
Treasury stock	-	-	-	-	-
Total equity	1,636,391	1,603,748	32,643	2.04	-

Note: The main reason, impact and the future countermeasures of significant change (The change reaches 20% between previous and current periods and the amount reaches NT\$ 10 million) occurred in the items of assets, liabilities, shareholder's equity of company in the last two years shall be explained.

1. The reduction of non-current assets is mainly due to company bond being classified into current as well as the reduction of long-term loan.
2. The reduction of capital surplus is mainly due to the distribution of stock dividend of 2019.
3. The increase in retained earnings is mainly due to the execution of decrease in treasury stock of 2019.

ii. Financial Performance

Unit: NT\$(K)

Item \ Year	2020	2019	Amount increased (decreased)	Ratio of change (%)	Analysis of Change
Operating Revenue	3,895,091	3,913,291	(18,200)	(0.47)	1
Operating costs	3,704,355	3,531,974	172,381	4.88	1
Operating gross profit	190,736	381,317	(190,581)	(49.98)	1
Operating expenses	230,977	302,564	(71,587)	(23.66)	2
Operating income	(40,241)	78,753	(118,994)	(151.10)	3
Non-operating income and expenses	73,469	(19,341)	92,810	479.86	4
Net profit before tax	33,228	59,412	(26,184)	(44.07)	3
Plus: tax income (expense)	9,160	(14,401)	23,561	163.61	-
Net income	42,388	45,011	(2,623)	(5.83)	3
Reason for change:					
1. The gross profit of 2020 is less than 2019, mainly due to the impact of Covid-19 in 2020, causing the revenue increase in commercial aircraft maintenance					
2. The operating expense of 2020 is less than 2019, mainly due to the fee reduction related to government subsidies and the expense decrease in research and development under the impact of the pandemic in 2020.					
3. The net operating profit, profit before tax and net profit of 2020 is less than 2019, mainly due to the decrease in gross profit of 2020.					
4. The non-operating revenue and net expenditure of 2020 is more than 2019, mainly due to the application of relief subsidies under the impact of the pandemic in 2020.					

iii. Cash flow

(i). Analysis and description of the cash flow change in the most recent year

Item \ Year	2020	2019	Increase (decrease)
Cash flow ratio (%)	10.83%	(35.27%)	46.10%
Cash flow adequacy ratio (%)	(85.72%)	(63.60%)	(22.12%)
Cash reinvestment ratio (%)	6.45%	(21.78%)	28.23%

Analysis and description of change of the increase/decrease ratio:

1. The increase in cash flow ratio and cash reinvestment ratio in the current period was due to the increase in net cash inflow from operating activities.
2. The decrease in the cash flow adequacy ratio for the current period was due to the decrease in inventory and cash dividend.

(ii). Improvement plan for liquidity shortage in the recent year: not applicable.

(iii). Analysis of cash flow liquidity in the coming year

Unit NT\$(K)

Beginning cash balance	Expected annual cash outflow	Expected cash remaining amount	Remedial measures for expected cash shortfalls	
			Investment plan	Financial plan
\$155,233	(\$37,387)	\$117,846	Not applicable	Not applicable
1. Analysis of changes in cash flow in the coming year: (1) Operating activities: The Company expects to receipt the accounts receivable and control properly on inventory in 2021, which is estimated to generate a net cash inflow of NT\$ 297,672,000 from operating activities in the coming year. (2) Investment activities: The Company expects to deprecate, update and purchase machines and plant equipment, which is estimated to generate a net cash outflow of NT\$ 114,383,000 from investment activities in the coming year. (3) Fundraising activities: The Company expects to distribute dividends in cash, redempt corporate bonds, and adjust capital allocation based on operation needs, which is estimated to generate a net cash outflow of NT\$220,676,000 from fundraising activities. 2. Expected cash shortfall remedies and liquidity analysis: Not applicable.				

iv. Impact of recent major capital expenditures on financial operations: None.

v. The reinvestment policy in recent year, its main reason of profit or loss and improvement plan; and investment plan for the coming year

(i). Reinvestment policy

The company's management team based on operational needs or the company's future growth considerations, to conduct reinvestment. It will conduct detailed assessments of the organizational structure, investment objectives, location, market conditions, business development, shareholding ratio, reference price and financial status of the investment business and make assessment suggestion of

the investment project, in order to provide basis for decision-making authorities to make investment decisions. In addition, this company will also keep track of the operating status of the invested enterprise and analyze the investment results in order to facilitate the decision-making authorities as a follow-up assessment of post-investment management.

- (ii). The main reason for the profit or loss of investment in recent years and the improvement plan

Unit NT\$(K)

Re-invested enterprise	Recognition of the latest annual investment profits (losses) of the invested company	main reason for the profit or loss	Improvement plan
Air Asia Company Ltd. (USA)	(84)	The main reason of the loss incurred by relevant expenses for this company's import and export from and to the US for the company's aircraft parts and accessories.	As that company only handles the import and export operation from and to the US for this company's aircraft parts and accessories, so its profitability is limited.

- (iii). Investment plan for the next year: None.

vi. Risk analysis and evaluation (in the recent year and up to the print date of annual report)

- (i). The impact of interest rates, exchange rate variation, and inflation on the company's profit and loss and future response measures

1. Impact of interest rate variation

The Company's interest expenses for 2019 and 2020 accounted for 0.58% and 0.74% of the operating revenue for respective year, accounting for a small proportion of the current operating revenue. In addition, the company maintains close contact with the bank on weekdays and keeps an eye on the current interest rate level to reduce the impact of interest rate variation on the company's profit and loss.

2. Impact of exchange rate variation

The Company's export and outsourcing are mainly denominated in US dollars. The exchange profit of the Company for 2019 is NT\$ 6.839 million, and the exchange profit for 2020 is NT\$ 12.539 million, the increase is mainly due to the substantial appreciation of the Taiwan Dollar against the U.S. dollar. The company will collect exchange rate movement information at any time, grasp

the exchange rate trend, judge the exchange rate variation, and adopt a hedging strategy in a timely manner to avoid exchange rate fluctuation risks and reduce the adverse impact of exchange rate variation on the company's profit and loss.

3. Impact of inflation

The Company has not had any significant adverse impact on the Company's profit and loss due to inflation in the most recent year and up to the print date of annual report. In the future, we will pay attention to fluctuations in market prices and strengthen control of costs to reduce the impact of inflation on the company's profit and loss.

- (ii). The main reasons of profit or loss for the high-risk, high-leverage investment, capital loan to others, endorsement/guarantee and derivative commodity trading, and the future response measures.

The Company has always adhered to the principle of focusing on the industry and pragmatic principles. The financial policy is based on the principle of stable and conservative, and it does not engage in high-risk, highly leveraged investments.

This company has no capital loan to the others, endorsement/guarantee and transactions in derivative commodities in the recent year and up to print date of annual report. The company has passed the resolutions of the board of directors, stating that the capital of the company shall not be lend to any other. In the special shareholders' meeting on December 17, 2012, the "Regulations Governing Capital Loan to Others" has been abolished. Further, this company has promulgated the "Regulations Governing Endorsement and Guarantee" and "Regulations Governing the Acquisition and Disposal of Assets"; in the future, if this company may engage in endorsement/guarantee or transactions in derivative commodities, it shall subject to the policy and countermeasures governing such activities.

- (iii). R&D expenses for future R&D projects and projected inputs

1.Future R&D projects: The Company aims at aircraft maintenance. Since maintenance must be in compliance with the technical order of manufacturer, we have no plan for research and development in the short term.

2. The expected R&D expenditure is estimated to 0.

- (iv). The impact of important domestic and international policies and changes of laws

on the company's financial business and the corresponding measures: None.

(v). The impact of technological changes and industrial changes on the company's financial business and the corresponding measures

The company attaches great importance to technological changes, and has continued to invest in information systems for many years, creating its own enterprise resource management system, we enhances the information security structure, regularly assigns personnel to participate in the security course and information security promotion, regularly collect intelligence, and conducts penetration testing in order to strengthen the ability of information security personnel to grasp and handle the security incidents in the first time.

System maintenance is an important management procedure for the normal operation of the information system. In order to maintain the operation of the system, the Company's "Information Security Policy" is based on the three major frameworks, namely "System Maintenance", "Capital Security Control" and "Education and Promotion" through system control, education and training. Through the management procedures of system control, education and training, behavior record, systematic prevention, internal audit, external audit and penetration testing, information security management is strictly implemented in order to protect company confidential documents and employee's personal information.

Recently, the company has successively introduced storage domain system/host virtualization, information management and application, all of which have focused on controlling internal costs and have no significant impact on the company's financial business. The Company is looking to introduce ISO27001 and obtain the certification, in order to strengthen the information security management further.

Other information about the company's information security structure is also disclosed in the corporate governance zone of company's official website.

(vi). The impact of corporate image change on corporate crisis management and corresponding measures

The company is a maintenance company for aircraft professional maintenance, and has always spared no effort in the maintenance quality and personnel training. The past maintenance performance is obvious to the industry and the corporate image is excellent.

(vii). Expected benefits, possible risks and corresponding measures for M&A: None.

(viii). Expected benefits, possible risks and corresponding measures for the expansion of the plant: None.

(ix). Risks and countermeasures in the concentration of purchasing or selling goods

1. Risk in the concentration of purchasing goods

The suppliers of the Company are mostly the original manufacturers of foreign aerospace grades, each having a production niche, so there is no risk of excessive concentration.

2. Risk in the concentration of selling goods

The Company's sales customers are mostly domestic and foreign government agencies and large commercial enterprises, and the relative business risks are relatively low.

(x). The impact, risks and countermeasures of a large number of shares transferred or replaced by the directors, supervisors or shareholders holding more than 10% of the shares

The Company did not have the above situation in the most recent year and up to the print date of annual report.

(xi). Impact, risks and corresponding measures of changes in management team on the company

The Company did not have the above situation in the most recent year and up to the print date of annual report.

(xii). Case of litigation or non-litigation (up to print date)

The shareholder, Taiwan Sugar Corp., which has a shareholding ratio of more than 10%, and New System Logistics Co., Ltd. (hereinafter referred to as New System Company) had a contractual litigation concerning the “Taiwan Sugar Logistic Park” and Taiwan Sugar Corp demanded New System Company to return the fines, royalties, land rents, liquidated damages and the unjust enrichment equal to the land rent. Taiwan Sugar Corp. won that case in March 2012, so it continued to recover such claims from the New Systems Company in accordance with the law. However, Taiwan Cooperative Bank claimed that the debt between Taiwan Sugar Corp. and New Systems Company, because Taiwan Sugar Corp. advocated the defense right of simultaneous performance to the “system equipment usage

fee” and refused to pay such fee to the New Systems Company; therefore, that bank filed a subrogation litigation, and requested the Taiwan Sugar Corp. to return the “System Equipment User Fee” of NT\$ 114,027,000 from June 2001 to April 2003 and the performance deposit of NT\$7,500,000. On May 15, 2014, the Taiwan Taipei District Court ruled that Taiwan Sugar Corp. lost the first trial. Taiwan Sugar Company filed an appeal. On October 13, 2015, the Taiwan High Court ruled that Taiwan Sugar Company lost the second trial. In order to protect the interests of Taiwan Sugar Corp., Taiwan Sugar Corp. filed an appeal in February 2016, and on May 3, 2017, Taiwan Sugar Corp. lost the case in the first retrial. Taiwan Sugar Corp. file the adverse portion of “No obligation to pay” and “Extinctive Prescription Defense” to the third instance. In addition, Taiwan Cooperative Bank also filed an appeal. On July 20, 2018, it was sent back to the Taiwan High Court for retrial by the Supreme Court's judgment numbered 106 Tai Shang Zi No.2048. On August 13, 2019, the High Court of Taiwan ruled to dismiss Taiwan Sugar Corp’s appeal. The case is currently under appeal to the Supreme Court.

(xiii).Other important risk and corresponding measures: None.

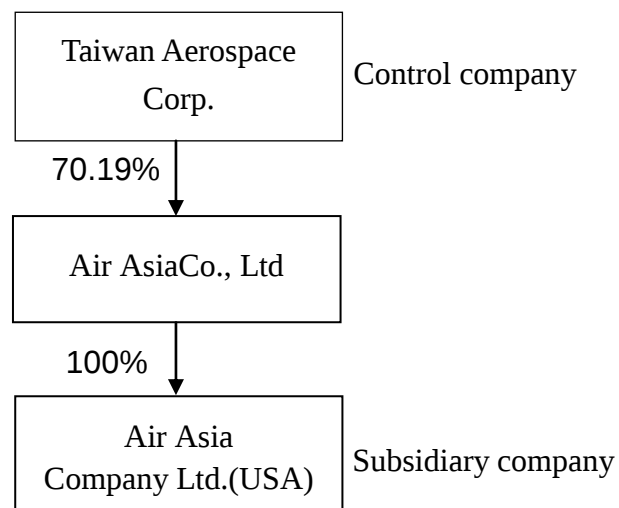
vii. Other important issues: None.

VIII.Special items

i. Relevant information of affiliated enterprises

(i). Consolidated business report for affiliated enterprises

1. Organization chart of affiliated enterprises



2. Description of organization chart of affiliated enterprises

Name of affiliated enterprise	Description	Legal basis
Air Asia Company Ltd. (USA)	Subsidiary whose shares are 100% held by this company	It is in accordance with Article 369-2 of the Company Act. The Company holds the voting shares of that company, which exceeds half of the total number of shares with voting rights of that company has issued. Therefore, this company is the controlling company of that company.

3. Basic information of respective affiliated enterprises

Name of enterprise	Date of incorporation	Address	Paid out	Main business or production item	Remark
Air Asia Company Ltd. (USA)	2002.Feb.27	5525 Daniels ST. Chino, CA 91710	USD 250,000	Aircraft parts and accessories maintenance and sales of aviation materials	-

4. If the company is resumed to have a controlling and affiliated relationship according to the Article 369-3 of the Company Act, the information of same shareholders: Not applicable.

5. Description of business relationship

The industry covered by the overall business operated by the affiliated

Name of affiliated enterprise	Industry
Air Asia Company Ltd. (USA)	Trading industry

6. Information of directors, supervisors and general managers of respective affiliated enterprises

Name of enterprise	Title	Name or representative		Shares held	
				Shares	Shares (%)
Air Asia Company Ltd. (USA)	Chairman	Lu Tianlin	Legal representative of Air Asia Company Ltd.	10,000	100.00
	Director	Chao Jinxian	Legal representative of Air Asia Company Ltd.		

7. Operation overview of respective affiliated enterprises

Air Asia Co., Ltd.

2019

Unless otherwise stated, the unit of amount shall be NT\$ 1,000

Name of enterprise	Paid up capital (Note 2)	Total assets	Total liability	Net value	Operating revenue	Operating profit(loss)	Current profit (loss) (after tax)	Earning per share (NT)(after tax)	Remark
Air Asia Company Ltd. (USA)	6,699 USD 250,000	3,220 USD 113,000	35 USD 1,000	3,185 USD 112,000	- -	(57) (USD 2,000)	(84) (USD 3,000)	(8.4) (USD 0.3)	Note 1

Note 1: The assets and liabilities are converted at the exchange rate of USD1 : NTD 28.48 on December 31, 2020. The profit and loss are converted into the average exchange rate of USD1:NTD29.55 in 2020.

Note 2: The amount of paid-in capital is based on the original investment amount.

Chairman:



Manager:



Supervisor of
Accounting
Division:



(ii). Affiliated enterprise combined financial statement

Declaration of affiliated enterprise combined financial statement

In this company's 2020 fiscal year (from January 1, 2020 to December 31, 2020), the companies to be included the affiliated enterprise combined financial statement according to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" and the companies to be included in the parent-subsidiary combined financial statement according to the No.10 of International Financial Reporting Standards are the same companies. And the relevant information to be disclosed in the affiliated enterprise combined financial statement has been disclosed in the aforementioned parent-subsidiary combined financial statement. Therefore, no additional affiliated enterprise combined financial statement will be prepared.

Here we shall especially so declared.

Name of company: Air Asia Co., Ltd.



Chairman: Lu Tian-Lin



February 23, 2021

(iii). Affiliated enterprise report:

1. The Opinion Letter of Accountant Review

Air Asia Company Limited
The Report of Accountant Review in the Relationship Report

For your confirmation, Air Asia Company Limited,

As of the relationship report 2020 prepared according to “The Preparation Guidelines of the Integrated Business Report of Affiliates, the Integrated Financial report of Affiliates and the Relationship Report” (The Preparation Guidelines below) by Air Asia Company Limited, its financial information has been reviewed by the accountant with the disclosed relevant information noted in the financial report during the period above, and the review is issued according to The Preparation Guidelines.

In the view of the accountant, there is no discrepancy between the disclosed information in the relationship report 2020 of Air Asia Company Limited and the disclosed relevant information noted in the financial report during the period above, and there are no circumstances against The Preparation Guidelines.

Sincerely,
Air Asia Company Limited

KMPG
Yen-Da Su
Accountant
Huei-Yuan Chen
February 23, 2021

2. The Statement of Relationship Report 2020 of the Company (from January 1, 2020 to December 31, 2020) is established by “The Preparation Guidelines of the Integrated Business Report of Affiliates, the Integrated Financial report of Affiliates and the Relationship Report”. Moreover, there is no major discrepancy between the disclosed information and the relevant disclosed information noted in the financial report during the period above.

We hereby declare

Company Name: AIR ASIA Company Limited

Chairman: Tian-Lin Lu



February 23, 2021

3. The Relationship Summary between the Subordinate Company and the Controlling Company

Name of the Controlling Company	Controlling Reason	The situation of shareholding and impignoration of the controlling company			The situation of the manager assignment among directors by the controlling company	
		The number of shares held	The proportion of shareholding	The number of shares of impignoration	Title	Name
Taiwan Aerospace Corp.	The final controlling company holding more than 50% of the number of shares held	92,071.253	70.19%	0	Chairman (General Manager) Director Director Director Director	Tian-Lin Lu Jin-Ming Chen Guan-Yu Shih Yueh-Tzong Lee He-Cheng Hsieh

4. The transaction situation of purchasing and sales: None
 5. Property Transaction: None
 6. The situation of accommodation: None
 7. The situation of asset leasing: None
 8. The situation of other essential transactions: None
 9. The situation of endorsement and guarantee: None
- ii. In the most recent year and up to the print date of annual report, the process of private funding of securities: None.
- iii. In the most recent year and up to the print date of annual report, the subsidiary holds or disposes the share of this company: None.
- iv. Other necessary supplementary notes: None.
- v. In the most recent year and up to the print date of annual report, any matter with significant impact to shareholder's equity or security price regulated in Sub-paragraph 2, Paragraph 3, Article 36 pf the Securities and Exchange Act occurs: None

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

AIR ASIA CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2020 and 2019**

Address: No. 1050, Jichang Rd., Rende Dist., Tainan City, Taiwan, R.O.C.
Telephone: (06)2681911

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of AIR ASIA CO., LTD. as of and for the year ended **December 31, 2020** under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, AIR ASIA CO., LTD. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: AIR ASIA CO., LTD.

Chairman: Tian-Lin Lu

Date: February 23, 2021

Independent Auditors' Report

To the Board of Directors of AIR ASIA CO., LTD.:

Opinion

We have audited the consolidated financial statements of AIR ASIA CO., LTD. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2020, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the 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 Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 of the current period. 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Revenue recognition

Please refer to Note 4(n) "Revenue recognition" , Note 5(a) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty" , and Note 6(s) "Revenue from contracts with customers" to the consolidated financial statements.

Description of key audit matter:

Parts of the Group's aircraft maintenance service and aircraft business maintenance management contracts recognize revenue when a performance obligation was satisfied over time. This method calculates the percentage of completion based on the goods and services transferred to the customer. As measuring the progress towards complete satisfaction of the performance obligation involves management's material

judgement, we determined that the assessment of revenue recognition was one of the key areas our audit focused on.

How the matter was addressed in our audit procedures:

- Assessing and testing the effectiveness of the internal control design and execution regarding revenue recognition.
- Selecting material contracts as samples, inspecting revenue recognition terms and conditions of contracts, testing the material requisition record and employee time record to verify the correctness of actual input and verifying the correctness of the amount of revenue recognized.
- Performing a retrospective review to comparatively analyze the historical accuracy of judgments with reference to actual revenue in order to assess the rationality of the judgement and assumptions of the current period.
- Assessing whether the disclosure of revenue recognition was appropriate.

2. Valuation for inventories

Please refer to Note 4(h) “Inventories” , Note 5(b) “Significant accounting assumptions and judgments, and major sources of estimation uncertainty” , and Note 6(d) “Inventories” to the consolidated financial statements.

Description of key audit matter:

The maintenance materials prepared by the Group to meet customer needs may lose their original benefits due to the obsolescence of aircraft models, resulting in a risk wherein the carrying value of inventories may exceed its net realizable value. Therefore, we determined that the assessment of valuation of inventories was one of the key areas our audit focused on.

How the matter was addressed in our audit procedures:

- Understanding the net realizable value used by management for inventory valuation, as well as sampling and verifying the original transaction vouchers to test the rationality of the net realizable value of inventory.
- Inspecting the inventory aging report, analyzing the changes of inventory aging, as well as sampling and checking the accuracy of the inventory aging report.
- Performing a retrospective review to comparatively analyze the historical accuracy of judgments with reference to actual disposal in order to assess the rationality of the judgement and assumptions of the current period.
- Assessing whether the disclosure of provision for inventory and obsolescence was appropriate.

Other Matter

The consolidated financial statement of AIR ASIA CO., LTD. for the year ended December 31, 2019, were audited by another auditor, who issued an unmodified opinion with emphasis of matter and other matter on these statements on February 20, 2020.

The Company has prepared its parent company only financial statements as of and for the year ended December 31, 2020, on which we have issued an unmodified opinion with other matter.

The Company has prepared its parent company only financial statements as of and for the year ended December 31, 2019, on which another auditor has issued an unmodified opinion with emphasis of matter.

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 consolidated Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, 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) 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 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 the entities or business activities within the Group to express an opinion on this consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Yen-Ta Su and Hui-Yuan Chen.

KPMG

Tainan, Taiwan (Republic of China)
February 23, 2021

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and its cash flows in accordance with the 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 accepted and applied in the Republic of China.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
AIR ASIA CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
Assets					
Current assets:					
1100	Cash and cash equivalents (note 6(a))	\$ 158,454	4	145,757	3
1110	Financial assets at fair value through profit or loss — current (note 6(l))	210	-	-	-
1140	Contract assets — current (notes 6(s))	730,523	17	321,579	7
1170	Notes and trade receivables, net (notes 6(b)(s) and 7)	1,077,859	24	1,209,766	27
1200	Other receivables (note 6(c))	13,188	-	20,969	-
130X	Inventories (note 6(d))	1,074,706	25	1,514,312	33
1410	Prepayments (note 6(e))	86,240	2	34,362	1
1478	Refundable deposits — current (note 8)	131,606	3	128,824	3
1479	Other current assets (note 8)	1,422	-	1,488	-
Total current assets		3,274,208	75	3,377,057	74
Non-current assets:					
1600	Property, plant and equipment (notes 6(f) and 8)	693,231	16	703,719	16
1755	Right-of-use assets (note 6(g))	258,315	6	269,456	6
1780	Intangible assets (note 6(h))	5,148	-	6,351	-
1840	Deferred tax assets (note 6(p))	69,409	2	59,823	1
1955	Incremental costs of obtaining contracts — non-current (note 6(s))	20,895	-	32,669	1
1990	Other non-current assets (notes 6(b)(f)(i) and 8)	64,141	1	96,438	2
Total non-current assets		1,111,139	25	1,168,456	26
Total assets		\$ 4,385,347	100	4,545,513	100

		December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (notes 6(k) and 8)	\$ 380,000	9	600,000	13
2110	Short-term notes payable (note 6(j))	649,770	15	449,840	10
2120	Financial liabilities at fair value through profit or loss — current (note 6(l))	-	-	1,470	-
2130	Contract liabilities — current (note 6(s))	6,633	-	4,956	-
2170	Trade payables	281,090	6	348,623	8
2200	Other payables	302,818	7	262,112	6
2250	Provisions — current (note 6(m))	21,432	-	31,492	1
2280	Lease liabilities — current (note 6(n))	29,875	1	15,399	-
2320	Current portion of bonds payable and long-term loans (notes 6(k)(l) and 8)	269,953	6	37,500	1
2399	Other current liabilities	7,517	-	6,515	-
Total current liabilities		1,949,088	44	1,757,907	39
Non-Current liabilities:					
2530	Bonds payable (note 6(l))	286,877	7	474,972	10
2540	Long-term loans (notes 6(k) and 8)	268,750	6	442,500	10
2570	Deferred tax liabilities (note 6(p))	392	-	-	-
2580	Lease liabilities — non-current (note 6(n))	243,849	6	255,327	6
2640	Net defined benefit liability — non-current (note 6(o))	-	-	11,059	-
Total non-current liabilities		799,868	19	1,183,858	26
Total liabilities		2,748,956	63	2,941,765	65
Equity attributable to owners of the Company (notes 6(l)(p)(q)):					
3110	Common stock	1,311,710	30	1,201,200	26
3200	Capital surplus	162,544	3	273,054	6
Retained earnings:					
3310	Legal reserve	119,583	3	118,606	3
3350	Unappropriated retained earnings	42,612	1	10,811	-
		162,195	4	129,417	3
3400	Other equity	(58)	-	77	-
Total equity		1,636,391	37	1,603,748	35
Total liabilities and equity		\$ 4,385,347	100	4,545,513	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

AIR ASIA CO., LTD. AND SUBSIDIARIES**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)**

		2020		2019	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(s) and 7)	\$ 3,895,091	100	3,913,291	100
5000	Operating costs (notes 6(d)(f)(n)(o)(s)(t), 7 and 12)	3,704,355	95	3,531,974	90
5900	Gross profit	190,736	5	381,317	10
6000	Operating expenses (notes 6(b)(f)(n)(o)(t), 7 and 12):				
6100	Selling expenses	52,217	1	65,418	2
6200	Administrative expenses (including covid-19-related rent concessions of \$3,293)	178,686	5	207,497	5
6300	Research and development expenses	-	-	14,012	-
6450	Expected credit loss	74	-	15,637	1
		230,977	6	302,564	8
6900	Operating income (loss)	(40,241)	(1)	78,753	2
7000	Non-operating income and expenses (notes 6(l)(n)(u)):				
7100	Interest income	1,210	-	1,303	-
7010	Other income (including covid-19-related government grants of \$87,625)	101,135	3	5,815	-
7020	Other gains and losses	(52)	-	(3,610)	-
7050	Interest expense	(28,824)	(1)	(22,849)	(1)
		73,469	2	(19,341)	(1)
7900	Profit before tax	33,228	1	59,412	1
7950	Less: income tax expenses (benefits) (note 6(p))	(9,160)	-	14,401	-
8200	Net profit	42,388	1	45,011	1
8300	Other comprehensive income (notes 6(o)(p)(q)):				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Losses on remeasurements of defined benefit plans	-	-	(12,748)	-
8349	Less: income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	2,550	-
		-	-	(10,198)	-
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(169)	-	(78)	-
8399	Less: income tax related to components of other comprehensive income that will be reclassified to profit or loss	(34)	-	(16)	-
		(135)	-	(62)	-
8300	Other comprehensive income, net	(135)	-	(10,260)	-
8500	Total comprehensive income	\$ 42,253	1	34,751	1
	Profit, attributable to:				
8610	Owners of parent	42,388	1	45,011	1
	Comprehensive income attributable to:				
8710	Owners of parent	42,253	1	34,751	1
	Earnings per share (note 6(r)) (in New Taiwan dollars)				
9750	Basic earnings per share	\$ 0.32		0.34	
9850	Diluted earnings per share	\$ 0.30		0.34	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

AIR ASIA CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Equity attributable to owners of parent

	Retained earnings			Other equity			
				Exchange differences on translation of			
				Unappropriated foreign financial			
	Common stock	Capital surplus	Legal reserve	retained earnings	statements	Treasury stock	Total equity
Balance at January 1, 2019	\$ 1,222,080	365,749	117,066	12,196	139	(41,173)	1,676,057
Net profit	-	-	-	45,011	-	-	45,011
Other comprehensive income	-	-	-	(10,198)	(62)	-	(10,260)
Total comprehensive income	-	-	-	34,813	(62)	-	34,751
Appropriation and distribution of retained earnings:							
Legal reserve	-	-	1,540	(1,540)	-	-	-
Cash dividends	-	-	-	(9,610)	-	-	(9,610)
Issuance of convertible bonds — share option	-	22,358	-	-	-	-	22,358
Cash dividends distributed from capital surplus	-	(110,510)	-	-	-	-	(110,510)
Repurchase of treasury stock	-	-	-	-	-	(9,298)	(9,298)
Retirement of treasury stock	(20,880)	(4,543)	-	(25,048)	-	50,471	-
Balance at December 31, 2019	1,201,200	273,054	118,606	10,811	77	-	1,603,748
Net profit	-	-	-	42,388	-	-	42,388
Other comprehensive income	-	-	-	-	(135)	-	(135)
Total comprehensive income	-	-	-	42,388	(135)	-	42,253
Appropriation and distribution of retained earnings:							
Legal reserve	-	-	977	(977)	-	-	-
Cash dividends	-	-	-	(9,610)	-	-	(9,610)
Stock dividends distributed from capital surplus	110,510	(110,510)	-	-	-	-	-
Balance at December 31, 2020	\$ 1,311,710	162,544	119,583	42,612	(58)	-	1,636,391

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

AIR ASIA CO., LTD. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the years ended December 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars)**

	2020	2019
Cash flows from (used in) operating activities:		
Profit before tax	\$ 33,228	59,412
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	79,557	81,836
Amortization expense	5,078	6,082
Expected credit loss	74	15,637
Losses (gains) on valuation of financial assets and liabilities at fair value through profit or loss	(1,680)	900
Interest expense	28,824	22,849
Interest income	(1,210)	(1,303)
Loss (gain) on disposal of property, plant and equipment	(15)	1
Property, plant and equipment transferred to operating costs	78	-
Unrealized foreign exchange gains	(1,184)	-
Total adjustments to reconcile profit	109,522	126,002
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in contract assets — current	(408,944)	11,601
Decrease (increase) in notes and trade receivables, net	131,613	(422,649)
Decrease (increase) in other receivables	7,701	(4,580)
Decrease (increase) in inventories	439,606	(478,228)
Decrease (increase) in prepayments	(51,878)	32,595
Decrease (increase) in other current assets	66	(1,251)
Decrease in incremental costs of obtaining contracts — non-current	11,774	12,965
Total changes in operating assets	129,938	(849,547)
Changes in operating liabilities:		
Increase in contract liabilities — current	1,677	3,842
Increase (decrease) in trade payables	(66,472)	133,340
Increase in other payables	44,120	61,391
Increase (decrease) in provisions — current	(10,060)	12,380
Increase (decrease) in other current liabilities	1,002	(3,872)
Decrease in net defined benefit liability — non-current	(11,059)	(143,230)
Total changes in operating liabilities	(40,792)	63,851
Net changes in operating assets and liabilities	89,146	(785,696)
Total adjustments	198,668	(659,694)
Cash generated from (used in) operations	231,896	(600,282)
Interest received	1,408	1,253
Interest paid	(22,082)	(19,494)
Income tax paid	(118)	(1,616)
Net cash generated from (used in) operating activities	211,104	(620,139)
Cash flows from (used in) investing activities:		
Decrease in refundable deposits	4,411	30,059
Acquisition of property, plant and equipment	(33,820)	(37,771)
Proceeds from disposal of property, plant and equipment	15	-
Acquisition of intangible assets	(3,875)	(9,563)
Decrease (increase) in other non-current assets	1,348	(27,555)
Net cash used in investing activities	(31,921)	(44,830)
Cash flows from (used in) financing activities:		
Decrease in short-term loans	(220,000)	(122,075)
Increase in short-term notes payable	199,930	219,915
Bonds issued	-	494,682
Proceeds from long-term loans	220,000	480,000
Repayments of long-term loans	(356,250)	(199,999)
Payment of lease liabilities	(705)	(15,745)
Cash dividends	(9,610)	(120,120)
Repurchase of treasury stock	-	(9,298)
Net cash generated from (used in) financing activities	(166,635)	727,360
Effects of exchange rate changes on balance of cash held in foreign currencies	149	(78)
Net increase in cash and cash equivalents	12,697	62,313
Cash and cash equivalents at the beginning of year	145,757	83,444
Cash and cash equivalents at end of year	\$ 158,454	145,757

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

AIR ASIA CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

AIR ASIA CO., LTD. (the “Company”) was incorporated as a company limited by shares under the Company Act of the Republic of China (R.O.C.) on January 19, 1955. The Company’s registered and operating address is No. 1050, Jichang Rd., Rende Dist., Tainan City, Taiwan, R.O.C.

The consolidated financial statements comprise the Company and its subsidiaries (the “Group”).

The Group’s principal activities consist of maintenances, renovation, upgrades and integrated logistic support services for the aircraft and related components.

The Company listed their shares on the Taiwan Stock Exchange on 22 February 2018.

(2) Approval date and procedures of the consolidated financial statements:

The consolidated financial statements were authorized for issuance by the Board of the Company on February 23, 2021.

(3) New standards, amendments and interpretations adopted:

1. The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. which have already been adopted.

The details of impact on the Group's adoption of the new amendments beginning January 1, 2020 are as follows :

(a) Amendments to IFRS 16 “COVID-19-Related Rent Concessions”

As a practical expedient, a lessee may elect not to assess whether a rent concession that meets certain conditions is a lease modification, rather any changes in lease liability are recognized in profit or loss. The amendments have been endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) in July 2020, earlier application from January 1, 2020 is permitted. Related accounting policy is explained in Note 4(j).

The Group has elected to apply the practical expedient for all rent concessions that meet the criteria beginning January 1, 2020, with early adoption. No adjustment was made upon the initial application of the amendments. The amounts recognized in profit or loss for year ended December 31, 2020 was 3,293.

(b) Other amendments

The following new amendments, effective January 1, 2020, do not have a significant impact on the Group’s financial statements:

- Amendments to IFRS 3 “Definition of a Business”
- Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”

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AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Amendments to IAS 1 and IAS 8 “Definition of Material”

2. The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its consolidated financial statements:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

3. The impact of IFRS issued by IASB but not yet endorsed by the FSC

The following new and amended standards, which may be relevant to the Group, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.	January 1, 2023
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	The amendments clarify that the ‘costs of fulfilling a contract’ comprises the costs that relate directly to the contract as follows: ● the incremental costs – e.g. direct labor and materials; and ● an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.	January 1, 2022

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Group completes its evaluation.

The Group does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”

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AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- IFRS 17 “ Insurance Contracts” and amendments to IFRS 17 “ Insurance Contracts”
- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C.(hereinafter referred to IFRS endorsed by the FSC).

(b) Basis of preparation

1. Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- (i) Financial instruments at fair value through profit or loss are measured at fair value;
- (ii) The defined benefit liabilities are measured as the present value of the defined benefit obligation, less pension fund assets at fair value.

2. Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollar (NTD), which is the Company’ s functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(c) Basis of consolidation

1. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

transactions are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

2. List of subsidiaries in the consolidated financial statements:

Name of investor	Name of subsidiary	Principal activity	Shareholding	
			December 31, 2020	December 31, 2019
The Company	Air Asia Company Ltd. (USA)	Logistics Services	100%	100%

3. Subsidiaries excluded from the consolidated financial statements: None.

(d) Foreign currencies

1. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- (i) an investment in equity securities designated as at fair value through other comprehensive income;
- (ii) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- (iii) qualifying cash flow hedges to the extent that the hedges are effective.

2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Exchange differences are recognized in other

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to noncontrolling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as noncurrent.

1. It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
2. It is held primarily for the purpose of trading;
3. It is expected to be realized within twelve months after the reporting period; or
4. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as noncurrent.

An entity shall classify a liability as current when:

1. It is expected to be settled in the normal operating cycle;
2. It is held primarily for the purpose of trading;
3. It is due to be settled within twelve months after the reporting period; or
4. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(g) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(i) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(ii) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or fair value through other comprehensive income (FVOCI) described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

(iii) Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

(iv) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

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AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- contingent events that would change the amount or timing of cash flows ;
- terms that may adjust the contractual coupon rate, including variable rate features ;
- prepayment and extension features ; and
- terms that limit the Group' s claim to cash flows from specified assets (e.g. non-recourse features) .

(v) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, notes and trade receivables, other receivables and refundable deposit) and contract assets.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group' s historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 1 year past due or the debtor is unlikely to pay its credit obligations to the Group in full.

The Group considers a time deposit (recorded as refundable deposit) to have low credit risk when only deal with financial institutions with good credit rating.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer ;
- a breach of contract such as a default or being more than 1 year past due ;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;
- it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(vi) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
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(2) Financial liabilities and equity instruments

(i) Classification of debt or equity

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

(ii) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(iii) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(iv) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

(v) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(vi) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

(vii) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Property, plant and equipment

1. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

2. Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
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3. Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

(i) Buildings and structures	3~35 years
(ii) Machinery and equipment	2~20 years
(iii) Transportation equipment	5~15 years
(iv) Office equipment	2~13 years

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(j) Leases

(a) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
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- the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(b) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise an extension or termination option; or
- there is any lease modification

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the

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carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

If an arrangement contains lease and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including land, business premises, staff dormitory, and part of transportation equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a practical expedient, the Group elects not to assess whether all rent concessions that meets all the following conditions are lease modifications or not:

- the rent concessions occurring as a direct consequence of the COVID-19 pandemic;
- the change in lease payments that resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments that affects only those payments originally due on, or before, June 30, 2021; and
- there is no substantive change in other terms and conditions of the lease.

In accordance with the practical expedient, the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

(c) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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(k) Intangible assets

1. Recognition and measurement

Except for goodwill, intangible assets are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

2. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

3. Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

(i) Software	1~3 years
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(ii) Acquired special technology	1~8 years
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Amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(l) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs) .

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for warranties is recognized when the underlying products or services are sold, based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(n) Revenue recognition

1. Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(1) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(2) Maintenance services

The Group provides aircraft maintenance services and related components. Revenue from providing services is recognized in the accounting period in which the services are rendered. The consideration promised in the contract includes fixed and variable amounts. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. The proportion of services provided is determined based on the actual maintenance hours spent relative to the total expected maintenance hours. The variable consideration is generally made and adjusted based on historical experience and any other known factors that would significantly affect the variable consideration.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are

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reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

The Group offers a standard warranty for aircraft maintenance services and related components to provide assurance that the service complies with the agreed upon specifications and has recognized warranty provisions for this obligation; please refer to note 6(m).

(3) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2. Contract costs

(1) Incremental costs of obtaining a contract

The Group recognizes as an asset the incremental costs of obtaining a contract with a customer if the Group expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Group applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

(2) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Group recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- (i) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (ii) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (iii) the costs are expected to be recovered.

General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which

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the Group cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Group recognizes these costs as expenses when incurred.

(o) Government grants

The Group recognizes an unconditional government grant related to covid-19 in profit or loss as other income when the grant becomes receivable. Other government grants related to assets are initially recognized as deferred income at notional amount if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognized in profit or loss as deduction of depreciation expenses on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

(p) Employee benefits

1. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

2. Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

3. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is

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recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(q) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Grant date of a share-based payment award is the date which the number of shares purchased by the employees was confirmed.

(r) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainly related to income tax, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

1. temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
2. temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
3. taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

1. the Group has a legally enforceable right to set off current tax assets against current tax liabilities;

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and

2. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- (i) the same taxable entity; or
- (ii) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

(s) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds and employee compensation.

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows. Those assumptions and estimation have been updated to reflect the impact of COVID-19 pandemic:

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(a) Revenue recognition

The Group estimates the amount of variable consideration using the expected value method or the most likely amount and recognizes it as deduction of revenue in the same period the related revenue is recorded. The variable consideration is generally made and adjusted based on historical experience and any other known factors that would significantly affect the variable consideration. The adequacy of estimations is reviewed periodically. The delivery schedule of maintenance materials could result in significant adjustments to the estimation made.

Contract revenue are recognized by reference to the stage of completion of each contract. The stage of completion of a contract is measured based on the goods and services transferred to the customer. The difference between the input record of maintenance material requisition as well as employee time and the actual acceptance, could result in significant adjustments to the estimation made.

(b) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumption as to future demand within a specific time horizon. Due to the obsolescence of aircraft models, there may be significant changes in the net realizable value of inventories. Please refer to note 6(d) for further description on the valuation of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash and cash on hand	\$ 3,062	3,247
Demand deposits	155,392	142,510
Cash and cash equivalents in the consolidated statement of cash flows	<u>\$ 158,454</u>	<u>145,757</u>

Please refer to note 6(v) for the exchange rate risk and sensitivity analysis of the financial assets.

(b) Notes, trade and overdue receivables

	December 31, 2020	December 31, 2019
Trade receivables (including from related parties)	\$ 1,093,570	1,225,403
Less: Loss allowance	(15,711)	(15,637)
Subtotal	1,077,859	1,209,766
Overdue receivables (recorded as other non-current assets)	28,641	32,013
Less: Loss allowance	(28,641)	(32,013)
Subtotal	-	-
Total	<u>\$ 1,077,859</u>	<u>1,209,766</u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes,

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trade and overdue receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. If the receivables of government in group 1 will be collected based on the central government budget, the amount of the receivables will be regarded as not overdue with no impairment risk. The loss allowance provision was determined as follows:

December 31, 2020		
	Gross carrying amount	Weighted-average loss rate
		Loss allowance provision
<u>Group 1</u>		
Current	\$ 1,054,238	0.00%
		-
	December 31, 2020	
	Gross carrying amount	Weighted-average loss rate
		Loss allowance provision
<u>Group 2</u>		
Current	\$ 23,479	2.45%
1 to 90 days past due	142	21.21%
91 to 180 days past due	-	52.51%
181 to 270 days past due	223	58.19%
271 to 365 days past due	2,515	79.70%
More than 365 days past due	41,614	100.00%
	\$ 67,973	44,352
	December 31, 2019	
	Gross carrying amount	Weighted-average loss rate
		Loss allowance provision
<u>Group 1</u>		
Current	\$ 1,204,013	0.00%
1 to 90 days past due	3,302	0.00%
91 to 180 days past due	49	20.00%
181 to 270 days past due	47	30.00%
271 to 365 days past due	-	50.00%
More than 365 days past due	-	100.00%
	\$ 1,207,411	25
	December 31, 2019	
	Gross carrying amount	Weighted-average loss rate
		Loss allowance provision
<u>Group 2</u>		
Current	\$ 2,496	86.00%
1 to 90 days past due	5,935	86.00%~100.00%
91 to 180 days past due	9,561	86.00%
181 to 270 days past due	-	100.00%
271 to 365 days past due	-	100.00%
More than 365 days past due	32,013	100.00%
	\$ 50,005	47,625

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
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The movement in the allowance for notes, trade and overdue receivables was as follows:

	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 47,650	32,013
Impairment losses recognized	74	15,637
Amounts written off	(3,372)	-
Balance at December 31	<u><u>\$ 44,352</u></u>	<u><u>47,650</u></u>

The aforementioned notes, trade and overdue receivables were not pledged as collateral or restricted in any way.

(c) **Other receivables**

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Other receivables—income taxes refund	\$ 11,198	11,080
Others	1,990	9,889
Less: Loss allowance	-	-
	<u><u>\$ 13,188</u></u>	<u><u>20,969</u></u>

For further credit risk information, please refers to note 6(v).

(d) **Inventories**

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Repair materials and others	\$ 827,474	1,246,920
Finished goods	247,232	267,392
	<u><u>\$ 1,074,706</u></u>	<u><u>1,514,312</u></u>

The details of the cost of sales were as follows:

	<u>2020</u>	<u>2019</u>
Inventory that has been sold and service costs	\$ 3,472,649	3,442,097
Unallocated production overheads	229,506	80,783
Write-down of inventories (reversal of write-downs)	(469)	9,437
Write-off for inventories scrapped	2,693	-
Revenue from sale of scraps	(18)	(365)
Losses (gains) on physical inventory	(6)	22
	<u><u>\$ 3,704,355</u></u>	<u><u>3,531,974</u></u>

The inventories of the Group were not pledged as collateral or restricted in any way.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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(e) Prepayments

The details of the prepayments were as follows:

	December 31, 2020	December 31, 2019
Prepayment of materials	\$ 59,744	21,611
Prepayment of bank performance guarantee fees	8,978	5,302
Prepayment – other	17,518	7,449
	<u>\$ 86,240</u>	<u>34,362</u>

(f) Property, plant and equipment

The movement in cost, accumulated depreciation, and impairment loss of the property, plant and equipment was as follows:

	Land	Buildings and structures	Machinery and equipment	Office equipment	Transportation equipment	Construction in process and testing equipment	Total
Cost or deemed cost:							
Balance at January 1, 2020	\$ 255,076	658,059	641,650	50,780	76,838	68	1,682,471
Additions	-	487	18,093	1,765	2,824	7,378	30,547
Disposals	-	-	(5,421)	(293)	-	-	(5,714)
Reclassification	-	-	9,706	-	13,868	104	23,678 (Note 1)
Balance at December 31, 2020	<u>\$ 255,076</u>	<u>658,546</u>	<u>664,028</u>	<u>52,252</u>	<u>93,530</u>	<u>7,550</u>	<u>1,730,982</u>
Balance at January 1, 2019	\$ 255,076	655,041	604,477	50,051	62,248	-	1,626,893
Additions	-	3,018	23,524	1,092	9,179	68	36,881
Disposals	-	-	(2,704)	(572)	-	-	(3,276)
Reclassification	-	-	16,353	209	5,411	-	21,973 (Note 2)
Balance at December 31, 2019	<u>\$ 255,076</u>	<u>658,059</u>	<u>641,650</u>	<u>50,780</u>	<u>76,838</u>	<u>68</u>	<u>1,682,471</u>
Accumulated depreciation and impairment loss:							
Balance at January 1, 2020	\$ -	384,453	504,096	41,396	48,807	-	978,752
Depreciation	-	20,787	34,525	3,584	5,817	-	64,713
Disposals	-	-	(5,421)	(293)	-	-	(5,714)
Balance at December 31, 2020	<u>\$ -</u>	<u>405,240</u>	<u>533,200</u>	<u>44,687</u>	<u>54,624</u>	<u>-</u>	<u>1,037,751</u>
Balance at January 1, 2019	\$ -	363,153	472,217	37,324	45,120	-	917,814
Depreciation	-	21,300	35,190	4,644	3,687	-	64,821
Disposals	-	-	(2,703)	(572)	-	-	(3,275)
Reclassification	-	-	(608)	-	-	-	(608) (Note 2)
Balance at December 31, 2019	<u>\$ -</u>	<u>384,453</u>	<u>504,096</u>	<u>41,396</u>	<u>48,807</u>	<u>-</u>	<u>978,752</u>
Carrying value:							
Balance at December 31, 2020	<u>\$ 255,076</u>	<u>253,306</u>	<u>130,828</u>	<u>7,565</u>	<u>38,906</u>	<u>7,550</u>	<u>693,231</u>
Balance at December 31, 2019	<u>\$ 255,076</u>	<u>273,606</u>	<u>137,554</u>	<u>9,384</u>	<u>28,031</u>	<u>68</u>	<u>703,719</u>
Balance at January 1, 2019	<u>\$ 255,076</u>	<u>291,888</u>	<u>132,260</u>	<u>12,727</u>	<u>17,128</u>	<u>-</u>	<u>709,079</u>

Note 1 : The amount of \$23,756 transferred from other non-current assets – prepayment for equipment and the amount of \$78 transferred to operating costs.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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Note 2 : The amount of \$25,618 transferred from other non-current assets — prepayment for equipment and the amount of \$3,037 transferred to other non-current assets — other.

Property, plant and equipment of the Group had been pledged as collateral or restricted, please refer to note 8.

(g) Right-of-use assets

The Group leases land, buildings and structures, machinery and transportation equipment. Information about leases for which the Group as a lessee is presented below:

	<u>Land</u>	<u>Buildings and structures</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost:					
Balance at January 1, 2020	\$ 281,495	-	603	4,373	286,471
Additions	-	1,671	-	5,368	7,039
Disposals	-	(43)	-	(2,140)	(2,183)
Balance at December 31, 2020	<u>\$ 281,495</u>	<u>1,628</u>	<u>603</u>	<u>7,601</u>	<u>291,327</u>
Balance at January 1, 2019	\$ -	-	-	-	-
Effects of adopting IFRS 16	281,495	-	-	3,479	284,974
Additions	-	-	603	894	1,497
Balance at December 31, 2019	<u>\$ 281,495</u>	<u>-</u>	<u>603</u>	<u>4,373</u>	<u>286,471</u>
Accumulated depreciation and impairment loss:					
Balance at January 1, 2020	\$ 14,815	-	168	2,032	17,015
Depreciation	14,816	520	201	2,600	18,137
Disposals	-	-	-	(2,140)	(2,140)
Balance at December 31, 2020	<u>\$ 29,631</u>	<u>520</u>	<u>369</u>	<u>2,492</u>	<u>33,012</u>
Balance at January 1, 2019	\$ -	-	-	-	-
Depreciation	14,815	-	168	2,032	17,015
Balance at December 31, 2019	<u>\$ 14,815</u>	<u>-</u>	<u>168</u>	<u>2,032</u>	<u>17,015</u>
Carrying value:					
Balance at December 31, 2020	<u>\$ 251,864</u>	<u>1,108</u>	<u>234</u>	<u>5,109</u>	<u>258,315</u>
Balance at December 31, 2019	<u>\$ 266,680</u>	<u>-</u>	<u>435</u>	<u>2,341</u>	<u>269,456</u>

(h) Intangible assets

The details of intangible assets were as follows:

	<u>Acquired special technology</u>	<u>Software</u>	<u>Total</u>
Costs:			
Balance at January 1, 2020	\$ 7,556	1,994	9,550
Additions	3,584	291	3,875
Balance at December 31, 2020	<u>\$ 11,140</u>	<u>2,285</u>	<u>13,425</u>
Balance at January 1, 2019	\$ 10,408	6,441	16,849
Additions	9,279	284	9,563
Reduction	(12,131)	(4,731)	(16,862)
Balance at December 31, 2019	<u>\$ 7,556</u>	<u>1,994</u>	<u>9,550</u>

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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	Acquired special technology	Software	Total
Accumulated amortization:			
Balance at January 1, 2020	\$ 2,382	817	3,199
Amortization for the year	4,386	692	5,078
Balance at December 31, 2020	\$ 6,768	1,509	8,277
Balance at January 1, 2019	\$ 9,567	4,412	13,979
Amortization for the year	4,946	1,136	6,082
Reduction	(12,131)	(4,731)	(16,862)
Balance at December 31, 2019	\$ 2,382	817	3,199
Carrying value:			
Balance at December 31, 2020	\$ 4,373	775	5,148
Balance at December 31, 2019	\$ 5,174	1,177	6,351
Balance at January 1, 2019	\$ 841	2,029	2,870

(i) **Other non-current assets**

The details of other non-current assets were as follows:

	December 31, 2020	December 31, 2019
Prepayment for equipment	\$ 697	23,146
Refundable deposits — non-current	56,251	63,444
Other non-current assets — other	7,193	9,848
Overdue receivables	-	-
	\$ 64,141	96,438

Refundable deposits — non-current of the Group had been pledged as collateral or restricted, please refer to note 8.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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(j) Short-term notes payable

The short-term notes payable were summarized as follows:

December 31, 2020			
	Guarantee or acceptance institution	Range of interest rates (%)	Amount
Commercial paper payable	Ta Ching Bills Finance Corporation	1%	\$ 100,000
	China Bills Finance Corporation	0.958%	150,000
	Taiwan Bills Finance Corporation	1.00%	150,000
	Dah Chung Bills Finance Corporation	0.96%	100,000
	International Bills Finance Corporation	0.988%	100,000
	Taiwan Cooperative Bills Finance Corporation	0.978%	<u>50,000</u>
			650,000
Less: Discount of short-term notes payable			<u>(230)</u>
Total			<u><u>\$ 649,770</u></u>

December 31, 2019			
	Guarantee or acceptance institution	Range of interest rates (%)	Amount
Commercial paper payable	Ta Ching Bills Finance Corporation	1.00%	\$ 100,000
	China Bills Finance Corporation	1.00%	150,000
	Taiwan Bills Finance Corporation	1.00%	100,000
	Taiwan Cooperative Bills Finance Corporation	1.00%	<u>100,000</u>
			450,000
Less: Discount of short-term notes payable			<u>(160)</u>
Total			<u><u>\$ 449,840</u></u>

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Notes to the Consolidated Financial Statements

(k) Short-term and long-term loans

The details of short-term and long-term loans were as follows:

	December 31, 2020	December 31, 2019
Unsecured bank loans — NTD	\$ 380,000	600,000
Long-term unsecured bank loans — NTD	343,750	480,000
Total	\$ 723,750	1,080,000
Current	\$ 455,000	637,500
Non-current	268,750	442,500
Total	\$ 723,750	1,080,000
Unused short-term loans credit lines	\$ 760,000	680,000
Unused long-term loans credit lines	\$ 218,750	170,000
Range of short-term loans interest rates	0.255% ~ 0.885%	0.70% ~ 1.23%
Range of long-term loans interest rates	1.25% ~ 1.30%	1.34% ~ 1.36%
Long-term loans due year	2022~2024	2021~2024

Assets pledged are disclosed in note 8.

(l) Bonds payable

The details of unsecured convertible bonds were as follows:

	December 31, 2020	December 31, 2019
Total convertible corporate bonds issued	\$ 500,000	500,000
Unamortized discounted corporate bonds payable	(18,170)	(25,028)
Corporate bonds issued balance at year-end	\$ 481,830	474,972
Current	\$ 194,953	-
Non-current	286,877	474,972
Total	\$ 481,830	474,972
Embedded derivative — put and redeem options, included in financial liabilities (assets) at fair value through profit or loss	\$ (210)	1,470
Equity component — conversion options, included in capital surplus— conversion of convertible bonds	\$ 22,358	22,358
	2020	2019
Embedded derivative — put and redeem options, included in losses (gains) on financial assets and liabilities at fair value through profit or loss	\$ (1,680)	900
Interest expense (effective interest rate of 1.28%~1.69%)	\$ 6,858	3,218

1. On 9 July 2019, the Group issued the first unsecured domestic convertible bonds amounting to \$200,000. The major terms bonds are as follows:

(1) Interest rate: 0%.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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- (2) Issued period: Three years, from July 9, 2019 to July 9, 2022.
 - (3) Redemption on the maturity date: On the maturity date, the Company will redeem the bonds with additional interest payment on the basis of the amount of 100.7519% of the bond value that remain outstanding at the principal amount.
 - (4) Redemption at the option of the Company:
 - A. The Company may redeem the bonds, in whole or in part, after 3 months (October 10, 2019) of the issuance and prior to forty days (May 30, 2022) before the maturity date, at the principal amount of the bonds if the closing price of the Company's ordinary shares on the Taiwan Stock Exchange for a period of 30 consecutive trading days, is at least 130% of the conversion price.
 - B. The Company may redeem the bonds, in whole or in part, after 3 months (October 10, 2019) of the issuance and prior to forty days (May 30, 2022) before the maturity date, at the early redemption conversion price if at least 90% in principal amount of the bonds has already been exchanged, redeemed, purchased or cancelled.
 - (5) Repurchase at option of the bondholders: Two years after the issuance of the convertible bonds (July 9, 2021) is the base date which bondholders redeem the bonds. Bondholders could request the Company for redemption of convertible bonds held at the principal amount of bonds with additional interest payment prior to thirty days of the base date. The amount after two years of issuance is 100.5006% of the principal amount.
 - (6) Terms of conversion:
 - A. Underlying Securities: Common shares of the Company.
 - B. Conversion Period: The bonds are convertible at any time on or after October 10, 2019 and prior to July 9, 2022 into common shares of the Company.
 - C. Conversion price and adjustment: The conversion price base on July 1, 2019 was originally NT\$21.8 per share. The conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture. On December 31, 2020 and 2019, the conversion price was NT\$19 and NT\$20.8, respectively.
2. On July 10, 2019, the Group issued second unsecured domestic convertible bonds amounting to \$300,000. The major terms are as follows:
- (1) Interest rate: 0%.
 - (2) Issue period: Five years, from July 10, 2019 to July 10, 2024.
 - (3) Redemption on the maturity date: On the maturity date, the Company will redeem the bonds with additional interest payment on the basis of the amount of 102.5251% of the bond value that remain outstanding at the principal amount.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(4) Redemption at the option of the Company:

- A. The Company may redeem the bonds, in whole or in part, after 3 months (October 11, 2019) of the issuance and prior to forty days (May 31, 2024) before the maturity date, at the principal amount of the bonds if the closing price of the Company's ordinary shares on the Taiwan Stock Exchange for a period of 30 consecutive trading days, is at least 130% of the conversion price.
- B. The Company may redeem the bonds, in whole or in part, after 3 months (October 11, 2019) of the issuance and prior to forty days (May 31, 2024) before the maturity date, at the early redemption conversion price if at least 90% in principal amount of the bonds has already been exchanged, redeemed, purchased or cancelled.

(5) Repurchase at option of the bondholders: Thirty months after the issuance of the convertible bonds (January 10, 2022) is the base date which bondholders redeem the bonds. Bondholders could request the Company for redemption of convertible bonds held at the principal amount of bonds with additional interest payment prior to thirty days of the base date. The amount after 30 months of issuance is 101.2547% of the principal amount.

(6) Terms of conversion:

- A. Underlying Securities: Common shares of the Company.
- B. Conversion Period: The bonds are convertible at any time on or after October 11, 2019 and prior to July 10, 2024 into common shares of the Company.
- C. Conversion price and adjustment: The conversion price based on July 2, 2019 was originally NT\$21.9 per share. The conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture. On December 31, 2020 and 2019, the conversion price was NT\$19 and NT\$20.9, respectively.

(m) **Provisions**

	Warranties
Balance at January 1, 2020	\$ 31,492
Provisions made during the year	12,977
Provisions used during the year	(5,919)
Provisions reversed during the year	(17,118)
Balance at December 31, 2020	<u><u>\$ 21,432</u></u>
Balance at January 1, 2019	\$ 19,112
Provisions made during the year	16,217
Provisions used during the year	(3,361)
Provisions reversed during the year	(476)
Balance at December 31, 2019	<u><u>\$ 31,492</u></u>

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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The provision for warranties relates mainly to maintenance services of aircraft and related components during the years ended December 31, 2020 and 2019. The provision is based on estimates made from historical warranty data associated with similar maintenance services. The Group expects to settle the majority of the liability over the next year.

(n) Lease liabilities

The carrying value of lease liabilities was as follows:

	December 31, 2020	December 31, 2019
Current	\$ 29,875	15,399
Non-current	243,849	255,327
	<u>\$ 273,724</u>	<u>270,726</u>

For the maturity analysis, please refer to note 6(v).

The amounts recognized in profit or loss were as follows:

	2020	2019
Interest on lease liabilities	<u>\$ 2,688</u>	<u>2,796</u>
Expenses relating to short-term leases	<u>\$ 2,757</u>	<u>5,190</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 135</u>	<u>157</u>
Covid-19-related rent concessions	<u>\$ 3,293</u>	<u>-</u>

The amounts recognized in the statement of cash flows for the Group was as follows:

	2020	2019
Total cash outflow for leases	<u>\$ 6,285</u>	<u>23,888</u>

1. Real estate leases

The Group leases land and buildings for its maintenance factory and office space, which lease terms of two to ten years.

2. Other leases

The Group leases machinery and transportation equipment, with lease terms of two to three years.

The Group also leases land, business premises, staff dormitory and part of transportation equipment with contract terms of one to three years. These leases are short-term or leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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(o) Employee benefits

1. Defined benefit plans

Because the Group has reached an agreement with the employees to close the post-service benefit plan, therefore, the Group does not have any obligation of the defined benefit retirement.

On December 31, 2019, reconciliation of defined benefit obligation at present value and plan asset at fair value are as follows:

	December 31, 2019
Present value of the defined benefit obligations	\$ 54,592
Fair value of plan assets	(43,533)
Net defined benefit liabilities	<u>\$ 11,059</u>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

(i) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$1,438 and \$43,533 as of December 31, 2020 and 2019. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(ii) Movements in present value of the defined benefit obligations

The movement in present value of the defined benefit obligations for the Group were as follows:

	2019
Defined benefit obligations at January 1	\$ 144,416
Current service costs and interest cost	4,606
Remeasurements loss (gain):	
- Demographic assumptions	(516)
- Financial assumptions	3,372
- Experience adjustments	18,637
Past service credit	1,252
Benefits paid	(117,175)
Defined benefit obligations at December 31	<u>\$ 54,592</u>

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(iii) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group were as follows:

	<u>2019</u>
Fair value of plan assets at January 1	\$ 2,875
Interest income	35
Remeasurements gain:	
- Return on plan assets excluding interest income	8,745
Contributions paid by the employer	149,053
Benefits paid	<u>(117,175)</u>
Fair value of plan assets at December 31	<u><u>\$ 43,533</u></u>

(iv) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	<u>2019</u>
Current service costs	\$ 2,801
Net interest of net liabilities for defined benefit obligations	1,770
Past service credit	<u>1,252</u>
	<u><u>\$ 5,823</u></u>

	<u>2020</u>	<u>2019</u>
Operating cost	\$ 36	3,282
Administration expenses	<u>13</u>	<u>2,541</u>
	<u><u>\$ 49</u></u>	<u><u>5,823</u></u>

(v) Actuarial assumptions

On December 31, 2019, the principal actuarial assumptions at the reporting date were as follows:

	<u>December 31, 2019</u>
Discount rate	0.76%
Future salary increase rate	1.00%

(vi) Sensitivity analysis

On December 31, 2019, if the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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	Influences of defined benefit obligations	
	Increased	Decreased
December 31, 2019:		
Discount rate (change of 0.5%)	(3,397)	3,955
Future salary increasing rate (change of 0.5%)	3,920	(3,405)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

2. Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contributions to the Bureau of the Labor Insurance amounted to \$37,541 and \$34,802 for the year ended December 31, 2020 and 2019, respectively.

(p) Income taxes

1. The components of income tax expenses (benefits) in the years 2020 and 2019 were as follows:

	2020	2019
Current tax expense		
Adjustment for prior periods	\$ -	1,616
Deferred tax expenses (benefits)		
Origination and reversal of temporary differences	(9,160)	12,785
Income tax expenses (benefits)	\$ (9,160)	14,401

The amount of income tax expenses (benefits) recognized in other comprehensive income was as follows:

	2020	2019
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement from defined benefit plans	\$ -	(2,550)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation	\$ (34)	(16)

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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Reconciliation of income tax expenses (benefits) and profit before tax for 2020 and 2019 were as follows.

	<u>2020</u>	<u>2019</u>
Profit excluding income tax	\$ 33,228	59,412
Income tax using the Company' s domestic tax rate	6,646	11,882
Non-deductible expenses	1,569	903
Tax-exempt income from government grants	(17,525)	-
Change in provision in prior periods	-	1,616
Others	150	-
Income tax expenses (benefits)	<u>\$ (9,160)</u>	<u>14,401</u>

2. Deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2020 and 2019 were as follows:

	<u>Defined</u>	<u>Inventory</u>	<u>Unused tax</u>		
	<u>Benefit Plans</u>	<u>valuation loss</u>	<u>losses</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:					
Balance at January 1, 2020	\$ 2,212	24,774	21,997	10,840	59,823
Recognized in profit or loss	(2,212)	(94)	14,303	(2,445)	9,552
Recognized in other comprehensive income	-	-	-	34	34
Balance at December 31, 2020	<u>\$ -</u>	<u>24,680</u>	<u>36,300</u>	<u>8,429</u>	<u>69,409</u>
Balance at January 1, 2019	\$ 28,308	22,887	10,720	8,127	70,042
Recognized in profit or loss	(28,646)	1,887	11,277	2,697	(12,785)
Recognized in other comprehensive income	2,550	-	-	16	2,566
Balance at December 31, 2019	<u>\$ 2,212</u>	<u>24,774</u>	<u>21,997</u>	<u>10,840</u>	<u>59,823</u>
	<u>Unrealized gains</u>				
Deferred tax liabilities:					
Balance at January 1, 2020	\$ -				
Recognized in profit or loss	392				
Balance at December 31, 2020	<u>\$ 392</u>				

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

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As of December 31, 2020, the information of the Group's unused tax losses for which no deferred tax assets were recognized are as follows:

Year of loss	Unused tax losses	Expiry date
2018	\$ 53,212	2028
2019	57,288	2029
2020	71,000	2030
	<u><u>\$ 181,500</u></u>	

3. Assessment of tax

The Company's tax returns for the years through 2018 were assessed by the tax authority.

(q) **Capital and other equity**

As of December 31, 2020, and 2019, the authorized common stock of the Company was \$1,800,000 and 1,300,000, respectively comprising 180,000 and 130,000 thousand shares, respectively, with a par value of \$10 per share. The issued shares were 131,171 and 120,120 thousand shares. All the capitals were fully received.

1. Common stock

On June 17, 2020, the shareholders' meeting resolved to issue 11,051 thousand new shares by its capital surplus in the amount of \$110,510, with a par value of \$10 per share. The Company resolved the basis date of the increase capital to be November 14, 2020, and the registration procedures have been completed.

2. Retirement of common stock

On January 29, 2019, the Company's board of directors approved a resolution to retire 2,088 thousand treasury shares in order to protect the Company's integrity and shareholders' equity. The basis date of the decrease in capital was February 12, 2019, and the registration procedures have been completed.

3. Capital surplus

The balance of capital surplus at the reporting date was as follows:

	December 31, 2020	December 31, 2019
Additional paid-in capital	\$ 40,123	150,633
Gain on disposal of assets	100,063	100,063
Conversion of convertible bonds	22,358	22,358
	<u><u>\$ 162,544</u></u>	<u><u>273,054</u></u>

The board of directors meeting proposed on February 23, 2021 to issue new shares by its capital surplus in the amount of \$ 39,351 (NT\$0.3 per share).

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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The shareholders' meeting resolved on June 17, 2020 to issue new shares by its capital surplus in the amount of \$110,510 (NT\$ 0.92 per share).

The shareholders' meeting resolved on June 17, 2019 to distribute cash dividends by its capital surplus in the amount of \$110,510 (NT\$ 0.92 per share).

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

4. Retained earnings

The Company's Articles of Incorporation provide that the current net income, after deducting the previous years' losses, shall set aside 10% as legal reserve and special reserve according to the relevant laws and other regulations of R.O.C. Then the balance is added up with the accumulated retained earnings in the previous year. The distribution of the remaining portion, if any, will be proposed by the board of directors for approval in the board of directors meeting.

If dividend is distributed in issued new shares, shall be made in accordance with the provisions of Article 240 of the Company Law. If dividend is distributed in cash, the board of directors shall be attended by two-thirds of the total directors, and resolved by a majority votes at the board of directors, to distribute dividends and bonuses in whole or in part to be paid in cash, and report to the shareholders' meeting.

(1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

(2) Earning distribution

The amount of cash dividends of appropriations of earnings for 2019 had been approved in the meeting of the board of directors on March 26, 2020. The appropriations of earnings for 2018 had been approved in the shareholders' meeting on June 17, 2019. These earnings were appropriated as follows:

		Unit per share: dollar			
		2019		2018	
		TWD/per share	Amount	TWD/per share	Amount
Dividends distributed to					
ordinary shareholders					
Cash	\$	0.08	<u>9,610</u>	0.08	<u>9,610</u>

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
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The amount of cash dividends on the appropriations of earnings for 2020, and the amount of shares dividends of appropriations of earnings for 2020, had been approved and proposed, respectively during the board meeting on February 23, 2021, as follows:

	2020	
	TWD/per share	Amount
Dividends distributed to ordinary shareholders		
Cash	\$ 0.15	19,676
Shares	0.14	18,364
Total		<u>\$ 38,040</u>

There were no difference between the actual amounts of appropriation of earnings for 2019 and 2018 and those approved by the board of directors. The related information can be accessed through the Market Observation Post System.

5. Treasury stock

For the year ended December 31, 2019, in accordance with the requirements under section 28(2) of the Securities and Exchange Act, the Company repurchased 371 thousand shares as treasury shares, cumulative repurchased 2,088 thousand shares as treasury shares amounting to \$50,471, in order to protect the Company's integrity and shareholders' equity. As of December 31, 2019, the abovementioned treasury shares have been retired.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

6. Other equity (net of tax)

	Exchange differences on translation of foreign financial statements
Balance at January 1, 2020	\$ 77
Exchange differences on foreign operations	(135)
Balance at December 31, 2020	<u>\$ (58)</u>
Balance at January 1, 2019	\$ 139
Exchange differences on foreign operations	(62)
Balance at December 31, 2019	<u>\$ 77</u>

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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(r) **Earnings per share**

For the years ended December 31, 2020 and 2019, the Company's earnings per share were calculated as follows:

	Unit of share: thousand	
	2020	2019
Basic earnings per share		
Profit attributable to common shareholders of the Company	\$ 42,388	45,011
Weighted-average number of shares	131,171	131,202
	<u>\$ 0.32</u>	<u>0.34</u>
Diluted earnings per share		
Profit attributable to common shareholders of the Company	\$ 42,388	45,011
Effect of dilutive ordinary shares:		
Convertible bonds	5,514	3,938
Profit attributable to common shareholders of the Company (diluted)	<u>\$ 47,902</u>	<u>48,949</u>
Weighted-average number of shares	131,171	131,202
Effect of dilutive ordinary shares:		
Remuneration to employees	48	66
Convertible bonds	26,316	11,427
Weighted-average number of shares (diluted)	<u>157,535</u>	<u>142,695</u>
	<u>\$ 0.30</u>	<u>0.34</u>

(s) **Revenue from contracts with customers**

1. Disaggregation of revenue

	2020	2019
<u>Primary geographical markets</u>		
Taiwan	\$ 3,611,945	3,332,199
Asia	152,425	423,104
Other	130,721	157,988
	<u>\$ 3,895,091</u>	<u>3,913,291</u>
<u>Major services and timing of revenue recognition</u>		
At a point in time		
Aircraft maintenance	\$ 325,080	653,718
Repair supply pricing	181,286	118,030
Outsourced repair and air material transaction	768,199	1,094,610
Components maintenance	1,169,015	1,265,446
Subtotal	2,443,580	3,131,804
Over time		
Aircraft maintenance	\$ 420,158	483,568
Fleet maintenance	270,755	281,794
Components maintenance	760,598	16,125
Subtotal	1,451,511	781,487
Total	<u>\$ 3,895,091</u>	<u>3,913,291</u>

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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2. Contract balances

	December 31, 2020	December 31, 2019
Notes, trade and overdue receivables	\$ 1,122,211	1,257,416
Less: Loss allowance	(44,352)	(47,650)
Total	<u>\$ 1,077,859</u>	<u>1,209,766</u>
 Contract assets — Maintenance service	 <u>\$ 730,523</u>	 <u>321,579</u>
Contract liabilities — Maintenance service	<u>\$ 6,633</u>	<u>4,956</u>

For details on notes, trade and overdue receivables and allowance for impairment, please refer to note 6(b).

The amount of revenue recognized for the years ended December 31, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$4,956 and \$1,114, respectively.

The contract assets primarily relate to the Group's rights to consideration in exchange for providing maintenance services to a customer but has not yet billed at the reporting date. The contract assets are transferred to receivables when the rights to consideration become unconditional.

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

Due to the impact of covid-19, Korean and Southeast Asian airlines canceled the orders resulting in a decrease in the operating revenue of aircraft maintenance.

3. Transaction price allocated to the remaining performance obligations

The Group has signed several multi-year military maintenance contracts with the military department of the government. Although the contract stated the budget, the actual performance obligation is based on the maintenance work order and recognized revenue based on each order. As of December 31, 2020, and 2019, the maintenance period of the work obtained were less than one year, thus, the Group applies the practical expedient of IFRS 15 and does not disclose information about the transaction price allocated to the remaining performance obligations of the contract.

4. Assets recognized from costs to obtain a contract

	December 31, 2020	December 31, 2019
Incremental costs of obtaining contracts — non-current	\$ 59,317	63,425
Less: accumulated amortization	(38,422)	(30,756)
Total	<u>\$ 20,895</u>	<u>32,669</u>

The related expenses of premium and stamp tax paid by the Group for the acquisition of the aircraft maintenance business are expected to be recoverable and therefore were recognized as

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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assets and amortized over the contract period of the aircraft maintenance business. Amortization expenses of \$12,776 and \$12,965 were recognized for the years ended December 31, 2020 and 2019.

(t) Employees compensation

According to the Articles of Association, once the Company has annual profit, it should appropriate 1%~3% of the profit to its employees. When the Company still has an accumulated loss, the Company shall keep the profit for making up an accumulated loss.

The remunerations to employees amounted to \$678 and \$1,212 for the years ended December 31, 2020 and 2019, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period.

Related information would be available at the Market Observation Post System website. The amounts, as stated in the financial statements, are identical to those of the actual distributions for 2020 and 2019.

(u) Non-operating income and expenses

1. Other income

The details of other income were as follows:

	2020	2019
Government grants	\$ 87,625	-
Rent income	1,390	1,443
Other income — others	12,120	4,372
	<u><u>\$ 101,135</u></u>	<u><u>5,815</u></u>

2. Other gains and losses

The details of other gains and losses were as follows:

	2020	2019
Gains (losses) on disposals of property, plant and equipment	\$ 15	(1)
Foreign exchange gains, net	12,539	6,839
Net gains (losses) on valuation of financial assets and liabilities		
at fair value through profit or loss	1,680	(900)
Handing fees	(8,766)	(8,626)
Others	(5,520)	(922)
	<u><u>\$ (52)</u></u>	<u><u>(3,610)</u></u>

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AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Financial instruments

1. Credit risk

(i) Credit risk exposure

The carrying amount of financial assets and contract assets represents the maximum amount exposed to credit risk.

(ii) Concentration of credit risk

As of December 31, 2020, and 2019, a few customers of the Group accounted for 76% and 82%, respectively, of accounts receivable. As of the end of the reporting period, the Group did not suffer any significant credit risk losses due to these customers. The Group periodically evaluates customers' financial position and the possibility of recovery of receivables in order to reduce credit risk.

(iii) Credit risk exposure of receivables and other financial assets at amortized cost

For credit risk exposure on notes, trade and overdue receivables, and the details on loss allowance provision, please refer to note 6(b).

Other financial assets at amortized cost include other receivables and refundable deposit. There was no loss allowance recognized or reversed for the years ended December 31, 2020 and 2019.

All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected credit losses.

2. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	2-5 years	Over 5 years
December 31, 2020						
Non-derivative financial liabilities						
With floating interest rates	\$ 723,750	741,939	469,652	177,623	94,664	-
With fixed interest rates	1,131,600	1,154,765	851,001	303,764	-	-
Non-interest-bearing liabilities	583,908	583,908	583,908	-	-	-
Lease liabilities	273,724	299,235	35,547	18,806	49,598	195,284
	\$ 2,712,982	2,779,847	1,940,108	500,193	144,262	195,284

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
December 31, 2019						
Non-derivative financial liabilities						
With floating interest rates	\$ 1,080,000	1,095,011	643,962	155,103	295,946	-
With fixed interest rates	924,812	954,765	450,000	201,001	303,764	-
Non-interest-bearing liabilities	610,735	610,735	610,735	-	-	-
Lease liabilities	270,726	295,407	18,048	16,979	48,822	211,558
Derivative financial liabilities						
Embedded derivative	1,470	1,470	1,470	-	-	-
	\$ 2,887,743	2,957,388	1,724,215	373,083	648,532	211,558

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

3. Currency risk

(i) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2020				December 31, 2019		
	Foreign currency	Exchange rate	NTD		Foreign currency	Exchange rate	NTD
<u>Financial assets</u>							
<u>Monetary items</u>							
USD	\$	1,963	28.48	55,897	911	29.98	27,308
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD		6.808	28.48	193,897	6,115	29.98	183,327

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency. As of December 31, 2020, and 2019, when the exchange rate of the NTD versus the USD increase or decrease by 1%, given no changes in other factors, profit after tax will increase or decrease by \$1,104 and \$1,248, respectively. This analysis was performed on a consistent basis for both periods.

Exchange gains or losses (including realized and unrealized) that resulted from monetary items translated to the functional currency were as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Exchange gain (loss)</u>	<u>Average rate</u>	<u>Exchange gain (loss)</u>	<u>Average rate</u>
NTD	\$ 12,539	-	6,839	-

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4. Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 1%, the Group's net profit would have decreased or increased by \$5,790 and \$8,640 for the years ended December 31, 2020 and 2019 with all other variable factors remaining constant. This is mainly due to the Group's borrowing at floating rates.

5. Fair value of financial instruments

(i) Fair value hierarchy

The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required:

		December 31, 2020			
		Carrying Value	Fair Value		
			Level 1	Level 2	Level 3
					Total
Financial assets at fair value through profit or loss					
Financial assets designated at fair value through profit or loss		<u>\$ 210</u>	-	210	-
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 158,454	-	-	-	-
Notes and trade receivables	1,077,859	-	-	-	-
Other receivables	1,990	-	-	-	-
Refundable deposits—current	131,606	-	-	-	-
Restricted deposit(recorded as other current assets)	1,337	-	-	-	-
Refundable deposits—non-current(recorded as other non-current assets)	56,251	-	-	-	-
	<u>\$ 1,427,497</u>				

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		December 31, 2020				
		Carrying	Fair Value			
		Value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost						
Short-term loans	\$	380,000	-	-	-	-
Short-term notes payable		649,770	-	-	-	-
Payables		583,908	-	-	-	-
Bonds payable (included in current portion)		481,830	-	493,140	-	493,140
Long-term loans(included in current portion)		343,750	-	-	-	-
Lease liabilities		<u>273,724</u>	-	-	-	-
		<u>\$ 2,712,982</u>				
		December 31, 2019				
		Carrying	Fair Value			
		Value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	145,757	-	-	-	-
Notes and trade receivables		1,209,766	-	-	-	-
Other receivables		9,889	-	-	-	-
Refundable deposits— current		128,824	-	-	-	-
Refundable deposits— non-current(recorded as other non-current assets)		<u>63,444</u>	-	-	-	-
		<u>\$ 1,557,680</u>				
Financial liabilities at fair value through profit or loss						
Financial liabilities designated at fair value through profit or loss	\$	<u>1,470</u>	-	1,470	-	1,470
Financial liabilities measured at amortized cost						
Short-term loans	\$	600,000	-	-	-	-
Short-term notes payable		449,840	-	-	-	-
Payables		610,735	-	-	-	-
Bonds payable		474,972	-	481,790	-	481,790
Long-term loans(included in current portion)		480,000	-	-	-	-
Lease liabilities		<u>270,726</u>	-	-	-	-
		<u>\$ 2,886,273</u>				

The table above analyzes financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: 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).
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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There was no reclassification of levels during the years ended December 31, 2020 and 2019.

(ii) Valuation techniques for financial instruments not measured at fair value

Financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

The valuations of the liability part of the convertible bonds issued by the Group are valued by discounted cash flows.

(iii) Valuation techniques for financial instruments measured at fair value

Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants such as the discounted cash flow or option pricing models. Put options and redeem options of the convertible bonds are valued by Binary Tree.

(w) Financial risk management

1. Overview

The Group have exposures to the following risks from its financial instruments:

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

The following likewise discusses the Group' s objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks' exposures, please refer to the respective notes in the accompanying consolidated financial statements.

2. Structure of risk management

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The chairman is responsible for developing and monitoring the Group' s risk management policies. The chairman reports regularly to the Board of Directors on its activities.

The Group' s risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group' s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group' s

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

3. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and bank deposits.

(i) Trade receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and, in some cases, bank references. The Group rates major clients by other publicly available information and past transaction experience. Credit limits are established for each customer, and these limits are reviewed regularly. First-time customers, customers that have not traded for a long period, and customers that fail to meet the Group's benchmark creditworthiness may transact with the Company only on a prepayment basis.

The Group evaluates the aging of trade receivables periodically, and accrues an allowance for doubtful accounts, if necessary. The allowance consists of a specific loss component that relates to individually significant risk exposures and a collective loss incurred but not yet identified. The collective loss allowance is determined based on historical payment statistics and forward looking information.

(ii) Bank deposit

The Group's transactions resulted from external parties with good credit ratings; there are no noncompliance issues. The Group also has relationships with multiple financial institutions to diversify risk.

4. Liquidity risk

The Group manages sufficient cash and cash equivalents to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures compliance with the terms of loan agreements.

Loans and borrowings from the bank form an important source of liquidity for the Group. As of December 31, 2020, and 2019, the Group's unused credit line were amounted to \$978,750 and \$850,000 respectively.

5. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates, will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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AIR ASIA CO., LTD. AND SUBSIDIARIES
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(i) Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Group, the NTD. The currencies used in these transactions are the USD.

Regarding other monetary assets and liabilities denominated in foreign currencies, when short-term imbalance occurs, the Group buys or sells foreign currencies at real-time exchange rates to ensure that the net risk of risk remains at an acceptable level.

(ii) Interest rate risk

The short-term and long-term borrowings of the Group are debts with floating interest rates. Therefore, changes in market interest rates will cause the interest rates of short-term and long-term borrowings to fluctuate, causing fluctuations in future cash flows.

(x) **Capital management**

The Group's objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

The Group use the debt-to-equity ratio to manage capital. This ratio is the total net debt divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents. The total capital is the total equity plus net debt.

The Group's debt-to-equity ratios at the reporting date were as follows:

	December 31, 2020	December 31, 2019
Total liabilities	\$ 2,748,956	2,941,765
Less: cash and cash equivalents	<u>158,454</u>	<u>145,757</u>
Net debt	2,590,502	2,796,008
Total equity	<u>1,636,391</u>	<u>1,603,748</u>
Total capital	<u>\$ 4,226,893</u>	<u>4,399,756</u>
Debt-to-equity ratio	<u>61.29%</u>	<u>63.55%</u>

As of December 31, 2020, the Group's capital management strategy is consistent with the prior years.

(y) **Investing and financing activities not affecting current cash flow**

The Group acquired right-of-use assets by leases for the years ended December 31, 2020 and 2019, please refer to note 6(g).

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Reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2020	Cash flows	Non-cash changes	December 31, 2020
Short-term loans	\$ 600,000	(220,000)	-	380,000
Short-term notes payable	449,840	199,930	-	649,770
Long-term loans (included in current portion)	480,000	(136,250)	-	343,750
Bonds payable (included in current portion)	474,972	-	6,858	481,830
Lease liabilities	270,726	(705)	3,703	273,724
Total liabilities from financing activities	<u>\$ 2,275,538</u>	<u>(157,025)</u>	<u>10,561</u>	<u>2,129,074</u>
	January 1, 2019	Cash flows	Non-cash changes	December 31, 2019
Short-term loans	\$ 722,075	(122,075)	-	600,000
Short-term notes payable	229,925	219,915	-	449,840
Long-term loans (included in current portion)	199,999	280,001	-	480,000
Bonds payable	-	494,682	(19,710)	474,972
Lease liabilities	-	(15,745)	286,471	270,726
Total liabilities from financing activities	<u>\$ 1,151,999</u>	<u>856,778</u>	<u>266,761</u>	<u>2,275,538</u>

(7) Related-parties transactions:

(a) Parent company and ultimate controlling company

Taiwan Aerospace Corporation is both the parent company and the ultimate controlling party of the Group. It owns 70.19 percent of all shares outstanding of the Group.

(b) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in consolidated the financial statements.

Name of related party	Relationship with the Company
Apex Flight Academy	Substantive related party

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Significant transactions with related parties

The amounts of significant sales by the Group to related parties were as follows:

	2020	2019
Other related parties	<u>\$ 260</u>	<u>283</u>

The sales price to the above related parties was determined through mutual agreement based on the market rates. The credit terms ranged from 15 to 60 days, the collection terms for related parties approximated the market terms. As of December 31, 2020, and 2019, the receivables from related parties were \$19 and \$13, respectively, which recorded as trade receivables.

(d) Key management personnel compensation

Key management personnel compensation comprised:

	2020	2019
Short-term employee benefits	\$ 17,143	16,344
Post-employment benefits	3,453	569
	<u>\$ 20,596</u>	<u>16,913</u>

(8) Pledged assets

The carrying amounts of pledged assets were as follows:

Pledged assets	Object	December 31, 2020	December 31, 2019
Refundable deposits – current	Guarantee deposits and customs bond	\$ 131,606	128,824
Restricted deposits (Note1)	Guarantee deposits	1,337	-
Refundable deposits – non-current (Note2)	Guarantee deposits	56,251	63,444
Land	Short-term loans	255,076	255,076
Buildings and structures	Short-term loans	222,751	233,934
		<u>\$ 667,021</u>	<u>681,278</u>

Note1: recorded as other current assets.

Note1: recorded as other non-current assets.

(9) Significant Commitments and Contingencies

(a) Unrecognized contractual commitments

As of December 31, 2020, and 2019, the maintenance bond and customs bond offered by banks amounted to \$1,879,967 and \$1,689,994, respectively.

(b) Contingencies

1. National Fire Agency, Ministry of the Interior requires the Group to return the case of unjust enrichment with local court, and requested the Group to pay \$7,500 and interest payment (calculated at 5% annual interest) since the day after the command to pay to the settlement day. The litigation was on November 28, 2019. The Taipei District Court dismissed the plaintiff's claim, but the plaintiff appealed. As of the date of the financial report because the appeals procedure of third

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

instance still in litigation, the Group is unable to evaluate the effect.

2. The Group has discharged several employees in accordance with the Labor Standards Act, and some employees filed claims against the Group to restore the relationship of employment with compensation at about \$9,113 (calculated at 10 times the annual salary) with the court. As of the date of the financial report, the aforesaid cases are still under trial in the courts. The Group has estimated that among the \$9,113, \$7,213 is highly possible to be excluded, because of the high probability of winning the cases, and the residual cases still cannot be evaluated the potential effect.

(10) Losses Due to Major Disasters:None.

(11) Subsequent Events:None.

(12) Others

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function By item	2020			2019		
	Cost of Sale	Operating Expense	Total	Cost of Sale	Operating Expense	Total
Employee benefits						
Salary	526,059	128,004	654,063	559,876	139,945	699,821
Labor and health insurance	51,474	13,954	65,428	50,417	17,754	68,171
Pension	29,462	8,128	37,590	31,311	9,314	40,625
Remuneration of directors	-	1,958	1,958	-	2,030	2,030
Others	37,819	6,568	44,387	39,196	6,752	45,948
Depreciation	74,825	4,732	79,557 (Note)	73,658	8,178	81,836
Amortization	4,949	129	5,078	5,363	719	6,082

Note : The covid-19-related rent concessions of \$3,293 were recognized as deduction of depreciation expenses for the year ended December 31, 2020.

(13) Other disclosure items

(a) Information on significant transactions:

The followings were the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the year ended December 31, 2020:

- (i) Lending to other parties:None.
- (ii) Guarantees and endorsements for other parties:None.
- (iii) Information regarding securities held at the reporting date (subsidiaries, associates and joint ventures not included):None.
- (iv) Information regarding purchase or sale of securities for the period exceeding 300 million or 20% of the Company’ s paid-in capital:None.

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (v) Information on acquisition of real estate with purchase amount exceeding 300 million or 20% of the Company's paid-in capital:None.
- (vi) Information regarding receivables from disposal of real estate exceeding 300 million or 20% of the Company's paid-in capital:None.
- (vii) Information regarding related-parties purchases and/or sales exceeding 100 million or 20% of the Company's paid-in capital:None.
- (viii) Information regarding receivables from related-parties exceeding 100 million or 20% of the Company's paid-in capital:None.
- (ix) Information regarding trading in derivative financial instruments:Please refer to notes 6(1).
- (x) Significant transactions and business relationship between the parent company and its subsidiaries:None.

(b) Information on investments:

The followings are the information on investees for the year ended December 31, 2020 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Main businesses and products	Original investment amount		Balance as of December 31, 2020			Highest Percentage of ownership	Net income (loss) of investee	Investment income (loss) recognized	Remark
			December 31, 2020	December 31, 2019	Shares (thousands)	Percentage of ownership	Carrying value				
The Company	Air Asia Company Ltd. (USA)	Logistic service			10	100%	3,185	100.00%	(84)	(84)	Note

Note: the transaction was eliminated in the preparation of consolidated financial statements.

- (c) Information on investment in Mainland China:None.
- (d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
Taiwan Aerospace Corporation		92,071,253	70.19%
Taiwan Sugar Corporation		17,800,712	13.57%

Note1 : The information on major shareholders, which is provided by the Taiwan Depository & Clearing Corporation, summarized the shareholders who held over 5% of total non-physical common stocks and preferred stocks (including treasury stocks) on the last business date of each quarter. The registered non-physical stocks may be different from the capital stocks disclosed in the financial statement due to different calculation basis.

Note2 : If shares are entrusted, the above information regarding such shares will be revealed by each trustors of individual trust account. The shareholders holding more than 10% of the total shares of the company should declare insider's equity according to Securities and Exchange Act. The numbers of the shares declared by the insider include the shares of the trust assets which the insider has discretion over use. For details of the insider's equity announcement please refer to the TWSE website.

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General information

The Group is principally engaged in the maintenance of aircrafts and spare parts. The Group's decision makers assess the performance and allocate resources based on the overall financial statements. It is recognized that the Group is a single operating department. Financial segment information is consistent with the above financial information for the Group as a whole. The accounting policies of the operating segment are the same as those described in note 4.

(b) Information on reportable segment profit or loss, assets, liabilities, and basis of measurement and reconciliation

The information on segment profit or loss, assets, and liabilities is consistent with the information in the consolidated financial statements; please refer to the consolidated balance sheets and consolidated statements of comprehensive income.

(c) Information about products and services

The Group is principally engaged in the maintenance of aircrafts and spare parts.

The information on products is consistent with the consolidated financial statements; please refer to the consolidated statements of comprehensive income.

(d) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

<u>Geographical Area</u>	<u>2020</u>	<u>2019</u>
Revenue from external customers:		
Taiwan	\$ 3,611,945	3,322,199
Asia	152,425	423,104
Other	130,721	157,988
	<u><u>\$ 3,895,091</u></u>	<u><u>3,903,291</u></u>
Non-current assets:		
<u>Geographical Area</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Taiwan	<u><u>\$ 985,479</u></u>	<u><u>1,045,189</u></u>

(Continued)

AIR ASIA CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Major customer information

The sales to individual customers that constituted or more of net sales were as follows:

<u>Customer</u>	<u>2020</u>	<u>2019</u>
A	\$ 2,344,659	1,893,932
B	493,878	548,712
	<u>\$ 2,838,537</u>	<u>2,442,644</u>

Appendix 2

Stock Code:2630

Parent company only financial statement for the most recent fiscal year

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
AIR ASIA CO., LTD.

Parent Company Only Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2020 and 2019

Address: No. 1050, Jichang Rd., Rende Dist., Tainan City, Taiwan, R.O.C.
Telephone: (06)2681911

The independent auditors' report and the accompanying parent company only financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and parent company only financial statements, the Chinese version shall prevail.

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Independent Auditors’ Report

To the Board of Directors of AIR ASIA CO., LTD.:

Opinion

We have audited the financial statements of AIR ASIA CO., LTD.(“the Company”), which comprise the balance sheets as of December 31, 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Revenue recognition

Please refer to Note 4(n) “Revenue recognition” , Note 5(a) “Significant accounting assumptions and judgments, and major sources of estimation uncertainty” , and Note 6(s) “Revenue from contracts with customers” to the financial statements.

Description of key audit matter:

Parts of the Company's aircraft maintenance service and aircraft business maintenance management contracts recognize revenue when a performance obligation was satisfied over time. This method calculates the percentage of completion based on the goods and services transferred to the customer. As measuring the progress towards complete satisfaction of the performance obligation involves management's material judgement, we determined that the assessment of revenue recognition was one of the key areas our audit focused on.

How the matter was addressed in our audit procedures:

- Assessing and testing the effectiveness of the internal control design and execution regarding revenue recognition.
- Selecting material contracts as samples, inspecting revenue recognition terms and conditions of contracts, testing the material requisition record and employee time record to verify the correctness of actual input and verifying the correctness of the amount of revenue recognized.
- Performing a retrospective review to comparatively analyze the historical accuracy of judgments with reference to actual revenue in order to assess the rationality of the judgement and assumptions of the current period.
- Assessing whether the disclosure of revenue recognition was appropriate.

2. Valuation for inventories

Please refer to Note 4(g) “Inventories” , Note 5(b) “Significant accounting assumptions and judgments, and major sources of estimation uncertainty” , and Note 6(d) “Inventories” to the financial statements.

Description of key audit matter:

The maintenance materials prepared by the Company to meet customer needs may lose their original benefits due to the obsolescence of aircraft models, resulting in a risk wherein the carrying value of inventories may exceed its net realizable value. Therefore, we determined that the assessment of valuation of inventories was one of the key areas our audit focused on.

How the matter was addressed in our audit procedures:

- Understanding the net realizable value used by management for inventory valuation, as well as sampling and verifying the original transaction vouchers to test the rationality of the net realizable value of inventory.
- Inspecting the inventory aging report, analyzing the changes of inventory aging, as well as sampling and checking the accuracy of the inventory aging report.
- Performing a retrospective review to comparatively analyze the historical accuracy of judgments with reference to actual disposal in order to assess the rationality of the judgement and assumptions of the current period.
- Assessing whether the disclosure of provision for inventory and obsolescence was appropriate.

Other Matter

The parent company only financial statement of AIR ASIA CO., LTD. for the year ended December 31, 2019, were audited by another auditor, who issued an unmodified opinion with emphasis of matter on these statements on February 20, 2020.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Yen-Ta Su and Hui-Yuan Chen.

KPMG

Tainan, Taiwan (Republic of China)
February 23, 2021

Notes to Readers

The accompanying parent company only financial statements are intended only to present the financial position, financial performance and its cash flows in accordance with the 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 parent company only financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying parent company only financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and parent company only financial statements, the Chinese version shall prevail.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
AIR ASIA CO., LTD.

Balance Sheets

December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

		<u>December 31, 2020</u>		<u>December 31, 2019</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Assets					
Current assets:					
1100	Cash and cash equivalents (note 6(a))	\$ 155,233	4	142,283	3
1110	Financial assets at fair value through profit or loss — current (note 6(l))	210	-	-	-
1140	Contract assets — current (notes 6(s))	730,523	17	321,579	7
1170	Notes and trade receivables, net (notes 6(b)(s) and 7)	1,077,859	24	1,209,766	27
1200	Other receivables (note 6(c))	13,188	-	20,969	-
130X	Inventories (note 6(d))	1,074,706	25	1,514,312	33
1410	Prepayments (note 6(e))	86,240	2	34,362	1
1478	Refundable deposits — current (note 8)	131,606	3	128,824	3
1479	Other current assets (note 8)	1,422	-	1,488	-
Total current assets		<u>3,270,987</u>	<u>75</u>	<u>3,373,583</u>	<u>74</u>
Non-current assets:					
1550	Investments accounted for using equity method	3,185	-	3,438	-
1600	Property, plant and equipment (notes 6(f) and 8)	693,231	16	703,719	16
1755	Right-of-use assets (note 6(g))	258,315	6	269,456	6
1780	Intangible assets (note 6(h))	5,148	-	6,351	-
1840	Deferred tax assets (note 6(p))	69,409	2	59,823	1
1955	Incremental costs of obtaining contracts — non-current (note 6(s))	20,895	-	32,669	1
1990	Other non-current assets (notes 6(b)(f)(i) and 8)	64,141	1	96,438	2
Total non-current assets		<u>1,114,324</u>	<u>25</u>	<u>1,171,894</u>	<u>26</u>
Total assets		<u><u>\$ 4,385,311</u></u>	<u><u>100</u></u>	<u><u>4,545,477</u></u>	<u><u>100</u></u>

		<u>December 31, 2020</u>		<u>December 31, 2019</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (notes 6(k) and 8)	\$ 380,000	9	600,000	13
2110	Short-term notes payable (note 6(j))	649,770	15	449,840	10
2120	Financial liabilities at fair value through profit or loss — current (note 6(l))	-	-	1,470	-
2130	Contract liabilities — current (note 6(s))	6,633	-	4,956	-
2170	Trade payables	281,090	6	348,623	8
2200	Other payables	302,782	7	262,076	6
2250	Provisions — current (note 6(m))	21,432	-	31,492	1
2280	Lease liabilities — current (note 6(n))	29,875	1	15,399	-
2320	Current portion of bonds payable and long-term loans (notes 6(k)(l) and 8)	269,953	6	37,500	1
2399	Other current liabilities	7,517	-	6,515	-
Total current liabilities		<u>1,949,052</u>	<u>44</u>	<u>1,757,871</u>	<u>39</u>
Non-Current liabilities:					
2530	Bonds payable (note 6(l))	286,877	7	474,972	10
2540	Long-term loans (notes 6(k) and 8)	268,750	6	442,500	10
2570	Deferred tax liabilities (note 6(p))	392	-	-	-
2580	Lease liabilities — non-current (note 6(n))	243,849	6	255,327	6
2640	Net defined benefit liability — non-current (note 6(o))	-	-	11,059	-
Total non-current liabilities		<u>799,868</u>	<u>19</u>	<u>1,183,858</u>	<u>26</u>
Total liabilities		<u>2,748,920</u>	<u>63</u>	<u>2,941,729</u>	<u>65</u>
Equity attributable to owners of the Company (notes 6(l)(p)(q)):					
3110	Common stock	1,311,710	30	1,201,200	26
3200	Capital surplus	162,544	3	273,054	6
Retained earnings:					
3310	Legal reserve	119,583	3	118,606	3
3350	Unappropriated retained earnings	42,612	1	10,811	-
		<u>162,195</u>	<u>4</u>	<u>129,417</u>	<u>3</u>
3400	Other equity	(58)	-	77	-
Total equity		<u>1,636,391</u>	<u>37</u>	<u>1,603,748</u>	<u>35</u>
Total liabilities and equity		<u><u>\$ 4,385,311</u></u>	<u><u>100</u></u>	<u><u>4,545,477</u></u>	<u><u>100</u></u>

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
AIR ASIA CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)

		2020		2019	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(s) and 7)	\$ 3,895,091	100	3,913,291	100
5000	Operating costs (notes 6(d)(f)(n)(o)(s)(t), 7 and 12)	3,704,355	95	3,531,974	90
5900	Gross profit	190,736	5	381,317	10
6000	Operating expenses (notes 6(b)(f)(n)(o)(t), 7 and 12):				
6100	Selling expenses	52,217	1	65,418	2
6200	Administrative expenses (including covid-19-related rent concessions of \$3,293)	178,602	5	207,440	5
6300	Research and development expenses	-	-	14,012	-
6450	Expected credit loss	74	-	15,637	1
		230,893	6	302,507	8
6900	Operating income (loss)	(40,157)	(1)	78,810	2
7000	Non-operating income and expenses (notes 6(l)(n)(u)):				
7100	Interest income	1,210	-	1,303	-
7010	Other income (including covid-19-related government grants of \$87,625)	101,135	3	5,815	-
7020	Other gains and losses	(52)	-	(3,585)	-
7050	Interest expense	(28,824)	(1)	(22,849)	(1)
7070	Share of loss of associates accounted for using equity method	(84)	-	(82)	-
		73,385	2	(19,398)	(1)
7900	Profit before tax	33,228	1	59,412	1
7950	Less: income tax expenses (benefits) (note 6(p))	(9,160)	-	14,401	-
8200	Net profit	42,388	1	45,011	1
8300	Other comprehensive income (notes 6(o)(p)(q)):				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Losses on remeasurements of defined benefit plans	-	-	(12,748)	-
8349	Less: income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	2,550	-
		-	-	(10,198)	-
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(169)	-	(78)	-
8399	Less: income tax related to components of other comprehensive income that will be reclassified to profit or loss	(34)	-	(16)	-
		(135)	-	(62)	-
8300	Other comprehensive income, net	(135)	-	(10,260)	-
8500	Total comprehensive income	<u>\$ 42,253</u>	<u>1</u>	<u>34,751</u>	<u>1</u>
	Earnings per share (note 6(r)) (in New Taiwan dollars)				
9750	Basic earnings per share	<u>\$ 0.32</u>		<u>0.34</u>	
9850	Diluted earnings per share	<u>\$ 0.30</u>		<u>0.34</u>	

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
AIR ASIA CO., LTD.

Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings			Other equity			
				Exchange differences on translation of			
				foreign financial			
	Common stock	Capital surplus	Legal reserve	Unappropriated retained earnings	statements	Treasury stock	Total equity
Balance at January 1, 2019	\$ 1,222,080	365,749	117,066	12,196	139	(41,173)	1,676,057
Net profit	-	-	-	45,011	-	-	45,011
Other comprehensive income	-	-	-	(10,198)	(62)	-	(10,260)
Total comprehensive income	-	-	-	34,813	(62)	-	34,751
Appropriation and distribution of retained earnings:							
Legal reserve	-	-	1,540	(1,540)	-	-	-
Cash dividends	-	-	-	(9,610)	-	-	(9,610)
Issuance of convertible bonds — share option	-	22,358	-	-	-	-	22,358
Cash dividends distributed from capital surplus	-	(110,510)	-	-	-	-	(110,510)
Repurchase of treasury stock	-	-	-	-	-	(9,298)	(9,298)
Retirement of treasury stock	(20,880)	(4,543)	-	(25,048)	-	50,471	-
Balance at December 31, 2019	1,201,200	273,054	118,606	10,811	77	-	1,603,748
Net profit	-	-	-	42,388	-	-	42,388
Other comprehensive income	-	-	-	-	(135)	-	(135)
Total comprehensive income	-	-	-	42,388	(135)	-	42,253
Appropriation and distribution of retained earnings:							
Legal reserve	-	-	977	(977)	-	-	-
Cash dividends	-	-	-	(9,610)	-	-	(9,610)
Stock dividends distributed from capital surplus	110,510	(110,510)	-	-	-	-	-
Balance at December 31, 2020	\$ 1,311,710	162,544	119,583	42,612	(58)	-	1,636,391

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

AIR ASIA CO., LTD.**Statements of Cash Flows****For the years ended December 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars)**

	2020	2019
Cash flows from (used in) operating activities:		
Profit before tax	\$ 33,228	59,412
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	79,557	81,836
Amortization expense	5,078	6,082
Expected credit loss	74	15,637
Losses (gains) on valuation of financial assets and liabilities at fair value through profit or loss	(1,680)	900
Interest expense	28,824	22,849
Interest income	(1,210)	(1,303)
Share of loss of associates accounted for using equity method	84	82
Loss (gain) on disposal of property, plant and equipment	(15)	1
Property, plant and equipment transferred to operating costs	78	-
Unrealized foreign exchange gains	(1,184)	-
Total adjustments to reconcile profit	109,606	126,084
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in contract assets — current	(408,944)	11,601
Decrease (increase) in notes and trade receivables, net	131,613	(422,649)
Decrease (increase) in other receivables	7,701	(4,580)
Decrease (increase) in inventories	439,606	(478,228)
Decrease (increase) in prepayments	(51,878)	32,595
Decrease (increase) in other current assets	66	(1,251)
Decrease in incremental costs of obtaining contracts — non-current	11,774	12,965
Total changes in operating assets	129,938	(849,547)
Changes in operating liabilities:		
Increase in contract liabilities — current	1,677	3,842
Increase (decrease) in trade payables	(66,472)	133,340
Increase in other payables	44,120	61,393
Increase (decrease) in provisions — current	(10,060)	12,380
Increase (decrease) in other current liabilities	1,002	(3,872)
Decrease in net defined benefit liability — non-current	(11,059)	(143,230)
Total changes in operating liabilities	(40,792)	63,853
Net changes in operating assets and liabilities	89,146	(785,694)
Total adjustments	198,752	(659,610)
Cash generated from (used in) operations	231,980	(600,198)
Interest received	1,408	1,253
Interest paid	(22,082)	(19,494)
Income tax paid	(118)	(1,616)
Net cash generated from (used in) operating activities	211,188	(620,055)
Cash flows from (used in) investing activities:		
Decrease in refundable deposits	4,411	30,059
Acquisition of property, plant and equipment	(33,820)	(37,771)
Proceeds from disposal of property, plant and equipment	15	-
Acquisition of intangible assets	(3,875)	(9,563)
Decrease (increase) in other non-current assets	1,348	(27,555)
Net cash used in investing activities	(31,921)	(44,830)
Cash flows from (used in) financing activities:		
Decrease in short-term loans	(220,000)	(122,075)
Increase in short-term notes payable	199,930	219,915
Bonds issued	-	494,682
Proceeds from long-term loans	220,000	480,000
Repayments of long-term loans	(356,250)	(199,999)
Payment of lease liabilities	(705)	(15,745)
Cash dividends	(9,610)	(120,120)
Repurchase of treasury stock	-	(9,298)
Net cash generated from (used in) financing activities	(166,635)	727,360
Effects of exchange rate changes on balance of cash held in foreign currencies	318	-
Net increase in cash and cash equivalents	12,950	62,475
Cash and cash equivalents at the beginning of year	142,283	79,808
Cash and cash equivalents at end of year	\$ 155,233	142,283

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
AIR ASIA CO., LTD.

Notes to the Parent Company Only Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

AIR ASIA CO., LTD. (the “Company”) was incorporated as a company limited by shares under the Company Act of the Republic of China (R.O.C.) on January 19, 1955. The Company’s registered and operating address is No. 1050, Jichang Rd., Rende Dist., Tainan City, Taiwan, R.O.C.

The Company’s principal activities consist of maintenances, renovation, upgrades and integrated logistic support services for the aircraft and related components.

The Company listed their shares on the Taiwan Stock Exchange on 22 February 2018.

(2) Approval date and procedures of the financial statements:

The parent company only financial statements were authorized for issuance by the Board of the Company on February 23, 2021.

(3) New standards, amendments and interpretations adopted:

1. The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. which have already been adopted.

The details of impact on the Company’s adoption of the new amendments beginning January 1, 2020 are as follows :

(a) Amendments to IFRS 16 “COVID-19-Related Rent Concessions”

As a practical expedient, a lessee may elect not to assess whether a rent concession that meets certain conditions is a lease modification, rather any changes in lease liability are recognized in profit or loss. The amendments have been endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) in July 2020, earlier application from January 1, 2020 is permitted. Related accounting policy is explained in Note 4(j).

The Company has elected to apply the practical expedient for all rent concessions that meet the criteria beginning January 1, 2020, with early adoption. No adjustment was made upon the initial application of the amendments. The amounts recognized in profit or loss for year ended December 31, 2020 was 3,293.

(b) Other amendments

The following new amendments, effective January 1, 2020, do not have a significant impact on the Company’s financial statements:

- Amendments to IFRS 3 “Definition of a Business”
- Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”
- Amendments to IAS 1 and IAS 8 “Definition of Material”

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AIR ASIA CO., LTD.

Notes to the Parent Company Only Financial Statements

2. The impact of IFRS issued by the FSC but not yet effective

The Company assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its financial statements:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

3. The impact of IFRS issued by IASB but not yet endorsed by the FSC

The following new and amended standards, which may be relevant to the Company, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.	January 1, 2023
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	The amendments clarify that the ‘costs of fulfilling a contract’ comprises the costs that relate directly to the contract as follows: the incremental costs – e.g. direct labor and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.	January 1, 2022

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

The Company does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”

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AIR ASIA CO., LTD.

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- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the financial statements.

(a) Statement of compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”).

(b) Basis of preparation

1. Basis of measurement

Except for the following significant accounts, the financial statements have been prepared on a historical cost basis:

- (i) Financial instruments at fair value through profit or loss are measured at fair value;
- (ii) The defined benefit liabilities are measured as the present value of the defined benefit obligation, less pension fund assets at fair value.

2. Functional and presentation currency

The financial statements are presented in New Taiwan Dollar (NTD), which is the Company’ s functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(c) Foreign currencies

1. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Company entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- (i) an investment in equity securities designated as at fair value through other comprehensive income;

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AIR ASIA CO., LTD.

Notes to the Parent Company Only Financial Statements

(ii) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

(iii) qualifying cash flow hedges to the extent that the hedges are effective.

2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(d) **Classification of current and non-current assets and liabilities**

An asset is classified as current under one of the following criteria, and all other assets are classified as noncurrent.

1. It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
2. It is held primarily for the purpose of trading;
3. It is expected to be realized within twelve months after the reporting period; or
4. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as noncurrent.

An entity shall classify a liability as current when:

1. It is expected to be settled in the normal operating cycle;
2. It is held primarily for the purpose of trading;
3. It is due to be settled within twelve months after the reporting period; or
4. The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the

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AIR ASIA CO., LTD.

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counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(f) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(i) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

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Notes to the Parent Company Only Financial Statements

(ii) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or fair value through other comprehensive income (FVOCI) described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

(iii) Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

(iv) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest,

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the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows ;
- terms that may adjust the contractual coupon rate, including variable rate features ;
- prepayment and extension features ; and
- terms that limit the Company' s claim to cash flows from specified assets (e.g. non-recourse features) .

(v) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, notes and trade receivables, other receivables and refundable deposit) and contract assets.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company' s historical experience and informed credit assessment as well as forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 1 year past due or the debtor is unlikely to pay its credit obligations to the Company in full.

The Company considers a time deposit (recorded as refundable deposit) to have low credit risk when only deal with financial institutions with good credit rating.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that result from default events that are possible within

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the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period over which the Company is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer ;
- a breach of contract such as a default or being more than 1 year past due ;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;
- it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(vi) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the

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transferred assets. In these cases, the transferred assets are not derecognized.

(2) Financial liabilities and equity instruments

(i) Classification of debt or equity

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

(ii) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(iii) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(iv) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

(v) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

(Continued)

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Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(vi) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

(vii) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Investments in subsidiaries

When preparing the parent company only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income of the subsidiary as well as the distribution received. The Company also recognized its share in the changes in the equity of subsidiaries. In subsidiaries which are controlled by the Company is accounted for preparing the consolidated statement by each period.

Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity.

(i) Property, plant and equipment

1. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized

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borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

2. Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

3. Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

(i) Buildings and structures	3~35 years
(ii) Machinery and equipment	2~20 years
(iii) Transportation equipment	5~15 years
(iv) Office equipment	2~13 years

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(j) Leases

(a) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset throughout the period of use only if

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either:

- the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
- the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(b) As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or

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- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise an extension or termination option; or
- there is any lease modification

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

If an arrangement contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including land, business premises, staff dormitory, and part of transportation equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a practical expedient, the Company elects not to assess whether all rent concessions that meets all the following conditions are lease modifications or not:

- the rent concessions occurring as a direct consequence of the COVID-19 pandemic;
- the change in lease payments that resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments that affects only those payments originally due on, or before, June 30, 2021; and
- there is no substantive change in other terms and conditions of the lease.

In accordance with the practical expedient, the effect of the change in the lease liability is

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reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

(c) As a lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(k) **Intangible assets**

1. Recognition and measurement

Except for goodwill, intangible assets are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

2. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

3. Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

(i) Software	1~3 years
(ii) Acquired special technology	1~8 years

Amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(l) **Impairment of non-financial assets**

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present

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value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for warranties is recognized when the underlying products or services are sold, based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(n) Revenue recognition

1. Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

(1) Sale of goods

The Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

(2) Maintenance services

The Company provides aircraft maintenance services and related components. Revenue from providing services is recognized in the accounting period in which the services are rendered.

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The consideration promised in the contract includes fixed and variable amounts. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. The proportion of services provided is determined based on the actual maintenance hours spent relative to the total expected maintenance hours. The variable consideration is generally made and adjusted based on historical experience and any other known factors that would significantly affect the variable consideration.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

The Company offers a standard warranty for aircraft maintenance services and related components to provide assurance that the service complies with the agreed upon specifications and has recognized warranty provisions for this obligation; please refer to note 6(m).

(3) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

2. Contract costs

(1) Incremental costs of obtaining a contract

The Company recognizes as an asset the incremental costs of obtaining a contract with a customer if the Company expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Company applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

(2) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Company recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- (i) the costs relate directly to a contract or to an anticipated contract that the Company can

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specifically identify;

- (ii) the costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (iii) the costs are expected to be recovered.

General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which the Company cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Company recognizes these costs as expenses when incurred.

(o) Government grants

The Company recognizes an unconditional government grant related to covid-19 in profit or loss as other income when the grant becomes receivable. Other government grants related to assets are initially recognized as deferred income at notional amount if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant; they are then recognized in profit or loss as deduction of depreciation expenses on a systematic basis over the useful life of the asset. Grants that compensate the Company for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

(p) Employee benefits

1. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

2. Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are

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recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

3. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(q) **Share-based payment**

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Grant date of a share-based payment award is the date which the number of shares purchased by the employees was confirmed.

(r) **Income taxes**

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainly related to income tax, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

1. temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
2. temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary

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differences and it is probable that they will not reverse in the foreseeable future; and

3. taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

1. the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
2. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

(s) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds and employee compensation.

(t) Operating segments

The company discloses the operating segment information in the consolidated financial statements. Therefore, the Company does not disclose the operating segment information in the parent company only financial statements.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the financial statements in conformity with the Regulations requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows. Those assumptions and estimation have been updated to reflect the impact of COVID-19 pandemic:

(a) Revenue recognition

The Company estimates the amount of variable consideration using the expected value method or the most likely amount and recognizes it as deduction of revenue in the same period the related revenue is recorded. The variable consideration is generally made and adjusted based on historical experience and any other known factors that would significantly affect the variable consideration. The adequacy of estimations is reviewed periodically. The delivery schedule of maintenance materials could result in significant adjustments to the estimation made.

Contract revenue are recognized by reference to the stage of completion of each contract. The stage of completion of a contract is measured based on the goods and services transferred to the customer. The difference between the input record of maintenance material requisition as well as employee time and the actual acceptance, could result in significant adjustments to the estimation made.

(b) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumption as to future demand within a specific time horizon. Due to the obsolescence of aircraft models, there may be significant changes in the net realizable value of inventories. Please refer to note 6(d) for further description on the valuation of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash and cash on hand	\$ 3,062	3,247
Demand deposits	152,171	139,036
Cash and cash equivalents in the statement of cash flows	<u>\$ 155,233</u>	<u>142,283</u>

Please refer to note 6(v) for the exchange rate risk and sensitivity analysis of the financial assets.

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(b) Notes, trade and overdue receivables

	December 31, 2020	December 31, 2019
Trade receivables (including from related parties)	\$ 1,093,570	1,225,403
Less: Loss allowance	(15,711)	(15,637)
Subtotal	1,077,859	1,209,766
Overdue receivables (recorded as other non-current assets)	28,641	32,013
Less: Loss allowance	(28,641)	(32,013)
Subtotal	-	-
Total	\$ 1,077,859	1,209,766

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes, trade and overdue receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. If the receivables of government in group 1 will be collected based on the central government budget, the amount of the receivables will be regarded as not overdue with no impairment risk. The loss allowance provision was determined as follows:

	December 31, 2020		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
<u>Group 1</u>			
Current	<u>\$ 1,054,238</u>	0.00%	<u>-</u>
	December 31, 2020		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
<u>Group 2</u>			
Current	\$ 23,479	2.45%	574
1 to 90 days past due	142	21.21%	30
91 to 180 days past due	-	52.51%	-
181 to 270 days past due	223	58.19%	130
271 to 365 days past due	2,515	79.70%	2,004
More than 365 days past due	41,614	100.00%	41,614
	<u>\$ 67,973</u>		<u>44,352</u>
	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
<u>Group 1</u>			
Current	\$ 1,204,013	0.00%	-
1 to 90 days past due	3,302	0.00%	-
91 to 180 days past due	49	20.00%	10
181 to 270 days past due	47	30.00%	15
271 to 365 days past due	-	50.00%	-
More than 365 days past due	-	100.00%	-
	<u>\$ 1,207,411</u>		<u>25</u>

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	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
<u>Group 2</u>			
Current	\$ 2,496	86.00%	2,155
1 to 90 days past due	5,935	86.00%~100.00%	5,205
91 to 180 days past due	9,561	86.00%	8,252
181 to 270 days past due	-	100.00%	-
271 to 365 days past due	-	100.00%	-
More than 365 days past due	<u>32,013</u>	100.00%	<u>32,013</u>
	<u>\$ 50,005</u>		<u>47,625</u>

The movement in the allowance for notes, trade and overdue receivables was as follows:

	2020	2019
Balance at January 1	\$ 47,650	32,013
Impairment losses recognized	74	15,637
Amounts written off	(3,372)	-
Balance at December 31	<u>\$ 44,352</u>	<u>47,650</u>

The aforementioned notes, trade and overdue receivables were not pledged as collateral or restricted in any way.

(c) Other receivables

	December 31, 2020	December 31, 2019
Other receivables—income taxes refund	\$ 11,198	11,080
Others	1,990	9,889
Less: Loss allowance	-	-
	<u>\$ 13,188</u>	<u>20,969</u>

For further credit risk information, please refers to note 6(v).

(d) Inventories

	December 31, 2020	December 31, 2019
Repair materials and others	\$ 827,474	1,246,920
Finished goods	247,232	267,392
	<u>\$ 1,074,706</u>	<u>1,514,312</u>

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The details of the cost of sales were as follows:

	<u>2020</u>	<u>2019</u>
Inventory that has been sold and service costs	\$ 3,472,649	3,442,097
Unallocated production overheads	229,506	80,783
Write-down of inventories (reversal of write-downs)	(469)	9,437
Write-off for inventories scrapped	2,693	-
Revenue from sale of scraps	(18)	(365)
Losses (gains) on physical inventory	(6)	22
	<u><u>\$ 3,704,355</u></u>	<u><u>3,531,974</u></u>

The inventories of the Company were not pledged as collateral or restricted in any way.

(e) **Prepayments**

The details of the prepayments were as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Prepayment of materials	\$ 59,744	21,611
Prepayment of bank performance guarantee fees	8,978	5,302
Prepayment—other	17,518	7,449
	<u><u>\$ 86,240</u></u>	<u><u>34,362</u></u>

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(f) Property, plant and equipment

The movement in cost, accumulated depreciation, and impairment loss of the property, plant and equipment was as follows:

		Land	Buildings and structures	Machinery and equipment	Office equipment	Transportation equipment	Construction in process and testing equipment	Total
Cost or deemed cost:								
Balance at January 1, 2020	\$	255,076	658,059	641,650	50,780	76,838	68	1,682,471
Additions		-	487	18,093	1,765	2,824	7,378	30,547
Disposals		-	-	(5,421)	(293)	-	-	(5,714)
Reclassification		-	-	9,706	-	13,868	104	23,678 (Note 1)
Balance at December 31, 2020	\$	255,076	658,546	664,028	52,252	93,530	7,550	1,730,982
Balance at January 1, 2019	\$	255,076	655,041	604,477	50,051	62,248	-	1,626,893
Additions		-	3,018	23,524	1,092	9,179	68	36,881
Disposals		-	-	(2,704)	(572)	-	-	(3,276)
Reclassification		-	-	16,353	209	5,411	-	21,973 (Note 2)
Balance at December 31, 2019	\$	255,076	658,059	641,650	50,780	76,838	68	1,682,471
Accumulated depreciation and impairment loss:								
Balance at January 1, 2020	\$	-	384,453	504,096	41,396	48,807	-	978,752
Depreciation		-	20,787	34,525	3,584	5,817	-	64,713
Disposals		-	-	(5,421)	(293)	-	-	(5,714)
Balance at December 31, 2020	\$	-	405,240	533,200	44,687	54,624	-	1,037,751
Balance at January 1, 2019	\$	-	363,153	472,217	37,324	45,120	-	917,814
Depreciation		-	21,300	35,190	4,644	3,687	-	64,821
Disposals		-	-	(2,703)	(572)	-	-	(3,275)
Reclassification		-	-	(608)	-	-	-	(608) (Note 2)
Balance at December 31, 2019	\$	-	384,453	504,096	41,396	48,807	-	978,752
Carrying value:								
Balance at December 31, 2020	\$	255,076	253,306	130,828	7,565	38,906	7,550	693,231
Balance at December 31, 2019	\$	255,076	273,606	137,554	9,384	28,031	68	703,719
Balance at January 1, 2019	\$	255,076	291,888	132,260	12,727	17,128	-	709,079

Note 1 : The amount of \$23,756 transferred from other non-current assets — prepayment for equipment and the amount of \$78 transferred to operating costs.

Note 2 : The amount of \$25,618 transferred from other non-current assets — prepayment for equipment and the amount of \$3,037 transferred to other non-current assets — other.

Property, plant and equipment of the Company had been pledged as collateral or restricted, please refer to note 8.

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(g) Right-of-use assets

The Company leases land, buildings and structures, machinery and transportation equipment. Information about leases for which the Company as a lessee is presented below:

	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Total
Cost:					
Balance at January 1, 2020	\$ 281,495	-	603	4,373	286,471
Additions	-	1,671	-	5,368	7,039
Disposals	-	(43)	-	(2,140)	(2,183)
Balance at December 31, 2020	<u>\$ 281,495</u>	<u>1,628</u>	<u>603</u>	<u>7,601</u>	<u>291,327</u>
Balance at January 1, 2019	\$ -	-	-	-	-
Effects of adopting IFRS 16	281,495	-	-	3,479	284,974
Additions	-	-	603	894	1,497
Balance at December 31, 2019	<u>\$ 281,495</u>	<u>-</u>	<u>603</u>	<u>4,373</u>	<u>286,471</u>
Accumulated depreciation and impairment loss:					
Balance at January 1, 2020	\$ 14,815	-	168	2,032	17,015
Depreciation	14,816	520	201	2,600	18,137
Disposals	-	-	-	(2,140)	(2,140)
Balance at December 31, 2020	<u>\$ 29,631</u>	<u>520</u>	<u>369</u>	<u>2,492</u>	<u>33,012</u>
Balance at January 1, 2019	\$ -	-	-	-	-
Depreciation	14,815	-	168	2,032	17,015
Balance at December 31, 2019	<u>\$ 14,815</u>	<u>-</u>	<u>168</u>	<u>2,032</u>	<u>17,015</u>
Carrying value:					
Balance at December 31, 2020	<u>\$ 251,864</u>	<u>1,108</u>	<u>234</u>	<u>5,109</u>	<u>258,315</u>
Balance at December 31, 2019	<u>\$ 266,680</u>	<u>-</u>	<u>435</u>	<u>2,341</u>	<u>269,456</u>

(h) Intangible assets

The details of intangible assets were as follows:

	Acquired special technology	Software	Total
Costs:			
Balance at January 1, 2020	\$ 7,556	1,994	9,550
Additions	3,584	291	3,875
Balance at December 31, 2020	<u>\$ 11,140</u>	<u>2,285</u>	<u>13,425</u>
Balance at January 1, 2019	\$ 10,408	6,441	16,849
Additions	9,279	284	9,563
Reduction	(12,131)	(4,731)	(16,862)
Balance at December 31, 2019	<u>\$ 7,556</u>	<u>1,994</u>	<u>9,550</u>

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	Acquired special		
	technology	Software	Total
Accumulated amortization:			
Balance at January 1, 2020	\$ 2,382	817	3,199
Amortization for the year	4,386	692	5,078
Balance at December 31, 2020	\$ 6,768	1,509	8,277
Balance at January 1, 2019	\$ 9,567	4,412	13,979
Amortization for the year	4,946	1,136	6,082
Reduction	(12,131)	(4,731)	(16,862)
Balance at December 31, 2019	\$ 2,382	817	3,199
Carrying value:			
Balance at December 31, 2020	\$ 4,373	775	5,148
Balance at December 31, 2019	\$ 5,174	1,177	6,351
Balance at January 1, 2019	\$ 841	2,029	2,870

(i) **Other non-current assets**

The details of other non-current assets were as follows:

	December 31,	December 31,
	2020	2019
Prepayment for equipment	\$ 697	23,146
Refundable deposits — non-current	56,251	63,444
Other non-current assets — other	7,193	9,848
Overdue receivables	-	-
	\$ 64,141	96,438

Refundable deposits — non-current of the Company had been pledged as collateral or restricted, please refer to note 8.

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(j) Short-term notes payable

The short-term notes payable were summarized as follows:

December 31, 2020			
	Guarantee or acceptance	Range of interest	Amount
	institution	rates (%)	
Commercial paper payable	Ta Ching Bills Finance Corporation	1%	\$ 100,000
	China Bills Finance Corporation	0.958%	150,000
	Taiwan Bills Finance Corporation	1.00%	150,000
	Dah Chung Bills Finance Corporation	0.96%	100,000
	International Bills Finance Corporation	0.988%	100,000
	Taiwan Cooperative Bills Finance Corporation	0.978%	<u>50,000</u>
			650,000
Less: Discount of short-term notes payable			<u>(230)</u>
Total			<u><u>\$ 649,770</u></u>

December 31, 2019			
	Guarantee or acceptance	Range of interest	Amount
	institution	rates (%)	
Commercial paper payable	Ta Ching Bills Finance Corporation	1.00%	\$ 100,000
	China Bills Finance Corporation	1.00%	150,000
	Taiwan Bills Finance Corporation	1.00%	100,000
	Taiwan Cooperative Bills Finance Corporation	1.00%	<u>100,000</u>
			450,000
Less: Discount of short-term notes payable			<u>(160)</u>
Total			<u><u>\$ 449,840</u></u>

(Continued)

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(k) Short-term and long-term loans

The details of short-term and long-term loans were as follows:

	December 31, 2020	December 31, 2019
Unsecured bank loans — NTD	\$ 380,000	600,000
Long-term unsecured bank loans — NTD	343,750	480,000
Total	\$ 723,750	1,080,000
Current	\$ 455,000	637,500
Non-current	268,750	442,500
Total	\$ 723,750	1,080,000
Unused short-term loans credit lines	\$ 760,000	680,000
Unused long-term loans credit lines	\$ 218,750	170,000
Range of short-term loans interest rates	0.255% ~ 0.885%	0.70% ~ 1.23%
Range of long-term loans interest rates	1.25% ~ 1.30%	1.34% ~ 1.36%
Long-term loans due year	2022~2024	2021~2024

Assets pledged are disclosed in note 8.

(l) Bonds payable

The details of unsecured convertible bonds were as follows:

	December 31, 2020	December 31, 2019
Total convertible corporate bonds issued	\$ 500,000	500,000
Unamortized discounted corporate bonds payable	(18,170)	(25,028)
Corporate bonds issued balance at year-end	\$ 481,830	474,972
Current	\$ 194,953	-
Non-current	286,877	474,972
Total	\$ 481,830	474,972
Embedded derivative — put and redeem options, included in financial liabilities (assets) at fair value through profit or loss	\$ (210)	1,470
Equity component — conversion options, included in capital surplus— conversion of convertible bonds	\$ 22,358	22,358
	2020	2019
Embedded derivative — put and redeem options, included in losses (gains) on financial assets and liabilities at fair value through profit or loss	\$ (1,680)	900
Interest expense (effective interest rate of 1.28%~1.69%)	\$ 6,858	3,218

1. On 9 July 2019, the Company issued the first unsecured domestic convertible bonds amounting to \$200,000. The major terms bonds are as follows:

(1) Interest rate: 0%.

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AIR ASIA CO., LTD.

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- (2) Issued period: Three years, from July 9, 2019 to July 9, 2022.
 - (3) Redemption on the maturity date: On the maturity date, the Company will redeem the bonds with additional interest payment on the basis of the amount of 100.7519% of the bond value that remain outstanding at the principal amount.
 - (4) Redemption at the option of the Company:
 - A. The Company may redeem the bonds, in whole or in part, after 3 months (October 10, 2019) of the issuance and prior to forty days (May 30, 2022) before the maturity date, at the principal amount of the bonds if the closing price of the Company's ordinary shares on the Taiwan Stock Exchange for a period of 30 consecutive trading days, is at least 130% of the conversion price.
 - B. The Company may redeem the bonds, in whole or in part, after 3 months (October 10, 2019) of the issuance and prior to forty days (May 30, 2022) before the maturity date, at the early redemption conversion price if at least 90% in principal amount of the bonds has already been exchanged, redeemed, purchased or cancelled.
 - (5) Repurchase at option of the bondholders: Two years after the issuance of the convertible bonds (July 9, 2021) is the base date which bondholders redeem the bonds. Bondholders could request the Company for redemption of convertible bonds held at the principal amount of bonds with additional interest payment prior to thirty days of the base date. The amount after two years of issuance is 100.5006% of the principal amount.
 - (6) Terms of conversion:
 - A. Underlying Securities: Common shares of the Company.
 - B. Conversion Period: The bonds are convertible at any time on or after October 10, 2019 and prior to July 9, 2022 into common shares of the Company.
 - C. Conversion price and adjustment: The conversion price base on July 1, 2019 was originally NT\$21.8 per share. The conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture. On December 31, 2020 and 2019, the conversion price was NT\$19 and NT\$20.8, respectively.
2. On 10 July 2019, the Company issued second unsecured domestic convertible bonds amounting to \$300,000. The major terms are as follows:
- (1) Interest rate: 0%.
 - (2) Issue period: Five years, from July 10, 2019 to July 10, 2024.
 - (3) Redemption on the maturity date: On the maturity date, the Company will redeem the bonds with additional interest payment on the basis of the amount of 102.5251% of the bond value that remain outstanding at the principal amount.

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Notes to the Parent Company Only Financial Statements

(4) Redemption at the option of the Company:

- A. The Company may redeem the bonds, in whole or in part, after 3 months (October 11, 2019) of the issuance and prior to forty days (May 31, 2024) before the maturity date, at the principal amount of the bonds if the closing price of the Company's ordinary shares on the Taiwan Stock Exchange for a period of 30 consecutive trading days, is at least 130% of the conversion price.
- B. The Company may redeem the bonds, in whole or in part, after 3 months (October 11, 2019) of the issuance and prior to forty days (May 31, 2024) before the maturity date, at the early redemption conversion price if at least 90% in principal amount of the bonds has already been exchanged, redeemed, purchased or cancelled.

(5) Repurchase at option of the bondholders: Thirty months after the issuance of the convertible bonds (January 10, 2022) is the base date which bondholders redeem the bonds. Bondholders could request the Company for redemption of convertible bonds held at the principal amount of bonds with additional interest payment prior to thirty days of the base date. The amount after 30 months of issuance is 101.2547% of the principal amount.

(6) Terms of conversion:

- A. Underlying Securities: Common shares of the Company.
- B. Conversion Period: The bonds are convertible at any time on or after October 11, 2019 and prior to July 10, 2024 into common shares of the Company.
- C. Conversion price and adjustment: The conversion price based on July 2, 2019 was originally NT\$21.9 per share. The conversion price will be subject to adjustments upon the occurrence of certain events set out in the indenture. On December 31, 2020 and 2019, the conversion price was NT\$19 and NT\$20.9, respectively.

(m) Provisions

	Warranties
Balance at January 1, 2020	\$ 31,492
Provisions made during the year	12,977
Provisions used during the year	(5,919)
Provisions reversed during the year	(17,118)
Balance at December 31, 2020	<u><u>\$ 21,432</u></u>
Balance at January 1, 2019	\$ 19,112
Provisions made during the year	16,217
Provisions used during the year	(3,361)
Provisions reversed during the year	(476)
Balance at December 31, 2019	<u><u>\$ 31,492</u></u>

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The provision for warranties relates mainly to maintenance services of aircraft and related components during the years ended December 31, 2020 and 2019. The provision is based on estimates made from historical warranty data associated with similar maintenance services. The Company expects to settle the majority of the liability over the next year.

(n) Lease liabilities

The carrying value of lease liabilities was as follows:

	December 31, 2020	December 31, 2019
Current	\$ 29,875	15,399
Non-current	243,849	255,327
	<u>\$ 273,724</u>	<u>270,726</u>

For the maturity analysis, please refer to note 6(v).

The amounts recognized in profit or loss were as follows:

	2020	2019
Interest on lease liabilities	<u>\$ 2,688</u>	<u>2,796</u>
Expenses relating to short-term leases	<u>\$ 2,757</u>	<u>5,190</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 135</u>	<u>157</u>
Covid-19-related rent concessions	<u>\$ 3,293</u>	<u>-</u>

The amounts recognized in the statement of cash flows for the Company was as follows:

	2020	2019
Total cash outflow for leases	<u>\$ 6,285</u>	<u>23,888</u>

1. Real estate leases

The Company leases land and buildings for its maintenance factory and office space, which lease terms of two to ten years.

2. Other leases

The Company leases machinery and transportation equipment, with lease terms of two to three years.

The Company also leases land, business premises, staff dormitory and part of transportation equipment with contract terms of one to three years. These leases are short-term or leases of low-value items. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

(Continued)

AIR ASIA CO., LTD.

Notes to the Parent Company Only Financial Statements

(o) Employee benefits

1. Defined benefit plans

Because the Company has reached an agreement with the employees to close the post-service benefit plan, therefore, the Company does not have any obligation of the defined benefit retirement.

On December 31, 2019, reconciliation of defined benefit obligation at present value and plan asset at fair value are as follows:

	December 31, 2019
Present value of the defined benefit obligations	\$ 54,592
Fair value of plan assets	(43,533)
Net defined benefit liabilities	<u>\$ 11,059</u>

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

(i) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$1,438 and \$43,533 as of December 31, 2020 and 2019. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(ii) Movements in present value of the defined benefit obligations

The movement in present value of the defined benefit obligations for the Company were as follows:

	2019
Defined benefit obligations at January 1	\$ 144,416
Current service costs and interest cost	4,606
Remeasurements loss (gain):	
- Demographic assumptions	(516)
- Financial assumptions	3,372
- Experience adjustments	18,637
Past service credit	1,252
Benefits paid	(117,175)
Defined benefit obligations at December 31	<u>\$ 54,592</u>

(Continued)

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(iii) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company were as follows:

	<u>2019</u>
Fair value of plan assets at January 1	\$ 2,875
Interest income	35
Remeasurements gain:	
- Return on plan assets excluding interest income	8,745
Contributions paid by the employer	149,053
Benefits paid	<u>(117,175)</u>
Fair value of plan assets at December 31	<u><u>\$ 43,533</u></u>

(iv) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	<u>2019</u>
Current service costs	\$ 2,801
Net interest of net liabilities for defined benefit obligations	1,770
Past service credit	<u>1,252</u>
	<u><u>\$ 5,823</u></u>

	<u>2020</u>	<u>2019</u>
Operating cost	\$ 36	3,282
Administration expenses	<u>13</u>	<u>2,541</u>
	<u><u>\$ 49</u></u>	<u><u>5,823</u></u>

(v) Actuarial assumptions

On December 31, 2019, the principal actuarial assumptions at the reporting date were as follows:

	<u>December 31, 2019</u>
Discount rate	0.76%
Future salary increase rate	1.00%

(vi) Sensitivity analysis

On December 31, 2019, if the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

(Continued)

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	Influences of defined benefit obligations	
	Increased	Decreased
December 31, 2019:		
Discount rate (change of 0.5%)	(3,397)	3,955
Future salary increasing rate (change of 0.5%)	3,920	(3,405)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

2. Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contributions to the Bureau of the Labor Insurance amounted to \$37,541 and \$34,802 for the year ended December 31, 2020 and 2019, respectively.

(p) Income taxes

1. The components of income tax expenses (benefits) in the years 2020 and 2019 were as follows:

	2020	2019
Current tax expense		
Adjustment for prior periods	\$ -	1,616
Deferred tax expenses (benefits)		
Origination and reversal of temporary differences	(9,160)	12,785
Income tax expenses (benefits)	<u>\$ (9,160)</u>	<u>14,401</u>

The amount of income tax expenses (benefits) recognized in other comprehensive income was as follows:

	2020	2019
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement from defined benefit plans	\$ -	(2,550)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation	<u>\$ (34)</u>	<u>(16)</u>

(Continued)

AIR ASIA CO., LTD.
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Reconciliation of income tax expenses (benefits) and profit before tax for 2020 and 2019 were as follows.

	<u>2020</u>	<u>2019</u>
Profit excluding income tax	\$ 33,228	59,412
Income tax using the Company' s domestic tax rate	6,646	11,882
Non-deductible expenses	1,569	903
Tax-exempt income from government grants	(17,525)	-
Change in provision in prior periods	-	1,616
Others	150	-
Income tax expenses (benefits)	<u>\$ (9,160)</u>	<u>14,401</u>

2. Deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2020 and 2019 were as follows:

	Defined Benefit Plans	Inventory valuation loss	Unused tax losses	Others	Total
Deferred tax assets:					
Balance at January 1, 2020	\$ 2,212	24,774	21,997	10,840	59,823
Recognized in profit or loss	(2,212)	(94)	14,303	(2,445)	9,552
Recognized in other comprehensive income	-	-	-	34	34
Balance at December 31, 2020	\$ -	24,680	36,300	8,429	69,409
Balance at January 1, 2019	\$ 28,308	22,887	10,720	8,127	70,042
Recognized in profit or loss	(28,646)	1,887	11,277	2,697	(12,785)
Recognized in other comprehensive income	2,550	-	-	16	2,566
Balance at December 31, 2019	\$ 2,212	24,774	21,997	10,840	59,823
	<u>Unrealized gains</u>				
Deferred tax liabilities:					
Balance at January 1, 2020	\$ -				
Recognized in profit or loss		392			
Balance at December 31, 2020	\$ -	392			

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

(Continued)

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As of December 31, 2020, the information of the Company's unused tax losses for which no deferred tax assets were recognized are as follows:

<u>Year of loss</u>	<u>Unused tax losses</u>	<u>Expiry date</u>
2018	\$ 53,212	2028
2019	57,288	2029
2020	71,000	2030
	<u><u>\$ 181,500</u></u>	

3. Assessment of tax

The Company's tax returns for the years through 2018 were assessed by the tax authority.

(q) **Capital and other equity**

As of December 31, 2020, and 2019, the authorized common stock of the Company was \$1,800,000 and 1,300,000, respectively comprising 180,000 and 130,000 thousand shares, respectively, with a par value of \$10 per share. The issued shares were 131,171 and 120,120 thousand shares. All the capitals were fully received.

1. Common stock

On June 17, 2020, the shareholders' meeting resolved to issue 11,051 thousand new shares by its capital surplus in the amount of \$110,510, with a par value of \$10 per share. The Company resolved the basis date of the increase capital to be November 14, 2020, and the registration procedures have been completed.

2. Retirement of common stock

On January 29, 2019, the Company's board of directors approved a resolution to retire 2,088 thousand treasury shares in order to protect the Company's integrity and shareholders' equity. The basis date of the decrease in capital was February 12, 2019, and the registration procedures have been completed.

3. Capital surplus

The balance of capital surplus at the reporting date was as follows:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Additional paid-in capital	\$ 40,123	150,633
Gain on disposal of assets	100,063	100,063
Conversion of convertible bonds	22,358	22,358
	<u><u>\$ 162,544</u></u>	<u><u>273,054</u></u>

The board of directors meeting proposed on February 23, 2021 to issue new shares by its capital surplus in the amount of \$ 39,351 (NT\$0.3 per share).

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The shareholders' meeting resolved on June 17, 2020 to issue new shares by its capital surplus in the amount of \$110,510 (NT\$ 0.92 per share).

The shareholders' meeting resolved on June 17, 2019 to distribute cash dividends by its capital surplus in the amount of \$110,510 (NT\$ 0.92 per share).

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

4. Retained earnings

The Company's Articles of Incorporation provide that the current net income, after deducting the previous years' losses, shall set aside 10% as legal reserve and special reserve according to the relevant laws and other regulations of R.O.C. Then the balance is added up with the accumulated retained earnings in the previous year. The distribution of the remaining portion, if any, will be proposed by the board of directors for approval in the board of directors meeting.

If dividend is distributed in issued new shares, shall be made in accordance with the provisions of Article 240 of the Company Law. If dividend is distributed in cash, the board of directors shall be attended by two-thirds of the total directors, and resolved by a majority votes at the board of directors, to distribute dividends and bonuses in whole or in part to be paid in cash, and report to the shareholders' meeting.

(1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

(2) Earning distribution

The amount of cash dividends of appropriations of earnings for 2019 had been approved in the meeting of the board of directors on March 26, 2020. The appropriations of earnings for 2018 had been approved in the shareholders' meeting on June 17, 2019. These earnings were appropriated as follows:

		Unit per share: dollar			
		2019		2018	
		TWD/per share	Amount	TWD/per share	Amount
Dividends distributed to					
ordinary shareholders					
Cash	\$	0.08	<u>9,610</u>	0.08	<u>9,610</u>

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The amount of cash dividends on the appropriations of earnings for 2020, and the amount of shares dividends of appropriations of earnings for 2020, had been approved and proposed, respectively during the board meeting on February 23, 2021, as follows:

	2020	
	TWD/per share	Amount
Dividends distributed to ordinary shareholders		
Cash	\$ 0.15	19,676
Shares	0.14	18,364
Total		<u>\$ 38,040</u>

There were no difference between the actual amounts of appropriation of earnings for 2019 and 2018 and those approved by the board of directors. The related information can be accessed through the Market Observation Post System.

5. Treasury stock

For the year ended December 31, 2019, in accordance with the requirements under section 28(2) of the Securities and Exchange Act, the Company repurchased 371 thousand shares as treasury shares, cumulative repurchased 2,088 thousand shares as treasury shares amounting to \$50,471, in order to protect the Company's integrity and shareholders' equity. As of December 31, 2019, the abovementioned treasury shares have been retired.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

6. Other equity (net of tax)

	Exchange differences on translation of foreign financial statements
Balance at January 1, 2020	\$ 77
Exchange differences on foreign operations	(135)
Balance at December 31, 2020	<u>\$ (58)</u>
Balance at January 1, 2019	\$ 139
Exchange differences on foreign operations	(62)
Balance at December 31, 2019	<u>\$ 77</u>

(Continued)

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(r) **Earnings per share**

For the years ended December 31, 2020 and 2019, the Company's earnings per share were calculated as follows:

	Unit of share: thousand	
	2020	2019
Basic earnings per share		
Profit attributable to common shareholders of the Company	\$ 42,388	45,011
Weighted-average number of shares	131,171	131,202
	<u>\$ 0.32</u>	<u>0.34</u>
Diluted earnings per share		
Profit attributable to common shareholders of the Company	\$ 42,388	45,011
Effect of dilutive ordinary shares:		
Convertible bonds	5,514	3,938
Profit attributable to common shareholders of the Company (diluted)	<u>\$ 47,902</u>	<u>48,949</u>
Weighted-average number of shares	131,171	131,202
Effect of dilutive ordinary shares:		
Remuneration to employees	48	66
Convertible bonds	26,316	11,427
Weighted-average number of shares (diluted)	<u>157,535</u>	<u>142,695</u>
	<u>\$ 0.30</u>	<u>0.34</u>

(s) **Revenue from contracts with customers**

1. Disaggregation of revenue

	2020	2019
<u>Primary geographical markets</u>		
Taiwan	\$ 3,611,945	3,332,199
Asia	152,425	423,104
Other	130,721	157,988
	<u>\$ 3,895,091</u>	<u>3,913,291</u>
<u>Major services and timing of revenue recognition</u>		
At a point in time		
Aircraft maintenance	\$ 325,080	653,718
Repair supply pricing	181,286	118,030
Outsourced repair and air material transaction	768,199	1,094,610
Components maintenance	1,169,015	1,265,446
Subtotal	<u>2,443,580</u>	<u>3,131,804</u>
Over time		
Aircraft maintenance	\$ 420,158	483,568
Fleet maintenance	270,755	281,794
Components maintenance	760,598	16,125
Subtotal	<u>1,451,511</u>	<u>781,487</u>
Total	<u>\$ 3,895,091</u>	<u>3,913,291</u>

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2. Contract balances

	December 31, 2020	December 31, 2019
Notes, trade and overdue receivables	\$ 1,122,211	1,257,416
Less: Loss allowance	(44,352)	(47,650)
Total	<u>\$ 1,077,859</u>	<u>1,209,766</u>
Contract assets — Maintenance service	<u>\$ 730,523</u>	<u>321,579</u>
Contract liabilities — Maintenance service	<u>\$ 6,633</u>	<u>4,956</u>

For details on notes, trade and overdue receivables and allowance for impairment, please refer to note 6(b).

The amount of revenue recognized for the years ended December 31, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$4,956 and \$1,114, respectively.

The contract assets primarily relate to the Company's rights to consideration in exchange for providing maintenance services to a customer but has not yet billed at the reporting date. The contract assets are transferred to receivables when the rights to consideration become unconditional.

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

Due to the impact of covid-19, Korean and Southeast Asian airlines canceled the orders resulting in a decrease in the operating revenue of aircraft maintenance.

3. Transaction price allocated to the remaining performance obligations

The Company has signed several multi-year military maintenance contracts with the military department of the government. Although the contract stated the budget, the actual performance obligation is based on the maintenance work order and recognized revenue based on each order. As of December 31, 2020, and 2019, the maintenance period of the work obtained were less than one year, thus, the Company applies the practical expedient of IFRS 15 and does not disclose information about the transaction price allocated to the remaining performance obligations of the contract.

4. Assets recognized from costs to obtain a contract

	December 31, 2020	December 31, 2019
Incremental costs of obtaining contracts — non-current	\$ 59,317	63,425
Less: accumulated amortization	(38,422)	(30,756)
Total	<u>\$ 20,895</u>	<u>32,669</u>

The related expenses of premium and stamp tax paid by the Company for the acquisition of the aircraft maintenance business are expected to be recoverable and therefore were recognized as

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AIR ASIA CO., LTD.

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assets and amortized over the contract period of the aircraft maintenance business. Amortization expenses of \$12,776 and \$12,965 were recognized for the years ended December 31, 2020 and 2019.

(t) Employees compensation

According to the Articles of Association, once the Company has annual profit, it should appropriate 1%~3% of the profit to its employees. When the Company still has an accumulated loss, the Company shall keep the profit for making up an accumulated loss.

The remunerations to employees amounted to \$678 and \$1,212 for the years ended December 31, 2020 and 2019, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period.

Related information would be available at the Market Observation Post System website. The amounts, as stated in the financial statements, are identical to those of the actual distributions for 2020 and 2019.

(u) Non-operating income and expenses

1. Other income

The details of other income were as follows:

	2020	2019
Government grants	\$ 87,625	-
Rent income	1,390	1,443
Other income — others	12,120	4,372
	<u>\$ 101,135</u>	<u>5,815</u>

2. Other gains and losses

The details of other gains and losses were as follows:

	2020	2019
Gains (losses) on disposals of property, plant and equipment	\$ 15	(1)
Foreign exchange gains, net	12,539	6,839
Net gains (losses) on valuation of financial assets and liabilities		
at fair value through profit or loss	1,680	(900)
Handing fees	(8,766)	(8,626)
Others	(5,520)	(897)
	<u>\$ (52)</u>	<u>(3,585)</u>

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(v) Financial instruments

1. Credit risk

(i) Credit risk exposure

The carrying amount of financial assets and contract assets represents the maximum amount exposed to credit risk.

(ii) Concentration of credit risk

As of December 31, 2020, and 2019, a few customers of the Company accounted for 76% and 82%, respectively, of accounts receivable. As of the end of the reporting period, the Company did not suffer any significant credit risk losses due to these customers. The Company periodically evaluates customers' financial position and the possibility of recovery of receivables in order to reduce credit risk.

(iii) Credit risk exposure of receivables and other financial assets at amortized cost

For credit risk exposure on notes, trade and overdue receivables, and the details on loss allowance provision, please refer to note 6(b).

Other financial assets at amortized cost include other receivables and refundable deposit. There was no loss allowance recognized or reversed for the years ended December 31, 2020 and 2019.

All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected credit losses.

2. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	2-5 years	Over 5 years
December 31, 2020						
Non-derivative financial liabilities						
With floating interest rates	\$ 723,750	741,939	469,652	177,623	94,664	-
With fixed interest rates	1,131,600	1,154,765	851,001	303,764	-	-
Non-interest-bearing liabilities	583,872	583,872	583,872	-	-	-
Lease liabilities	273,724	299,235	35,547	18,806	49,598	195,284
	\$ 2,712,946	2,779,811	1,940,072	500,193	144,262	195,284

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
December 31, 2019						
Non-derivative financial liabilities						
With floating interest rates	\$ 1,080,000	1,095,011	643,962	155,103	295,946	-
With fixed interest rates	924,812	954,765	450,000	201,001	303,764	-
Non-interest-bearing liabilities	610,699	610,699	610,699	-	-	-
Lease liabilities	270,726	295,407	18,048	16,979	48,822	211,558
Derivative financial liabilities						
Embedded derivative	1,470	1,470	1,470	-	-	-
	\$ 2,887,707	2,957,352	1,724,179	373,083	648,532	211,558

The Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

3. Currency risk

(i) Exposure to foreign currency risk

The Company's significant exposure to foreign currency risk was as follows:

	<u>December 31, 2020</u>			<u>December 31, 2019</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$	1,850	28.48	795	29.98	23,834
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD		6,808	28.48	6,115	29.98	183,327

(ii) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency. As of December 31, 2020, and 2019, when the exchange rate of the NTD versus the USD increase or decrease by 1%, given no changes in other factors, profit after tax will increase or decrease by \$1,130 and \$1,276, respectively. This analysis was performed on a consistent basis for both periods.

Exchange gains or losses (including realized and unrealized) that resulted from monetary items translated to the functional currency were as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Exchange gain (loss)</u>	<u>Average rate</u>	<u>Exchange gain (loss)</u>	<u>Average rate</u>
NTD	\$ 12,539	-	6,839	-

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4. Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Company's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the Company management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 1%, the Company's net profit would have decreased or increased by \$5,790 and \$8,640 for the years ended December 31, 2020 and 2019 with all other variable factors remaining constant. This is mainly due to the Company's borrowing at floating rates.

5. Fair value of financial instruments

(i) Fair value hierarchy

The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required:

		December 31, 2020			
	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets designated at fair value through profit or loss	<u>\$ 210</u>	-	210	-	210
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 155,233	-	-	-	-
Notes and trade receivables	1,077,859	-	-	-	-
Other receivables	1,990	-	-	-	-
Refundable deposits—current	131,606	-	-	-	-
Restricted deposit(recorded as other current assets)	1,337	-	-	-	-
Refundable deposits—non-current(recorded as other non-current assets)	<u>56,251</u>	-	-	-	-
	<u>\$ 1,424,276</u>				

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		December 31, 2020				
		Carrying	Fair Value			
		Value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost						
Short-term loans	\$	380,000	-	-	-	-
Short-term notes payable		649,770	-	-	-	-
Payables		583,872	-	-	-	-
Bonds payable (included in current portion)		481,830	-	493,140	-	493,140
Long-term loans(included in current portion)		343,750	-	-	-	-
Lease liabilities		<u>273,724</u>	-	-	-	-
		<u>\$ 2,712,946</u>				
		December 31, 2019				
		Carrying	Fair Value			
		Value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	142,283	-	-	-	-
Notes and trade receivables		1,209,766	-	-	-	-
Other receivables		9,889	-	-	-	-
Refundable deposits— current		128,824	-	-	-	-
Refundable deposits— non-current(recorded as other non-current assets)		<u>63,444</u>	-	-	-	-
		<u>\$ 1,554,206</u>				
Financial liabilities at fair value through profit or loss						
Financial liabilities designated at fair value through profit or loss	\$	<u>1,470</u>	-	1,470	-	1,470
Financial liabilities measured at amortized cost						
Short-term loans	\$	600,000	-	-	-	-
Short-term notes payable		449,840	-	-	-	-
Payables		610,699	-	-	-	-
Bonds payable		474,972	-	481,790	-	481,790
Long-term loans(included in current portion)		480,000	-	-	-	-
Lease liabilities		<u>270,726</u>	-	-	-	-
		<u>\$ 2,886,237</u>				

The table above analyzes financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: 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).
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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There was no reclassification of levels during the years ended December 31, 2020 and 2019.

(ii) Valuation techniques for financial instruments not measured at fair value

Financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

The valuations of the liability part of the convertible bonds issued by the Company are valued by discounted cash flows.

(iii) Valuation techniques for financial instruments measured at fair value

Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants such as the discounted cash flow or option pricing models. Put options and redeem options of the convertible bonds are valued by Binary Tree.

(w) Financial risk management

1. Overview

The Company have exposures to the following risks from its financial instruments:

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

The following likewise discusses the Company' s objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks' exposures, please refer to the respective notes in the accompanying financial statements.

2. Structure of risk management

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The chairman is responsible for developing and monitoring the Company' s risk management policies. The chairman reports regularly to the Board of Directors on its activities.

The Company' s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company' s activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company Audit Committee oversees how management monitors compliance with the

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Company' s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

3. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company' s receivables from customers and bank deposits.

(i) Trade receivables

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company' s standard payment and delivery terms and conditions are offered. The Company' s review includes external ratings, when available, and, in some cases, bank references. The Company rates major clients by other publicly available information and past transaction experience. Credit limits are established for each customer, and these limits are reviewed regularly. First-time customers, customers that have not traded for a long period, and customers that fail to meet the Company' s benchmark creditworthiness may transact with the Company only on a prepayment basis.

The Company evaluates the aging of trade receivables periodically, and accrues an allowance for doubtful accounts, if necessary. The allowance consists of a specific loss component that relates to individually significant risk exposures and a collective loss incurred but not yet identified. The collective loss allowance is determined based on historical payment statistics and forward looking information.

(ii) Bank deposit

The Company' s transactions resulted from external parties with good credit ratings; there are no noncompliance issues. The Company also has relationships with multiple financial institutions to diversify risk.

4. Liquidity risk

The Company manages sufficient cash and cash equivalents to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company' s management supervises the banking facilities and ensures compliance with the terms of loan agreements.

Loans and borrowings from the bank form an important source of liquidity for the Company. As of December 31, 2020, and 2019, the Company' s unused credit line were amounted to \$978,750 and \$850,000 respectively.

5. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates, will affect the Company' s income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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(i) Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, the NTD. The currencies used in these transactions are the USD.

Regarding other monetary assets and liabilities denominated in foreign currencies, when short-term imbalance occurs, the Company buys or sells foreign currencies at real-time exchange rates to ensure that the net risk of risk remains at an acceptable level.

(ii) Interest rate risk

The short-term and long-term borrowings of the Company are debts with floating interest rates. Therefore, changes in market interest rates will cause the interest rates of short-term and long-term borrowings to fluctuate, causing fluctuations in future cash flows.

(x) Capital management

The Company's objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

The Company use the debt-to-equity ratio to manage capital. This ratio is the total net debt divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents. The total capital is the total equity plus net debt.

The Company's debt-to-equity ratios at the reporting date were as follows:

	December 31, 2020	December 31, 2019
Total liabilities	\$ 2,748,920	2,941,765
Less: cash and cash equivalents	<u>155,233</u>	<u>142,283</u>
Net debt	2,593,687	2,799,482
Total equity	<u>1,636,391</u>	<u>1,603,748</u>
Total capital	<u>\$ 4,230,078</u>	<u>4,403,194</u>
Debt-to-equity ratio	<u>61.32%</u>	<u>63.58%</u>

As of December 31, 2020, the Company's capital management strategy is consistent with the prior years.

(y) Investing and financing activities not affecting current cash flow

The Company acquired right-of-use assets by leases for the years ended December 31, 2020 and 2019, please refer to note 6(g).

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Reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2020	Cash flows	Non-cash changes	December 31, 2020
Short-term loans	\$ 600,000	(220,000)	-	380,000
Short-term notes payable	449,840	199,930	-	649,770
Long-term loans (included in current portion)	480,000	(136,250)	-	343,750
Bonds payable (included in current portion)	474,972	-	6,858	481,830
Lease liabilities	270,726	(705)	3,703	273,724
Total liabilities from financing activities	<u>\$ 2,275,538</u>	<u>(157,025)</u>	<u>10,561</u>	<u>2,129,074</u>
	January 1, 2019	Cash flows	Non-cash changes	December 31, 2019
Short-term loans	\$ 722,075	(122,075)	-	600,000
Short-term notes payable	229,925	219,915	-	449,840
Long-term loans (included in current portion)	199,999	280,001	-	480,000
Bonds payable	-	494,682	(19,710)	474,972
Lease liabilities	-	(15,745)	286,471	270,726
Total liabilities from financing activities	<u>\$ 1,151,999</u>	<u>856,778</u>	<u>266,761</u>	<u>2,275,538</u>

(7) Related-parties transactions:

(a) Parent company and ultimate controlling company

Taiwan Aerospace Corporation is both the parent company and the ultimate controlling party of the Company. It owns 70.19 percent of all shares outstanding of the Company.

(b) Names and relationship with related parties

The followings are subsidiaries and other entities that have had transactions with related party during the periods covered in the financial statements.

Name of related party	Relationship with the Company
Apex Flight Academy	Substantive related party
Air Asia Company Ltd.(USA)	Subsidiary of the company

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(c) Significant transactions with related parties

The amounts of significant sales by the Company to related parties were as follows:

	2020	2019
Other related parties	<u>\$ 260</u>	<u>283</u>

The sales price to the above related parties was determined through mutual agreement based on the market rates. The credit terms ranged from 15 to 60 days, the collection terms for related parties approximated the market terms. As of December 31, 2020, and 2019, the receivables from related parties were \$19 and \$13, respectively, which recorded as trade receivables.

(d) Key management personnel compensation

Key management personnel compensation comprised:

	2020	2019
Short-term employee benefits	\$ 17,143	16,344
Post-employment benefits	3,453	569
	<u>\$ 20,596</u>	<u>16,913</u>

(8) Pledged assets

The carrying amounts of pledged assets were as follows:

Pledged assets	Object	December 31, 2020	December 31, 2019
Refundable deposits – current	Guarantee deposits and customs bond	\$ 131,606	128,824
Restricted deposits (Note1)	Guarantee deposits	1,337	-
Refundable deposits – non-current (Note2)	Guarantee deposits	56,251	63,444
Land	Short-term loans	255,076	255,076
Buildings and structures	Short-term loans	222,751	233,934
		<u>\$ 667,021</u>	<u>681,278</u>

Note1: recorded as other current assets.

Note1: recorded as other non-current assets.

(9) Significant Commitments and Contingencies

(a) Unrecognized contractual commitments

As of December 31, 2020, and 2019, the maintenance bond and customs bond offered by banks amounted to \$1,879,967 and \$1,689,994, respectively.

(b) Contingencies

1. National Fire Agency, Ministry of the Interior requires the Company to return the case of unjust enrichment with local court, and requested the Company to pay \$7,500 and interest payment (calculated at 5% annual interest) since the day after the command to pay to the settlement day. The litigation was on November 28, 2019. The Taipei District Court dismissed the plaintiff's claim, but the plaintiff appealed. As of the date of the financial report because the appeals procedure of third

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instance still in litigation, the Company is unable to evaluate the effect.

- The Company has discharged several employees in accordance with the Labor Standards Act, and some employees filed claims against the Company to restore the relationship of employment with compensation at about \$9,113 (calculated at 10 times the annual salary) with the court. As of the date of the financial report, the aforesaid cases are still under trial in the courts. The Company has estimated that among the \$9,113, \$7,213 is highly possible to be excluded, because of the high probability of winning the cases, and the residual cases still cannot be evaluated the potential effect.

(10) Losses Due to Major Disasters:None.

(11) Subsequent Events:None.

(12) Others

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function By item	2020			2019		
	Cost of Sale	Operating Expense	Total	Cost of Sale	Operating Expense	Total
Employee benefits						
Salary	526,059	128,004	654,063	559,876	139,945	699,821
Labor and health insurance	51,474	13,954	65,428	50,417	17,754	68,171
Pension	29,462	8,128	37,590	31,311	9,314	40,625
Remuneration of directors	-	1,958	1,958	-	2,030	2,030
Others	37,819	6,568	44,387	39,196	6,752	45,948
Depreciation	74,825	4,732	79,557 (Note)	73,658	8,178	81,836
Amortization	4,949	129	5,078	5,363	719	6,082

Note : The covid-19-related rent concessions of \$3,293 were recognized as deduction of depreciation expenses for the year ended December 31, 2020.

The additional information of number of employees and employee benefits in the year 2020 and 2019 was as follows:

	2020	2019
Number of employees	<u>1,075</u>	<u>1,067</u>
Number of non-employee directors	<u>10</u>	<u>10</u>
Average employee benefits	<u>\$ 753</u>	<u>\$ 808</u>
Average employee salary	<u>\$ 614</u>	<u>\$ 662</u>
Adjustment of average employee salary	<u>(7.25)%</u>	<u>13%</u>
Supervisor's remuneration	<u>\$ 0</u>	<u>\$ 0</u>

The Company's salary and remuneration policy (including directors, supervisors, managers and employees) are as follows:

The Company's salary and remuneration policy complies with the provisions of Article 7, Item 1 of the "Measures for the Establishment and Exercising of Powers of the Company's Salary and Remuneration Committee when Stocks Are Listed or Traded in the Business

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Location of a Securities Firm” , and Article 7, Item 1 of the Company's "Organizational Rules for the Salary and Remuneration Committee", wherein they stipulate It is stipulated that the salary and remuneration of relevant directors and managers will be transparent, rationalized and institutionalized. Also, "Directors and Managers Remuneration Management Measures" are specially formulated, and the salary and remuneration committee meetings are held regularly in accordance with the "Remuneration Committee Organization Rules and Power Exercise Measures" to evaluate the remuneration policies and systems of the directors and managers of the Company, and make recommendations to the board of directors for their decision-making reference. The relevant information is as follows:

- (1) The remuneration of the Company’ s directors is in accordance with the "Directors and Managers' Remuneration Management Measures". The remuneration of directors includes remuneration and business execution expenses.
- (2) The remuneration of the general manager, deputy general managers, managers and employees includes salary, bonuses, employee compensation and employee stock options. Furthermore, the Company’ s “Directors and Managers’ Compensation Management Measures” and “Remuneration Structure Measures” , refers to the usual level of payment in the industry, and considers the results of individual performance evaluation, the time invested, the responsibilities, the situation of achieving personal goals, the role performance of other positions, the salary and remuneration that the Company has given to the same position in recent years, and the assessment of the Company’ s short-term and long-term business goals. In addition, the Company’ s financial status assesses the rationality of the relationship between the personal performance and the Company’ s operating performance and future risks, depending on the actual situation and related issues at any time. The law reviews the remuneration system in a timely manner in order to balance the Company’ s sustainable operation and risk control.

(13) Other disclosure items

- (a) Information on significant transactions:

The followings were the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Company for the year ended December 31, 2020:

- (i) Lending to other parties:None.
- (ii) Guarantees and endorsements for other parties:None.
- (iii) Information regarding securities held at the reporting date (subsidiaries, associates and joint ventures not included):None.
- (iv) Information regarding purchase or sale of securities for the period exceeding 300 million or 20% of the Company’ s paid-in capital:None.
- (v) Information on acquisition of real estate with purchase amount exceeding 300 million or 20% of the Company’ s paid-in capital:None.

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- (vi) Information regarding receivables from disposal of real estate exceeding 300 million or 20% of the Company' s paid-in capital:None.
 - (vii) Information regarding related-parties purchases and/or sales exceeding 100 million or 20% of the Company' s paid-in capital:None.
 - (viii) Information regarding receivables from related-parties exceeding 100 million or 20% of the Company' s paid-in capital:None.
 - (ix) Information regarding trading in derivative financial instruments:Please refer to notes 6(l).
- (b) Information on investments:

The followings are the information on investees for the year ended December 31, 2020 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Main businesses and products	Original investment amount		Balance as of December 31, 2020			Net income (loss) of investee	Investment income (loss) recognized	Remark
			December 31, 2020	December 31, 2019	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	Air Asia Company Ltd. (USA)	Logistic service			10	100%	3,185	(84)	(84)	-

- (c) Information on investment in Mainland China:None.
- (d) Major shareholders:

Shareholder' s Name	Shareholding	Shares	Percentage
Taiwan Aerospace Corporation		92,071,253	70.19%
Taiwan Sugar Corporation		17,800,712	13.57%

Note1: The information on major shareholders, which is provided by the Taiwan Depository & Clearing Corporation, summarized the shareholders who held over 5% of total non-physical common stocks and preferred stocks (including treasury stocks) on the last business date of each quarter. The registered non-physical stocks may be different from the capital stocks disclosed in the financial statement due to different calculation basis.

Note2: If shares are entrusted, the above information regarding such shares will be revealed by each trustors of individual trust account. The shareholders holding more than 10% of the total shares of the company should declare insider' s equity according to Securities and Exchange Act. The numbers of the shares declared by the insider include the shares of the trust assets which the insider has discretion over use. For details of the insider' s equity announcement please refer to the TWSE website.

(14) Segment information:

Please refer to the consolidated financial statement for the year ended December 31, 2020.

亞洲航空股份有限公司
Air Asia Company Ltd.

Chairman Lu Tian-Lin

