

**China Airlines, Ltd.**

**Financial Statements for the  
Six Months Ended June 30, 2012 and 2011 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders  
China Airlines, Ltd.

We have audited the accompanying balance sheets of China Airlines, Ltd. as of June 30, 2012 and 2011 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of China Airlines, Ltd. and its subsidiaries as of and for the six months ended June 30, 2012 and 2011 on which we have issued an unqualified opinion in our report dated August 24, 2012.

August 24, 2012

### Notice to Readers

*The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.*

**CHINA AIRLINES, LTD.**

**BALANCE SHEETS**  
**JUNE 30, 2012 AND 2011**  
(In Thousands of New Taiwan Dollars)

ASSETS	2012		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 9,728,282	5	\$ 8,701,922	4	Short-term loans (Notes 13 and 27)	\$ 3,200,000	2	\$ -	-
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 24)	2,819,978	2	2,901,938	2	Short-term bills payable (Note 14)	-	-	299,979	-
Available-for-sale financial assets - current (Notes 2, 6 and 24)	76,037	-	119,017	-	Derivative financial liabilities for hedging - current (Notes 2, 24 and 25)	376,660	-	56,584	-
Derivative financial assets for hedging - current (Notes 2, 24 and 25)	66,761	-	140,001	-	Accounts payable	640,683	-	462,200	-
Receivables:					Accounts payable to related parties (Note 26)	1,156,269	-	1,359,249	1
Notes and accounts, net (Notes 2, 3 and 7)	7,525,963	4	10,123,716	5	Accrued expenses (Notes 2 and 26)	9,410,747	5	10,623,552	5
Notes and accounts - related parties (Note 26)	348,871	-	430,307	-	Advance ticket sales (Note 2)	8,822,620	4	9,160,400	5
Other receivables (Note 8)	953,035	1	832,193	-	Bonds payable - current portion (Notes 2, 15, 24 and 26)	7,330,000	4	14,500,000	7
Inventories, net (Notes 2 and 9)	8,439,605	4	8,244,519	4	Loans and debts - current portion (Notes 16, 24 and 27)	15,343,750	8	17,788,544	9
Deferred income tax assets - current (Notes 2 and 21)	214,127	-	107,857	-	Capital lease obligations - current portion (Notes 2 and 17)	1,211,475	1	1,093,342	-
Other current assets	2,546,869	1	1,166,721	1	Other current liabilities	1,805,564	1	3,738,937	2
Total current assets	32,719,528	17	32,768,191	16	Total current liabilities	49,297,768	25	59,082,787	29
<b>LONG-TERM INVESTMENTS</b>					<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION</b>				
Financial assets at fair value through profit or loss - noncurrent (Notes 2, 5 and 24)	-	-	373,970	-	Derivative financial liabilities for hedging - noncurrent (Notes 2, 24 and 25)	26,728	-	30,393	-
Derivative financial assets for hedging - noncurrent (Notes 2, 24 and 25)	8	-	-	-	Bonds payable - noncurrent (Notes 2, 15, 24 and 26)	16,205,000	8	17,750,000	9
Financial assets carried at cost - noncurrent (Notes 2, 10 and 24)	371,367	-	371,367	-	Loans and debts - noncurrent (Notes 16, 24 and 27)	65,927,272	34	62,203,115	31
Investments accounted for by the equity method (Notes 2 and 11)	9,039,275	5	8,879,579	5	Capital lease obligations - noncurrent (Notes 2 and 17)	501,305	-	1,663,134	1
Other financial assets - noncurrent	13,118	-	13,031	-	Total long-term liabilities	82,660,305	42	81,646,642	41
Total long-term investments	9,423,768	5	9,637,947	5	<b>OTHER LIABILITIES</b>				
<b>PROPERTIES (Notes 2, 12 and 27)</b>					Accrued pension costs (Notes 2 and 18)	6,398,553	3	6,704,664	3
Cost					Deferred profits on sale-leaseback (Note 2)	5,024,425	3	5,807,219	3
Land	1,688,283	1	1,688,283	1	Others	1,034,609	1	1,040,443	1
Buildings	7,264,791	4	7,218,970	4	Total other liabilities	12,457,587	7	13,552,326	7
Machinery and equipment	4,053,863	2	4,339,264	2	Total liabilities	144,415,660	74	154,281,755	77
Flight equipment	198,419,867	101	191,157,326	95	<b>STOCKHOLDERS' EQUITY</b>				
Furniture	683,530	-	673,633	-	Capital stock, NT\$10.00 par value; authorized - 6,000,000 thousand shares; issued and outstanding - 5,200,000 thousand shares in 2012 and 4,631,622 thousand shares in 2011	52,000,000	26	46,316,224	23
Leased flight and other equipment	14,210,476	7	13,899,138	7	Capital surplus	1,405,394	1	392,822	-
Leasehold improvements	1,019,379	1	979,401	1	Retained earnings				
Revaluation increment	41,298	-	41,298	-	Legal reserve	316,010	-	799,630	-
Total cost and revaluation increment	227,381,487	116	219,997,313	110	Special reserve	3,873,370	2	5,162,071	3
Accumulated depreciation	96,972,739	50	87,172,218	44	Accumulated deficit	(1,040,233)	(1)	(479,545)	-
Construction in progress and prepayments for equipment (Note 28)	130,408,748	66	132,825,095	66	Total retained earnings	3,149,147	1	5,482,156	3
Net properties	135,343,544	69	138,031,462	69	Other equity				
<b>INTANGIBLE ASSETS</b>					Cumulative translation adjustments	(1,872,055)	(1)	(3,330,510)	(2)
Computer software, net (Note 2)	405,110	-	364,072	-	Net loss not recognized as pension cost	(2,325,184)	(1)	(2,621,974)	(1)
Deferred pension cost (Note 2)	118,271	-	177,407	-	Unrealized valuation gain or loss on financial instruments	(280,635)	-	74,072	-
Total intangible assets	523,381	-	541,479	-	Unrealized revaluation increment	41,298	-	41,298	-
<b>OTHER ASSETS</b>					Company shares held by subsidiaries reclassified into treasury stock	(36,554)	-	(36,554)	-
Refundable deposits (Note 28)	10,248,537	5	11,354,005	6	Total other equity	(4,473,130)	(2)	(5,873,668)	(3)
Deferred income tax assets - noncurrent (Notes 2 and 21)	6,925,283	4	6,776,012	3	Total stockholders' equity	52,081,411	26	46,317,534	23
Restricted assets - noncurrent (Notes 26 and 27)	580,801	-	657,925	-					
Other assets (Note 2)	732,229	-	832,268	1					
Net other assets	18,486,850	9	19,620,210	10					
<b>TOTAL</b>	<b>\$ 196,497,071</b>	<b>100</b>	<b>\$ 200,599,289</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 196,497,071</b>	<b>100</b>	<b>\$ 200,599,289</b>	<b>100</b>

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

# CHINA AIRLINES, LTD.

## STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2012		2011	
	Amount	%	Amount	%
REVENUES (Notes 2 and 26)				
Passenger	\$ 41,907,117	64	\$ 38,302,933	60
Cargo	20,917,213	32	23,290,851	36
Others	<u>2,556,053</u>	<u>4</u>	<u>2,429,989</u>	<u>4</u>
Total revenues	<u>65,380,383</u>	<u>100</u>	<u>64,023,773</u>	<u>100</u>
COSTS (Notes 22 and 26)				
Flight operations	41,454,531	63	39,870,509	62
Terminal and landing fees	9,663,632	15	9,111,298	14
Passenger services	4,077,677	6	3,851,702	6
Aircraft maintenance	5,751,365	9	6,123,326	10
Others	<u>1,232,247</u>	<u>2</u>	<u>1,167,620</u>	<u>2</u>
Total costs	<u>62,179,452</u>	<u>95</u>	<u>60,124,455</u>	<u>94</u>
GROSS PROFIT	<u>3,200,931</u>	<u>5</u>	<u>3,899,318</u>	<u>6</u>
OPERATING EXPENSES (Note 22)				
Marketing and selling	3,098,020	5	2,990,005	5
General and administrative	<u>1,309,519</u>	<u>2</u>	<u>1,210,887</u>	<u>2</u>
Total operating expenses	<u>4,407,539</u>	<u>7</u>	<u>4,200,892</u>	<u>7</u>
OPERATING LOSS	<u>(1,206,608)</u>	<u>(2)</u>	<u>(301,574)</u>	<u>(1)</u>
NONOPERATING INCOME AND GAINS				
Interest income	92,524	-	77,882	-
Investment income recognized under the equity method (Notes 2 and 11)	277,444	-	308,263	1
Dividend income (Note 2)	170,059	-	91,772	-
Gain on disposal of properties (Note 2)	1,490	-	198,207	-
Valuation gain on financial instruments, net (Notes 2 and 5)	453,917	1	3,909	-
Foreign exchange gain, net	-	-	39,912	-
Others	<u>364,089</u>	<u>1</u>	<u>284,313</u>	<u>1</u>
Total nonoperating income and gains	<u>1,359,523</u>	<u>2</u>	<u>1,004,258</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 26)	1,188,257	2	1,118,449	2
Foreign exchange loss, net (Note 2)	88,976	-	-	-
Others	<u>57,281</u>	<u>-</u>	<u>358,628</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,334,514</u>	<u>2</u>	<u>1,477,077</u>	<u>2</u>

(Continued)

# CHINA AIRLINES, LTD.

## STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars, Except Loss Per Share)

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
PRETAX LOSS	\$ (1,181,599)	(2)	\$ (774,393)	(1)
INCOME TAX BENEFIT (Notes 2 and 21)	<u>(141,366)</u>	<u>-</u>	<u>(112,898)</u>	<u>-</u>
NET LOSS	<u>\$ (1,040,233)</u>	<u>(2)</u>	<u>\$ (661,495)</u>	<u>(1)</u>
	<u>2012</u>		<u>2011</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
LOSS PER SHARE (NEW TAIWAN DOLLARS; Note 23)				
Basic	<u>\$ (0.23)</u>	<u>\$ (0.21)</u>	<u>\$ (0.17)</u>	<u>\$ (0.14)</u>

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

(Concluded)

**CHINA AIRLINES, LTD.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2012 AND 2011**  
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued and Outstanding		Capital Surplus (Notes 2 and 19)	Retained Earnings (Notes 2 and 18)				Cumulative Translation Adjustments (Note 2)	Net Loss Not Recognized as Pension Cost (Note 2)	Unrealized Valuation Gain or Loss on Financial Instruments (Note 2)	Unrealized Revaluation Increment (Notes 2 and 12)	Company Shares Held by Subsidiaries Reclassified into Treasury Stock (Notes 2, 19 and 20)	Total Stockholders' Equity
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Accumulated Deficit	Total						
BALANCE, JANUARY 1, 2012	4,631,622	\$ 46,316,224	\$ 422,101	\$ 799,630	\$ 5,162,071	\$ (1,772,321)	\$ 4,189,380	\$ (1,598,197)	\$ (2,325,184)	\$ 50,010	\$ 41,298	\$ (36,554)	\$ 47,059,078
Accumulated deficit offset against reserve and capital surplus													
Legal reserve	-	-	-	(483,620)	-	483,620	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(1,288,701)	1,288,701	-	-	-	-	-	-	-
Issuance of common stock for cash - February 10, 2012	568,378	5,683,776	983,293	-	-	-	-	-	-	-	-	-	6,667,069
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	(22,281)	-	-	-	-	(22,281)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	(251,577)	-	-	-	-	(251,577)
Net loss in the six months ended June 30, 2012	-	-	-	-	-	(1,040,233)	(1,040,233)	-	-	-	-	-	(1,040,233)
Unrealized valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(16,679)	-	-	(16,679)
Unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	-	(311,989)	-	-	(311,989)
Unrealized loss on financial instruments of equity-method investees	-	-	-	-	-	-	-	-	-	(1,977)	-	-	(1,977)
<b>BALANCE, JUNE 30, 2012</b>	<b>5,200,000</b>	<b>\$ 52,000,000</b>	<b>\$ 1,405,394</b>	<b>\$ 316,010</b>	<b>\$ 3,873,370</b>	<b>\$ (1,040,233)</b>	<b>\$ 3,149,147</b>	<b>\$ (1,872,055)</b>	<b>\$ (2,325,184)</b>	<b>\$ (280,635)</b>	<b>\$ 41,298</b>	<b>\$ (36,554)</b>	<b>\$ 52,081,411</b>
BALANCE, JANUARY 1, 2011	4,631,622	\$ 46,316,224	\$ 392,822	\$ -	\$ -	\$ 7,996,300	\$ 7,996,300	\$ (3,370,031)	\$ (2,621,974)	\$ (64,422)	\$ 50,335	\$ (36,554)	\$ 48,662,700
Appropriations from the 2010 earnings													
Legal reserve	-	-	-	799,630	-	(799,630)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	5,162,071	(5,162,071)	-	-	-	-	-	-	-
Cash dividends - NT\$0.4 per share	-	-	-	-	-	(1,852,649)	(1,852,649)	-	-	-	-	-	(1,852,649)
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	(776)	-	-	-	-	(776)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	40,297	-	-	-	-	40,297
Net loss in the six months ended June 30, 2011	-	-	-	-	-	(661,495)	(661,495)	-	-	-	-	-	(661,495)
Unrealized valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	1,412	-	-	1,412
Unrealized gain on cash flow hedge	-	-	-	-	-	-	-	-	-	137,242	-	-	137,242
Revaluation increment reclassified to other revenue	-	-	-	-	-	-	-	-	-	-	(9,037)	-	(9,037)
Unrealized loss on financial instruments of equity-method investees	-	-	-	-	-	-	-	-	-	(160)	-	-	(160)
<b>BALANCE, JUNE 30, 2011</b>	<b>4,631,622</b>	<b>\$ 46,316,224</b>	<b>\$ 392,822</b>	<b>\$ 799,630</b>	<b>\$ 5,162,071</b>	<b>\$ (479,545)</b>	<b>\$ 5,482,156</b>	<b>\$ (3,330,510)</b>	<b>\$ (2,621,974)</b>	<b>\$ 74,072</b>	<b>\$ 41,298</b>	<b>\$ (36,554)</b>	<b>\$ 46,317,534</b>

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

# CHINA AIRLINES, LTD.

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,040,233)	\$ (661,495)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income taxes	(167,584)	(145,848)
Depreciation and amortization	5,411,722	5,122,872
Allowance for doubtful accounts	-	(9,757)
Valuation gain on financial instruments	(453,917)	(3,909)
Investment gain recognized under the equity method	(277,444)	(308,263)
Cash dividends received from equity-method investees	494,940	267,118
Loss on inventories, properties and idle properties	384,923	217,418
Gain on disposal of properties	(1,490)	(198,207)
Gain on disposal of idle properties, net	(17,465)	(31,445)
Amortization of deferred profit on sale-leaseback	(288,428)	(322,338)
Amortization of deferred credits	(33,207)	(33,207)
Net changes in operating assets and liabilities:		
Financial assets and liabilities held for trading	1,286,762	(2,597,977)
Notes and accounts receivable	2,197,657	1,322,499
Notes and accounts receivable - related parties	(66,062)	67,905
Other receivables	(442,134)	(73,960)
Inventories	(180,491)	(1,583,416)
Other current assets	(1,214,021)	(806,890)
Accounts payable	104,203	154,113
Accounts payable to related parties	190,674	289,392
Accrued expenses	(2,686,471)	(1,479,499)
Advance ticket sales	51,340	510,581
Other current liabilities	20,696	(112,713)
Accrued pension cost	19,836	57,753
Net cash provided by (used in) operating activities	<u>3,293,806</u>	<u>(359,273)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investments accounted for by the equity method	(30,409)	(200,000)
Acquisition of properties	(1,356,785)	(1,372,037)
Proceeds of the disposal of properties	172,196	214,306
Increase in computer software	(38,838)	(17,084)
Proceeds of the disposal of idle properties	22,275	44,359
Decrease (increase) in refundable deposits	273,257	(68,007)
Increase in deferred charges	(8,871)	(23,791)
Decrease in restricted assets - noncurrent	<u>80,179</u>	<u>348,019</u>
Net cash used in investing activities	<u>(886,996)</u>	<u>(1,074,235)</u>

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# CHINA AIRLINES, LTD.

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term loans	\$ 3,200,000	\$ (1,100,000)
Decrease in short-term bills payable	-	(949,646)
Proceeds of long-term debts	5,572,564	3,584,948
Repayments of long-term debts and capital lease obligations	(11,850,555)	(8,230,996)
Issuance of bonds payable	5,785,000	6,000,000
Repayment of bonds payable	(11,000,000)	-
Increase in deposits-in	17,204	2,595
Issuance of common stock for cash	<u>6,667,069</u>	<u>-</u>
Net cash used in financing activities	<u>(1,608,718)</u>	<u>(693,099)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>	<u>(17,207)</u>	<u>31,549</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	780,885	(2,095,058)
<b>CASH, BEGINNING OF PERIOD</b>	<u>8,947,397</u>	<u>10,796,980</u>
<b>CASH, END OF PERIOD</b>	<u>\$ 9,728,282</u>	<u>\$ 8,701,922</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$ 1,273,484	\$ 1,162,570
Less: Capitalized interest	<u>42,347</u>	<u>36,649</u>
Interest paid (excluding capitalized interest)	<u>\$ 1,231,137</u>	<u>\$ 1,125,921</u>
Income tax paid	<u>\$ 26,407</u>	<u>\$ 33,969</u>
<b>NONCASH FINANCING ACTIVITIES</b>		
Current portion of long-term loans and debts	<u>\$ 15,343,750</u>	<u>\$ 17,788,544</u>
Current portion of capital lease obligations	<u>\$ 1,211,475</u>	<u>\$ 1,093,342</u>
Current portion of bonds payable	<u>\$ 7,330,000</u>	<u>\$ 14,500,000</u>

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

(Concluded)



# CHINA AIRLINES, LTD.

## NOTES TO FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In New Taiwan Dollars, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

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

The major stockholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of June 30, 2012 and 2011, CADF held 35.91% and 39.10% of the Company’s shares, respectively, and NDF held 9.99% and 11.22% of the Company’s shares, respectively. The Company had 10,669 and 10,474 employees as of June 30, 2012 and 2011, respectively.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China. Significant accounting policies are summarized as follows:

#### Foreign Currencies and Foreign Operations

Nonderivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from the settlement of foreign-currency monetary assets and liabilities are recognized in profit or loss in the settlement period.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities which are measured at fair value, are revalued using prevailing exchange rate. For a nonmonetary financial asset with the changes in fair value recognized as an adjustment to stockholders’ equity, exchange differences are recognized as an adjustment to stockholders’ equity. For a nonmonetary financial asset at fair value through profit or loss, exchange differences are recognized in the income statement. Foreign-currency nonmonetary assets and liabilities that are carried at cost are reported using the historical exchange rate on the date of transaction.

Equity-method investments in foreign subsidiaries/affiliates are recorded in New Taiwan dollars using the rates of exchange in effect on acquisition dates. On the balance sheet date, the investments and the related equity in net income or net loss are restated at the prevailing exchange rates and weighted-average rates, respectively, and resulting differences are recorded as translation adjustments under stockholders’ equity.

Under a regulation by the Securities and Futures Bureau, the carrying amount of an aircraft acquired and the related U.S. dollar-denominated obligation incurred for the acquisition are accounted for as an investment in a foreign operating entity if the Company's use of the aircraft results in generating revenues and incurring expenses mainly in U.S. dollars. On the balance sheet date, the carrying amount of the aircraft and the related liability are restated at balance sheet date rates. The difference is recognized in stockholders' equity as translation adjustment.

### **Accounting Estimates**

Under the above guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of properties, impairment of assets, accrued expenses - frequent flyer program, pension cost, income tax, loss on pending litigations, bonuses of employees, etc. Actual results could differ from these estimates.

### **Current and Noncurrent Assets and Liabilities**

Current assets include cash, cash equivalents and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as properties and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

### **Cash Equivalents**

Cash equivalents, consisting of commercial paper, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

### **Financial Instruments at Fair Value Through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Derivative instruments that do not meet the criteria for hedge accounting are classified as financial assets or liabilities held for trading.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: (a) listed stocks - at closing prices; (b) beneficial certificates (open-end mutual funds) - at net asset value; and (c) convertible bonds - at values determined using valuation techniques.

Hybrid instruments are financial assets designated as at fair value through profit or loss, and these are measured at FVTPL on initial recognition.

Fair value of hybrid instruments is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

## **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

## **Hedge Accounting**

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

Under cash flow hedge accounting, the profit or loss on the hedging instrument is recognized as profit or loss in the same period when the profit or loss on the hedged item is affected. The profit or loss on the hedging instrument is recognized as an adjustment to stockholders' equity and reclassified to current profit or loss when forecast transactions that are being hedged affect profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liabilities, the associated gains or losses that were recognized directly in equity shall be reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a nonfinancial asset or a nonfinancial liability, it removes the associated gains and losses that were recognized directly in equity and includes them in the initial cost or changed carrying amount of the asset or liability. However, if an entity expects that all or a portion of a loss recognized directly in equity will not be recovered in one or more future periods, it shall reclassify the amount that is not expected to be recovered into profit or loss.

If the hedging instrument expires, is sold or terminated or no longer meets the hedge accounting criteria, the cumulative profit or loss on the hedging instrument that is effective and directly recognized as an adjustment to stockholders' equity is still recognized as an adjustment to stockholders' equity before forecast transactions occur and then reclassified to current profit or loss when forecast transactions occur.

## **Financial Assets Carried at Cost**

Equity investments, such as non-publicly traded stocks, with fair value that cannot be reliably measured, are carried at original cost. Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. If there is objective evidence that a financial asset is impaired, a loss is recognized. However, the recording of a subsequent recovery of fair value is not allowed.

## **Impairment of Accounts Receivable**

On January 1, 2011, the Company adopted the third time revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company is subject to the provisions of SFAS No. 34. The Company should evaluate accounts receivable for individual and collective impairment at the end of each reporting period. When there is objective evidence of a decrease in the estimated future cash flow of accounts receivable as a result of one or more events that occurred after the initial recognition of the accounts receivable, the accounts receivable are deemed to be impaired.

The Company has a short average collection period; thus, the impairment loss recognized is the difference between the carrying amount of accounts receivable and estimated future cash flows, without considering the discounting effect. Changes in the carrying amount of the allowance account are recognized as bad - debt loss, which is recorded in operating expenses - general and administrative. When accounts receivable are considered uncollectable, the amount is written off against the allowance account.

## **Impairment of Assets**

Statement of Financial Accounting Standards No. 35 - "Impairment of Assets" requires the Company to determine on each balance sheet date if properties, intangible assets and other assets (including a cash-generating unit) have been impaired. If there is impairment, then the Company must calculate the recoverable amount of the asset or the cash-generating unit. An impairment loss should be recognized whenever the recoverable amount of the asset or the cash-generating unit is below the carrying amount, and this impairment loss is either charged to accumulated impairment or used to reduce the carrying amount of the asset directly. If the Company revalues properties as required by law, an impairment loss on revalued properties should be charged to unrealized revaluation increment on properties, and if the capital surplus - revaluation increment on properties is not enough, the portion that exceeds the balance will be recognized as loss in the statement of income. After the recognition of an impairment loss, the depreciation (amortization) charged to the asset should be adjusted in future periods for the revised asset carrying amount (net of accumulated impairment), less its salvage value, and calculated on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

## **Inventories**

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sale. These parts, materials and supplies are valued at the weighted-average cost less allowance for obsolescence. Items for in-flight sale are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The costs of inventories sold or consumed are determined using the weighted-average method.

## **Investments Accounted for by the Equity Method**

Investments in companies in which the Company exercises significant influence on the investees' operating and financial policy decisions are accounted for by the equity method. Under this method, investments are stated at cost on the acquisition date and subsequently adjusted for the Company's proportionate share or equity in the investees' net income or net loss. Cash dividends received are accounted for as a reduction of the carrying values of the investments. On investment acquisition, the investment premiums for the cost of investment in excess of the Company's share of the investee's identified net assets, representing goodwill, are no longer amortized but tested annually for impairment or if there is objective evidence that the goodwill is impaired.

When the Company subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Company records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

Gain or loss from transactions involving depreciable assets between the Company and its equity-method investees is deferred and recognized over the estimated useful lives of the assets.

Receipt of stock dividends from investee would not be recognized as investment income. The Company only recomputes the book value per share based on the shares with the additional shares.

Under Statement of Financial Accounting Standards No. 30 - "Accounting for Treasury Stocks," the Company reclassified its shares held by its subsidiaries to treasury stock at the carrying value as shown in the subsidiaries' books on January 1, 2002. Furthermore, when the Company recognized its investment income, the cash dividend income recognized by the subsidiaries from the Company's earnings appropriation was subtracted from investment income and credited to paid-in capital.

### **Properties**

Properties are stated at cost plus revaluation increment (if any) less accumulated depreciation and accumulated impairment. Major betterments or renewals are capitalized, while maintenance and repairs are expensed when incurred. Interests on funds used to acquire flight equipment or to construct facilities before the date the equipment is used in operations are capitalized and included in the cost of the related assets.

The amounts capitalized on flight and other equipment leased under agreements qualifying as capital leases are the lower of (a) the present value of all payments required under the lease agreements plus the bargain purchase price or (b) the fair value of the leased assets on the starting dates of the agreements. Interests implicit in lease payments are recorded as interest expense.

Amounts paid under operating lease agreements are charged to income over the term of the agreements. The imputed interest on rental deposits, calculated at the interest rate for one-year time deposits of Chunghwa Post Co., Ltd., is recorded both as rental expense and interest income.

Depreciation is calculated using the straight-line method over service lives estimated as follows (plus one year to represent estimated salvage value): buildings, 45 to 55 years; machinery and equipment, 5 to 6 years; flight equipment, 5 to 25 years; furniture, 5 years; leased assets, 6 to 25 years; and leasehold improvements, 5 years. Properties that have reached their residual value but are still in use are further depreciated over their newly estimated service lives.

Upon property sale or other disposal, the cost, revaluation increment (if any) and the related accumulated depreciation are removed from the accounts, and gain or loss is credited or charged to nonoperating gains or losses in the year of disposal.

### **Intangible Assets**

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Computer software is amortized through its average economic useful life.

### **Deferred Charges**

Deferred charges mainly consist of (a) expenses for training pilots in operating new types of aircraft, (b) issue costs of corporate bonds and (c) costs incurred for syndicated loans, and they are all amortized using the straight-line method over their estimated useful lives, the life of the bonds and loan periods, respectively.

### **Accrued Expenses - Frequent-flyer Program**

Passengers who are members of the Dynasty Club may accumulate mileage points to reach a certain award level, which entitles them to choose from among various awards (including an upgrade to a higher class or free tickets). A liability is accrued and charged to operating expense. The amount accrued is based on the estimated incremental cost that will be incurred upon the provision of transport services.

### **Pension Costs**

The Company has two types of pension plans: defined benefit and defined contribution.

Pension costs under the defined benefit pension plan are recognized on the basis of actuarial calculations. Unrecognized net transition obligation is amortized over 15 years, while pension gain or loss is amortized using the straight-line method based on the average remaining service years of employees.

If additional accrued pension cost based on actuarial calculations is not in excess of the sum of the unamortized balance of prior service costs and unrecognized net transition obligation, "deferred pension cost" will be debited. Otherwise, the excess amount should be debited to "net loss not recognized as pension cost" in stockholders' equity.

Based on the defined contribution pension plan, the Company's required monthly contributions to the employees' individual pension accounts are recognized as expenses throughout the employees' service periods.

### **Deferred Profits on Sale-leaseback**

A gain on the sale by the Company of assets that it leases back is deferred and amortized over the term of the lease agreements.

### **Income Tax**

The Company applies the intra-period allocation method to its income tax. Deferred tax assets are recognized for the tax effects of deductible temporary differences, debit in equity, unused investment credits, and loss carryforwards, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences and credit in equity. Deferred tax liabilities and assets are classified as current or noncurrent on the basis of the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that cannot be related to an asset or liability for financial reporting is classified in accordance with the expected reversal or realization date of the temporary difference. Valuation allowance is recognized on deferred tax assets that are not expected to be realized.

Income tax credits for certain acquisitions of research and development expenses are recognized in the period those acquisitions or expenses are incurred.

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

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

### **Revenue Recognition**

Passenger fares and cargo revenues are recognized when transport service is provided. The value of unused passenger tickets is recognized as "advance ticket sales."

### 3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

#### Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." Among the main revisions is that loans and receivables originated by the Company are now covered by SFAS No. 34. This accounting change did not have a significant effect on the Company's financial statements as of and for the six months ended June 30, 2011.

#### Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41 - "Operating Segments." The statement requires that segment information disclosed should be based on the information on the components of the Company that management uses to make operating decisions. SFAS No. 41 requires the identification of operating segments based on internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20 - "Segment Reporting." This accounting change had no significant effect on the manner of the Company's disclosure of segment information.

### 4. CASH AND CASH EQUIVALENTS

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 627,875	\$ 768,661
Revolving fund	162,211,310	196,840,252
Cash in banks	4,742,334,361	3,285,359,236
Certificates of deposit	3,624,480,979	3,716,898,252
Cash equivalents	<u>1,198,627,095</u>	<u>1,502,055,856</u>
	<u>\$ 9,728,281,620</u>	<u>\$ 8,701,922,257</u>

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

Financial instruments classified as held for trading were as follows:

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
<u>Financial assets held for trading</u>		
Current		
Beneficial certificates	\$ 1,802,092,713	\$ 2,901,938,167
Listed stocks	<u>1,017,885,506</u>	<u>-</u>
	<u>\$ 2,819,978,219</u>	<u>\$ 2,901,938,167</u>

The gains on beneficial certificates and listed stocks in the six months ended June 30, 2012 and 2011 were \$453,917,000 and \$3,929,000, respectively.

Financial instruments designated as at FVTPL were as follows:

**June 30, 2011**

Financial assets designated as at FVTPL

Noncurrent

Convertible bonds

China Life Insurance Co., Ltd.

\$ 373,970,000

On April 19, 2012, the above convertible bonds with an aggregate face value of \$250,000,000 were converted into 29,137,529 common shares of China Life Insurance Co., Ltd. at the conversion price of NT\$8.58, and reclassified to financial assets at fair value through profit or loss - current.

On financial assets designated as at FVTPL, there were losses of \$20,000 in the six months ended June 30, 2011.

**6. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<b>June 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Carrying Value</b>	<b>% of Ownership</b>	<b>Carrying Value</b>	<b>% of Ownership</b>
<u>Current</u>				
Foreign marketable equity securities				
France Telecom	<u>\$ 76,037,193</u>	-	<u>\$ 119,016,645</u>	-

**7. NOTES AND ACCOUNTS RECEIVABLE, NET**

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Notes receivable	\$ 423,946,073	\$ 371,177,744
Accounts receivable	<u>7,155,344,352</u>	<u>9,807,442,016</u>
	7,579,290,425	10,178,619,760
Less: Allowance for doubtful accounts	<u>53,327,366</u>	<u>54,903,519</u>
	<u>\$ 7,525,963,059</u>	<u>\$ 10,123,716,241</u>

**8. OTHER RECEIVABLES**

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Accrued revenue	\$ 828,466,249	\$ 606,222,695
Tax refunds	121,598,082	223,005,789
Others	<u>2,970,597</u>	<u>2,964,348</u>
	<u>\$ 953,034,928</u>	<u>\$ 832,192,832</u>



## 9. INVENTORIES, NET

	June 30	
	2012	2011
Aircraft spare parts	\$ 7,823,574,842	\$ 7,266,783,364
Items for in-flight sale	346,011,351	347,429,587
Work-in-process - maintenance services	<u>270,018,993</u>	<u>630,306,470</u>
	<u>\$ 8,439,605,186</u>	<u>\$ 8,244,519,421</u>

As of June 30, 2012 and 2011, the allowances for inventory devaluation were \$85,319,000 and \$66,081,000, respectively.

## 10. FINANCIAL ASSETS CARRIED AT COST

	June 30			
	2012		2011	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted common stocks				
Abacus International Holdings Ltd.	\$ 297,946,451	13.59	\$ 297,946,451	13.59
Jardine Air Terminal Services	56,022,929	15.00	56,022,929	15.00
Chung Hwa Express Co.	11,000,000	11.00	11,000,000	11.00
Regal International Advertising	5,925,000	6.58	5,925,000	6.58
Far Eastern Air Transport	-	-	-	-
	<u>370,894,380</u>		<u>370,894,380</u>	
Unlisted preferred stocks				
Abacus International Holdings Ltd.	<u>472,522</u>	-	<u>472,522</u>	-
	<u>\$ 371,366,902</u>		<u>\$ 371,366,902</u>	

## 11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	June 30			
	2012		2011	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Investees on which the Company exercises significant influence				
Taiwan Air Cargo Terminal	\$ 1,579,678,916	54.00	\$ 1,641,333,336	54.00
Cal Park	1,465,448,692	100.00	1,460,643,347	100.00
Mandarin Airlines	1,107,513,434	93.99	1,054,383,268	93.99
Cal-Dynasty International	1,042,543,254	100.00	1,004,888,696	100.00
Taoyuan International Airport Services	663,918,263	49.00	677,627,027	49.00
China Pacific Catering Services	618,651,376	51.00	585,343,892	51.00
Cal-Asia Investment	424,642,358	100.00	369,693,014	100.00
China Aircraft Services	385,785,866	20.00	364,675,642	20.00
Abacus Distribution Systems (Taiwan)	346,500,613	93.93	344,250,807	93.93
Taiwan Airport Services	305,141,889	47.35	305,706,575	47.35
Kaohsiung Catering Services	214,372,183	35.78	206,856,674	35.78
Cal Hotel	198,174,527	100.00	223,946,791	100.00
Asian Compressor Technology Services	191,621,008	24.50	170,262,230	24.50

(Continued)

	<b>June 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Carrying Value</b>	<b>% of Ownership</b>	<b>Carrying Value</b>	<b>% of Ownership</b>
Science Park Logistics	\$ 177,462,853	28.48	\$ 172,070,950	28.48
China Pacific Laundry Services	148,759,231	55.00	135,775,401	55.00
Hwa Hsia	97,575,518	100.00	94,696,499	100.00
Dynasty Holidays	37,361,799	51.00	36,615,340	51.00
Yestrip	27,447,814	100.00	24,219,121	100.00
Global Sky Express	6,572,487	25.00	6,488,012	25.00
Freighter Princess Ltd.	35,088	100.00	35,088	100.00
Freighter Prince Ltd.	34,602	100.00	34,602	100.00
Freighter Queen Ltd.	<u>32,895</u>	100.00	<u>32,895</u>	100.00
	<u>\$ 9,039,274,666</u>		<u>\$ 8,879,579,207</u>	

(Concluded)

Investment income (loss) recognized under the equity method was as follows:

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Taiwan Air Cargo Terminal	\$ (33,412,223)	\$ (7,964,940)
Cal Park	(739,329)	3,229,587
Mandarin Airlines	(41,966,566)	49,616,467
Cal-Dynasty International	7,917,448	1,381,825
Taoyuan International Airport Services	31,765,505	23,401,611
China Pacific Catering Services	78,701,963	46,901,088
Cal-Asia Investment	14,968,723	14,416,941
China Aircraft Services	8,006,331	7,117,001
Abacus Distribution Systems (Taiwan)	68,695,369	66,403,423
Taiwan Airport Services	16,027,969	19,522,470
Kaohsiung Catering Services	28,061,195	26,503,191
Cal Hotel	(4,887,191)	(24,358,270)
Asian Compressor Technology Services	57,823,107	47,227,430
Science Park Logistics	13,352,114	10,492,242
China Pacific Laundry Services	9,928,418	9,316,278
Hwa Hsia	16,612,802	15,276,392
Dynasty Holidays	288,653	(3,878,981)
Yestrip	5,621,213	2,923,949
Global Sky Express	<u>678,722</u>	<u>735,502</u>
	<u>\$ 277,444,223</u>	<u>\$ 308,263,206</u>

The equity-method investees' financial statements, which had been used to determine the carrying amount of the Company's investments, had been audited, except those of China Aircraft Services Ltd. and Asian Compressor Technology Services Co., Ltd. The Company believes that had these investees' financial statements been audited, any resulting adjustment would have had no material effect on the Company's financial statements.

The subsidiaries, Freighter Queen Ltd., Freighter Prince Ltd. and Freighter Princess Ltd., were established in March 2001, September 2001 and January 2002, respectively, for the leasing of the Company's aircraft. In its balance sheets, the Company recognized the fixed assets and liabilities related to the leased aircraft as a leasing transaction.

Shown below are the movements in 2012 and 2011 of (a) the difference between the investment cost and the investees' net assets, or goodwill, and (b) a sale of depreciable assets to the Company by its subsidiary.

	<b>Goodwill</b>	<b>Transaction Between Company and Subsidiary</b>
<u>Six months ended June 30, 2012</u>		
Beginning	\$ 52,423,365	\$(117,777,801)
Decrease	<u>-</u>	<u>16,434,111</u>
Ending	<u>\$ 52,423,365</u>	<u>\$(101,343,690)</u>
<u>Six months ended June 30, 2011</u>		
Beginning	\$ 52,423,365	\$(150,646,025)
Decrease	<u>-</u>	<u>16,434,112</u>
Ending	<u>\$ 52,423,365</u>	<u>\$(134,211,913)</u>

To meet its investees' operating needs, the Company invested \$30,409,000 in Cal-Asia Investment in May 2012 and \$200,000,000 in Cal Hotel in April 2011.

## 12. PROPERTIES

	<u>June 30</u>	
	<b>2012</b>	<b>2011</b>
Revaluation increment - cost		
Building	<u>\$ 41,297,645</u>	<u>\$ 41,297,645</u>
Accumulated depreciation		
Building	\$ 2,828,402,969	\$ 2,645,499,497
Machinery and equipment	3,020,788,124	3,171,647,655
Flight equipment	83,294,247,902	74,273,297,542
Furniture	441,051,847	386,359,643
Leased flight and other equipment	6,518,585,768	5,900,121,696
Leasehold improvements	<u>869,662,480</u>	<u>795,291,642</u>
	<u>\$ 96,972,739,090</u>	<u>\$ 87,172,217,675</u>

Interests capitalized in the six months ended June 30, 2012 and 2011 amounted to \$42,347,000 and \$36,649,000, with interests calculated at rates ranging from 2.07%-2.26% and from 1.91%-1.95%, respectively.

In 1976 and 1982, the Company revalued its properties in accordance with government regulations. Revaluation increments were recorded as increases in the carrying amounts of the assets and as credits to unrealized revaluation increments.

### 13. SHORT-TERM LOANS

	<u>June 30</u>	
	2012	2011
Bank loans, interest of 1.10%-1.25% in the six months ended June 30, 2012	<u>\$ 3,200,000,000</u>	<u>\$ -</u>

### 14. SHORT-TERM BILLS PAYABLE

	<u>June 30, 2011</u>
Commercial paper - discounted interest of 0.858% in the six months ended June 30, 2011	\$ 300,000,000
Less: Unamortized discount on bills payable	<u>20,690</u>
	<u>\$ 299,979,310</u>

### 15. BONDS PAYABLE

	<u>June 30</u>	
	2012	2011
Five-year secured domestic bonds - issued at par in July 2006; repayable in July 2009, July 2010 and July 2011; 2.21% interest p.a., payable annually.	\$ -	\$ 2,600,000,000
November 2007; repayable in November 2010, November 2011 and November 2012; indicator rate plus 0.4% interest p.a., payable quarterly.	1,200,000,000	2,100,000,000
January 2010; repayable in January 2013, January 2014 and January 2015; indicator rate plus 1.5% interest p.a., payable quarterly.	1,300,000,000	1,300,000,000
February 2010; repayable in February 2013, February 2014 and February 2015; indicator rate plus 1.5% interest p.a., payable quarterly.	2,300,000,000	2,300,000,000
May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually.	6,000,000,000	6,000,000,000
Three-year private unsecured bonds-issued at par in April 2009; repayable in April 2012; 3.4% interest p.a., payable semiannually.	-	8,800,000,000
June 2009; repayable in June 2012; 3.4% interest p.a., payable semiannually.	-	2,200,000,000
May 2010; repayable in May 2013; 2.8% interest p.a., payable semiannually.	5,050,000,000	5,050,000,000
January 2012; repayable in January 2015; 2% interest p.a., payable semiannually.	5,785,000,000	-
Five-year private unsecured bonds-issued at par in April 2009; repayable in April 2014; 3.6% interest p.a., payable semiannually.	1,100,000,000	1,100,000,000
June 2009; repayable in June 2014; 3.6% interest p.a., payable semiannually.	<u>800,000,000</u>	<u>800,000,000</u>
	23,535,000,000	32,250,000,000
Less: Current portion	<u>7,330,000,000</u>	<u>14,500,000,000</u>
	<u>\$ 16,205,000,000</u>	<u>\$ 17,750,000,000</u>

In January 2012, the Company made a first issue of 2012 private unsecured bonds with aggregate face value of \$5,785,000,000. The investors were these affiliates: Taoyuan International Airport Services, Mandarin Airlines and Abacus Distribution Systems (Taiwan).

In May 2010, the Company made a first issue of 2010 private unsecured bonds with aggregate face value of \$5,050,000,000. The investors were these affiliates: Taoyuan International Airport Services, Mandarin Airlines, Abacus Distribution Systems (Taiwan), China Pacific Catering Services and Hwa Hsia.

## 16. LONG-TERM LOANS

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Bank loans	\$ 69,018,458,217	\$ 74,576,710,637
Commercial paper, net of unamortized discounts of \$27,436,355 and \$15,052,012 in the six months ended June 30, 2012 and 2011, respectively	<u>12,252,563,645</u>	<u>5,414,947,988</u>
	81,271,021,862	79,991,658,625
Less: Current portion	<u>15,343,750,307</u>	<u>17,788,543,821</u>
	<u>\$ 65,927,271,555</u>	<u>\$ 62,203,114,804</u>

Bank loans (New Taiwan dollars, U.S. dollars and Japanese yen) are repayable quarterly, semiannually or through a lump sum payment upon maturity in February 26, 2020. The related information is summarized as follows:

	<b>Currency</b>		
	<b>New Taiwan Dollars</b>	<b>U.S. Dollars</b>	<b>Japanese Yen</b>
<u>Amounts</u>			
Original currency			
2012	\$ 46,089,989,982	\$ 760,275,693	\$ 620,000,000
2011	44,964,128,109	998,459,665	1,860,000,000
Translated in New Taiwan dollars			
2012	46,089,989,982	22,694,796,958	233,671,277
2011	44,964,128,109	28,940,859,884	671,722,644

### Interest rates

2012	1.271%-2.614%	0.4657%-4.77%	0.6957%
2011	1.147%-2.525%	0.2408%-4.77%	0.6953%

### Periods

2012	2002/4/11-2020/2/26	2000/7/6-2017/9/21	2007/12/26-2012/12/26
2011	2002/4/11-2020/2/26	2000/7/6-2017/9/21	2007/12/26-2012/12/26

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until March 2017, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 1.358% to 2.109% and 1.313% to 2.09% in the six months ended June 30, 2012 and 2011, respectively.

## 17. LONG-TERM CAPITAL LEASE OBLIGATIONS

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Capital lease obligations	\$ 1,712,780,185	\$ 2,756,476,121
Less: Current portion	<u>1,211,475,275</u>	<u>1,093,341,738</u>
	<u>\$ 501,304,910</u>	<u>\$ 1,663,134,383</u>

As of June 30, 2012 the Company was leasing aircraft and related parts from certain foreign companies under capital lease agreements expiring on various dates until February 2014.

Future lease payments on flight equipment are summarized as follows:

<b>Period</b>	<b>Amount</b>
July to December 2012	\$ 594,654,971
2013	862,781,059
January to February 2014	255,344,155

## 18. PENSION PLAN

Based on the defined contribution pension plan under the Labor Pension Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts under the custody of the Bureau of Labor Insurance is at 6% of salaries and wages. The Company recognized defined contribution pension costs of \$59,988,000 and \$57,024,000 for the six months ended June 30, 2012 and 2011, respectively.

The pension plan under the Labor Standards Law is a defined benefit pension plan. Benefits are based on the service years accumulated and the average basic salaries and wages of the six months before retirement. The Company makes monthly contributions to a pension fund at 7% of salaries and wages. The fund is administered by a pension fund committee and deposited in the committee's name in the Bank of Taiwan. The Company recognized pension costs of \$315,292,000 and \$373,141,000 for the six months ended June 30, 2012 and 2011, respectively.

Other information on the defined benefit pension fund is as follows:

### a. Pension fund movements

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Balance, beginning of period	\$ 2,710,958,860	\$ 2,436,797,815
Contributions	263,320,738	278,138,540
Income from pension fund investments	-	7,341,556
Payment	<u>(306,764,156)</u>	<u>(121,079,997)</u>
Balance, end of period	<u>\$ 2,667,515,442</u>	<u>\$ 2,601,197,914</u>

b. Accrued pension cost movements

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Balance, beginning of period	\$ 6,378,716,679	\$ 6,646,911,151
Pension cost recognized	315,292,353	373,140,861
Contributions	(263,320,738)	(278,138,540)
Payment	<u>(32,134,877)</u>	<u>(37,249,706)</u>
Balance, end of period	<u>\$ 6,398,553,417</u>	<u>\$ 6,704,663,766</u>

## 19. STOCKHOLDERS' EQUITY

### Employee Stock Option Plans

Under the Company Law, of the publicly issued common shares, 10% should be reserved for subscription by the Company's employees. In December 2011, the board resolved the amount of shares and price for subscription by the employees. Under Statement of Financial Accounting Standards No. 39 - "Share-based Payment," the compensation cost of employee stock options was recognized on the grant-date using the fair value method.

Information on employee stock options is as follows:

	<b>Number of Options (In Thousands)</b>	<b>Weighted -average Exercise Price</b>
<u>Employee stock options on a capital increase in 2012</u>		
Options granted	56,838	\$ 11.73
Options exercised	(33,097)	11.73
Options expired	<u>(23,741)</u>	11.73
	=====	-
Weighted-average fair value of options granted		<u>\$ 0.4948</u>

Options granted were priced using the Black-Scholes pricing model, and the inputs to the model were as follows:

Grant-date share price	NT\$12.15
Exercise price	NT\$11.73
Expected volatility	39.89%
Expected life	5 days
Expected dividend yield	-
Risk-free interest rate	0.7687%

The compensation cost of employee stock options issued for a capital increase in December 2011 was recognized at \$28,123,000, which was reclassified in February 2012 to capital surplus - issuance of common shares at fair value of \$16,376,000 and capital surplus - expired employee stock options of \$11,747,000.

## Capital Surplus

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Company's paid-in capital and once a year).

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

Capital surplus is summarized as follows:

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Arising from the issuance of common shares	\$ 1,391,536,015	\$ 391,866,400
Expired employee stock options	11,747,160	-
Arising from treasury stock transactions	1,155,512	-
Arising from long-term investments	<u>955,395</u>	<u>955,395</u>
	<u>\$ 1,405,394,082</u>	<u>\$ 392,821,795</u>

## Appropriation of Earnings and Dividend Policy

To meet the Company's financial demand for its operation as well as repay its debt, the board resolved in June 2011 to publicly issue 568,378,000 common shares at NT\$11.73 per share, with NT\$10 par value and the record date of February 10, 2012. The Company completed the registration of this capital increase on February 20, 2012.

The Company's Articles of Incorporation provide that the following should be appropriated from annual net income (less any deficit): (a) 10% as legal reserve, and (b) special reserve equivalent to a debit balance of any stockholders' equity account. From the remainder, the Company should also appropriate at least 3% as bonus to employees. Of the final remainder, at least 50% should be distributed to stockholders as both cash and stock dividends (cash dividend should not be less than 30% of the total dividends) or stock dividends only. In determining the amount of cash dividends to be distributed, the board of directors should take into account future cash requirements of the Company, primarily cash requirements for future aircraft acquisitions. Distribution of earnings generated in prior years should also meet the foregoing guidelines.

All earnings appropriations should be made and approved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

The bonus to employees was estimated on the basis of past experiences. However, there were net losses in the six months ended June 30, 2012 and 2011; thus, no bonuses to employees were estimated. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are retroactively adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized valuation gain or loss on financial instruments, cumulative translation adjustments against the unrealized gain of equity, and net loss not recognized as pension cost) should be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.



Under the regulations of the Securities and Futures Bureau, a special reserve is appropriated from the balance of the retained earnings at an amount equal to the carrying value of the treasury stock held by subsidiaries in excess of the market value on the balance sheet date. The special reserve may be reversed when the market value recovers.

Legal reserve should be appropriated until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriation of the 2010 earnings was approved in the stockholders' meeting on June 24, 2011. The appropriations, including dividends per share, were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 799,629,908	
Special reserve	5,162,070,526	
Cash dividends	<u>1,852,648,941</u>	\$0.4
	<u>\$ 7,814,349,375</u>	

The Company's profit sharing in cash to employees of \$61,038,000 for 2010 was approved in the stockholders' meeting held on June 24, 2011. The resolved amount of profit sharing to employees was consistent with that approved under a resolution passed at the Board of Directors' meeting held on April 29, 2011, and the same amount was charged against the earnings of 2010.

The stockholders resolved to offset the accumulated deficit of 2011 in the stockholders' meeting held on June 15, 2012. The Company offset the accumulated deficit (a net loss of \$1,954,271,000) against the unappropriated earnings of \$181,950,000, a special reserve of \$1,288,701,000, and the legal reserve of \$483,620,000. No bonus to employees was appropriated for 2011 because of a net loss in that year.

Information on bonus to employee is available on the Market Observation Post System website.

Except for non-ROC resident stockholders, all stockholders receiving the unappropriated earnings generated on and after January 1, 1998 are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

## 20. TREASURY STOCK

(Shares in Thousands)

<b>Purpose of Treasury Stock</b>	<b>Number of Shares, Beginning of Period</b>	<b>Addition (Reduction) During the Period</b>	<b>Number of Shares, End of Period</b>
<u>Six months ended June 30, 2012</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>2,889</u>	<u>-</u>	<u>2,889</u>
<u>Six months ended June 30, 2011</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>2,889</u>	<u>-</u>	<u>2,889</u>

The Company's shares held by its subsidiaries as of June 30, 2012 and 2011 were as follows:

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>June 30, 2012</u>			
Mandarin Airlines	2,075	\$ 27,800,015	\$ 27,800,015
Hwa Hsia	814	<u>10,909,637</u>	<u>10,909,637</u>
		<u>\$ 38,709,652</u>	<u>\$ 38,709,652</u>
<u>June 30, 2011</u>			
Mandarin Airlines	2,075	\$ 40,455,246	\$ 40,455,246
Hwa Hsia	814	<u>15,875,964</u>	<u>15,875,964</u>
		<u>\$ 56,331,210</u>	<u>\$ 56,331,210</u>

The shares of the Company held by its subsidiaries were treated as treasury stock. The subsidiaries can exercise stockholders' right on these treasury stocks, except the right to subscribe for the Company's new shares and the right to vote.

## 21. INCOME TAX

- a. The reconciliation of the income tax expense based on loss before income tax at the statutory rate of 17% and income tax expense was as follows:

	<u>Six Months Ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Income tax benefit on loss before income tax at statutory rate	\$(200,871,947)	\$(131,646,648)
Add (deduct) tax effects of:		
Permanent differences	(33,989,335)	(45,937,867)
Temporary differences	(25,678,569)	(155,210,572)
Loss carryforwards	260,539,851	332,795,087
Overseas income tax expense	<u>26,172,077</u>	<u>32,609,405</u>
Income tax expense - current	<u>\$ 26,172,077</u>	<u>\$ 32,609,405</u>

- b. Income tax benefit consisted of the following:

	<u>Six Months Ended June 30</u>	
	<u>2012</u>	<u>2011</u>
Income tax expense - current	\$ 26,172,077	\$ 32,609,405
Net changes in deferred income tax expense (benefit)		
Allowance for doubtful accounts	(3,484,141)	-
Allowance for loss on inventories	(47,323,433)	-
Equity in net loss of foreign equity-method investees	5,300,796	2,311,749
Loss on disposal of properties	27,101,449	-
Depreciation difference between accounting and tax on properties	(733,750)	(733,750)
Allowance for loss on idle properties	(11,862,658)	(12,146,334)

(Continued)

	<b>Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Accrued expense for the frequent-flyer program	\$ 4,474,728	\$ 2,698,592
Provision for pension cost	(3,372,246)	(9,730,196)
Unrealized foreign exchange gain	52,787,095	170,107,530
Difference between accounting and tax on interest	2,790,729	2,790,729
Loss carryforwards	(260,103,078)	(332,795,087)
Investment income tax credits	111,417,863	110,381,208
Other adjustment in valuation allowance	(44,577,673)	(78,732,095)
Adjustment of prior years' tax	<u>46,034</u>	<u>340,683</u>
Income tax benefit	<u><u>\$(141,366,208)</u></u>	<u><u>\$(112,897,566)</u></u> (Concluded)

c. Deferred income tax assets (liabilities) as of June 30, 2012 and 2011 consisted of the following:

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Current</b>		
Allowance for loss on inventories	\$ 61,584,979	\$ 11,233,835
Accrued expenses for frequent-flyer program	12,087,098	15,649,725
Unrealized litigation loss	37,539,432	64,353,312
Unrealized gain on financial instruments	54,863,614	-
Allowance for doubtful accounts	8,185,645	-
Investment income tax credits	<u>165,684,028</u>	<u>948,568,961</u>
Deferred income tax assets	339,944,796	1,039,805,833
Less: Valuation allowance	<u>(70,921,011)</u>	<u>(836,583,966)</u>
Deferred income tax assets, net	269,023,785	203,221,867
Unrealized foreign exchange loss	(54,896,847)	(75,628,340)
Unrealized loss on financial instruments	<u>-</u>	<u>(19,736,901)</u>
Net deferred income tax assets	<u><u>\$ 214,126,938</u></u>	<u><u>\$ 107,856,626</u></u>
<b>Noncurrent</b>		
Equity in net loss of foreign equity-method investees	\$ 90,929,215	\$ 94,693,294
Allowance for loss on idle properties	187,787,064	174,906,355
Provision for pension cost	694,824,124	677,570,416
Difference between accounting and tax on interest	78,793,930	84,421,643
Unrealized litigation loss	123,343,849	123,343,849
Cumulative translation adjustments	383,432,862	682,152,608
Unrealized loss on financial instruments	4,118,457	4,813,378
Loss carryforwards	5,470,018,448	4,993,936,869
Investment income tax credits	<u>65,233,108</u>	<u>231,027,309</u>
Deferred income tax assets	7,098,481,057	7,066,865,721
Less: Valuation allowance	<u>(27,923,017)</u>	<u>(144,099,023)</u>
Deferred income tax assets, net	7,070,558,040	6,922,766,698
Depreciation difference between accounting and tax on properties	<u>(145,275,003)</u>	<u>(146,754,665)</u>
Net deferred income tax assets	<u><u>\$ 6,925,283,037</u></u>	<u><u>\$ 6,776,012,033</u></u>

- d. Information on the imputation credit account (ICA) and creditable tax ratio is summarized as follows:

	<u>June 30</u>	
	<u>2012</u>	<u>2011</u>
Balance of ICA	\$ 78,688,617	\$ 321,302,010

Since the Company had an accumulated deficit as of June 30, 2012, there was no expected creditable tax ratio. The Company had no unappropriated retained earnings generated since January 1, 1998.

- e. Unused investment income tax credits as of June 30, 2012 were as follows:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Article 6 of the Statute for Upgrading Industries	R&D expenses, personnel	\$ 165,684,028	\$ 165,684,028	2013
	training expenses and	40,542,154	40,542,154	2014
	purchases of eligible	24,690,954	24,690,954	2015
	equipment	<u>230,917,136</u>	<u>230,917,136</u>	

- f. Unused tax loss carryforwards as of June 30, 2012 were as follows:

Expiry Year	Unused Amount
2018	\$ 8,398,753,893
2019	19,338,075,471
2021	2,907,162,383
2022	<u>1,532,587,361</u>
	<u>\$ 32,176,579,108</u>

- g. The income tax returns of the Company through 2009 have been examined by the tax authorities, except for the following:

On the Company's 2008 and 2009 tax returns assessed by the tax authorities, investment tax credits were reduced to \$6,406,000 and \$162,397,000, respectively, which affected the use of investment tax credits in the following years. The Company disagreed with the tax authorities' assessment of its 2008 and 2009 tax returns and had applied for a reexamination.

## 22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<u>Six Months Ended June 30, 2012</u>		
	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel			
Salaries	\$ 4,383,434,733	\$ 1,102,517,229	\$ 5,485,951,962
Labor and health insurance	293,055,200	214,547,192	507,602,392
Pension cost	267,858,021	107,421,697	375,279,718
Others	865,048,774	118,647,449	983,696,223
Depreciation	5,137,982,496	181,050,662	5,319,033,158
Amortization	1,209,253	91,479,557	92,688,810

**Six Months Ended June 30, 2011**

	Classified as		
	Classified as Operating Costs	Operating Expenses	Total
Personnel			
Salaries	\$ 4,354,069,929	\$ 1,086,619,014	\$ 5,440,688,943
Labor and health insurance	268,685,593	222,952,282	491,637,875
Pension cost	305,439,105	124,726,145	430,165,250
Others	854,937,055	206,048,932	1,060,985,987
Depreciation	4,856,161,597	186,336,618	5,042,498,215
Amortization	1,209,234	79,164,918	80,374,152

**23. LOSS PER SHARE**

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

	Amounts (Thousands) (As Numerator)		Shares (Thousands) (As Denominator)	Loss Per Share (NT\$)	
	Pretax	After Tax		Pretax	After Tax
<u>Six months ended June 30, 2012</u>					
Basic loss per share					
Net loss on common stock	\$ (1,181,599)	\$ (1,040,233)	5,072,193	\$ (0.23)	\$ (0.21)
<u>Six months ended June 30, 2011</u>					
Basic loss per share					
Net loss on common stock	\$ (774,393)	\$ (661,495)	4,628,733	\$ (0.17)	\$ (0.14)

**24. FINANCIAL INSTRUMENTS**

a. Fair values of financial instruments

	June 30			
	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 29,398,607,409	\$ 29,398,607,409	\$ 32,113,099,548	\$ 32,113,099,548
Financial assets at fair value through profit or loss	2,819,978,219	2,819,978,219	3,275,908,167	3,275,908,167
Available-for-sale financial assets	76,037,193	76,037,193	119,016,645	119,016,645
Derivative financial assets for hedging	66,768,883	66,768,883	93,116,849	93,116,849
Financial assets carried at cost	371,366,902	-	371,366,902	-
<u>Financial liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	17,278,988,116	17,278,988,116	16,071,591,595	16,071,591,595
Derivative financial liabilities for hedging	403,387,292	403,387,292	40,092,795	40,092,795
Bonds payable	23,535,000,000	23,791,016,272	32,250,000,000	33,487,941,624
Loans and debts	81,271,021,861	81,507,654,409	79,991,658,625	80,176,001,241

b. Methods and assumptions used in estimating the fair values of financial instruments are as follows:

- 1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash and cash equivalents, receivables, receivables - related parties, other receivables, other financial assets - noncurrent, deposit accounts, restricted assets - noncurrent, short-term loans, commercial paper, accounts payable, accounts payable to related parties, accrued expenses, portion of current other liabilities and other liabilities - others.
- 2) Fair values of financial instruments designated as at fair value through profit or loss, available-for-sale financial assets, and derivative financial assets for hedging are based on their quoted prices in an active market. If quoted market prices are not available, fair values are estimated using valuation techniques. For those instruments which are acquired in private and could not be traded in the open market, the Company calculates their fair values by the Black-Scholes model. For those derivative financial assets for hedging and with no quoted prices, the fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments. The valuation techniques are applied to the derivative financial assets by financial institutions, which calculate fair values at the expiry date of each contract.
- 3) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Thus, no fair value is presented.
- 4) Fair values of bonds payable are based on their quoted market prices.
- 5) Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. The fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.928% to 1.068% and 0.7335% to 2.049% of June 30, 2012 and 2011, respectively, prevailing in the market for long-term debts.

The total amount of fair value listed above is not equal to the total value of the Company because it is not necessary to disclose all the fair values of financial and nonfinancial instruments.

c. Fair values of financial assets and financial liabilities determined at quoted market prices or estimates are summarized as follows:

	Quoted Market Prices		Fair Value Based on Estimates	
	June 30	June 30	June 30	June 30
	2012	2011	2012	2011
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 2,819,978,219	\$ 2,901,938,167	\$ -	\$ 373,970,000
Available-for-sale financial assets	76,037,193	119,016,645	-	-
Derivative financial assets for hedging	-	-	66,768,883	93,116,849
<u>Financial liabilities</u>				
Derivative financial liabilities for hedging	-	-	403,387,292	40,092,795
Bonds payable	10,799,604,000	14,292,903,800	12,991,412,272	19,195,037,824
Loans and debts	-	-	81,507,654,409	80,176,001,241

d. As of June 30, 2012 and 2011, loans, short-term bills payable, bonds payable and capital lease obligations at fixed rate that were exposed to fair value interest rate risk amounted to \$22,422,758,000 and \$27,541,030,000, respectively, and those at floating rate that were exposed to cash flow interest rate risks amounted to \$87,296,044,000 and \$87,757,084,000, respectively.

- e. For the six months ended June 30, 2012 and 2011, the adjustments of stockholders' equity directly credited and debited, respectively, to available-for-sale financial assets amounted to \$16,679,000 and \$1,412,000, respectively.

## 25. RISK MANAGEMENT AND HEDGING STRATEGIES

### a. Risk management strategy

The Company has risk management and hedging strategies to respond to changes in the economic and financial environment and in the fuel market. To reduce the financial risk from changes in interest and exchange rates and in fuel prices, the Company has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by Company stockholders to reduce the impact of market price changes on earnings.

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

The Company enters into forward contracts, currency option contracts, and foreign exchange swap contracts to hedge against the risks on changes in foreign-currency assets, liabilities and commitments and in the related exchange rates; enters into interest swap contracts to hedge against adverse risks on changes in net liability interest rates; enters into cross-currency swap contracts to hedge against adverse risks on interest rate and exchange rate changes; and enters into fuel swap contracts to hedge against adverse risks on fuel price changes. The Company uses derivative financial instruments with fair values that are highly negatively correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

The Company uses derivative instruments to avoid major market risks.

The following table summarizes the aggregate contractual (notional) amounts, credit risk and fair value of the derivative financial instruments of the Company as of June 30, 2012 and 2011.

Hedge	June 30					
	2012			2011		
	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
Interest rate swaps	\$ 6,645,000,000	\$ 8,268	\$ (26,816,524)	\$ 2,068,000,000	\$ -	\$ (33,021,171)
Forward exchange	1,477,611,940	16,323,925	16,123,079	724,637,681	3,014,200	900,292
Currency options						
Call	611,940,299	3,292,202	3,292,202	405,797,101	1,855,335	1,855,335
Put	611,940,299	-	(7,843,149)	405,797,101	-	(4,957,716)
Fuel swap						
Call	47,144,488	47,144,488	47,144,488	135,131,629	135,131,629	135,131,629
Put	368,518,505	-	(368,518,505)	46,884,315	-	(46,884,315)

Note: Based on the Taiwan Stock Exchange's regulation for the public companies' monthly declaration on the trading of derivative financial instruments, the contractual amounts are shown at the absolute values of fair values because fuel swap contracts only have nominal amounts.

The contract amount is used to calculate the amounts to be settled by the counter-parties; thus, it is neither the actual delivery amount nor the cash requirement of the Company. The derivative financial instruments held or issued by the Company are likely to be sold at reasonable market prices. The Company does not expect significant cash flow requirements upon contract maturity.

Credit risk refers to the loss the Company will incur on counter-parties' default on contracts. However, the Company's counter-parties are all trustworthy international and domestic financial institutions. In addition, the Company trades with several financial institutions to disperse risks. Thus, the Company does not expect to incur significant credit risks.

The fair value of each derivative contract is determined using quotes from financial institutions.

The amount of the Company's maximum exposure to the risks on all financial instruments (excluding the fair value of collaterals) is equal to the book value of these instruments.

b. Cash flow hedge

Floating-interest long-term debts, foreign-currency firm commitments and transactions and expected demand for aviation fuel may result in future cash flow fluctuations and risks due to changes in market interest and exchange rates. To hedge against these risks, the Company uses interest rate swaps, forward exchange contracts and option contracts. The cash flow hedge information is summarized as follows:

Hedged Items	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period	
	Financial Instruments Designated as Hedging Instruments	June 30, 2012			
		Nominal Amount			Fair Value
Floating-interest long-term debts	Interest rate swaps	\$ 6,645,000,000	\$ (26,816,524)	2007 to 2016	2007 to 2016
Lease cost in U.S. dollars	Forward exchange contracts	1,059,701,492	12,667,536	2011 to 2012	2011 to 2012
Fuel cost in U.S. dollars	Forward exchange contracts	417,910,448	3,455,543	2011 to 2012	2011 to 2012
Fuel cost in U.S. dollars	Currency options				
	Call	268,656,717	1,691,804	2011 to 2012	2011 to 2012
	Put	268,656,717	(3,862,794)	2011 to 2012	2011 to 2012
Lease cost in U.S. dollars	Currency options				
	Call	343,283,582	1,600,398	2011 to 2012	2011 to 2012
	Put	343,283,582	(3,980,355)	2011 to 2012	2011 to 2012
Fuel cost in U.S. dollars	Fuel swap				
	Call	47,144,488	47,144,488	2011 to 2012	2011 to 2012
	Put	368,518,505	(368,518,505)	2011 to 2012	2011 to 2012
			<u>\$ (336,618,409)</u>		

Hedged Items	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period	
	Financial Instruments Designated as Hedging Instruments	June 30, 2011			
		Nominal Amount			Fair Value
Floating-interest long-term debts	Interest rate swaps	\$ 2,068,000,000	\$ (33,021,171)	2007 to 2013	2007 to 2013
Fuel cost in U.S. dollars	Currency options				
	Call	405,797,101	1,855,335	2010 to 2011	2010 to 2011
	Put	405,797,101	(4,957,716)	2010 to 2011	2010 to 2011
Lease cost in U.S. dollars	Forward exchange contracts	144,927,536	(749,310)	2010 to 2011	2010 to 2011
Fuel cost in U.S. dollars	Forward exchange contracts	579,710,145	1,649,602	2010 to 2011	2010 to 2011
Fuel cost in U.S. dollars	Fuel swap				
	Call	135,131,629	135,131,629	2010 to 2011	2010 to 2011
	Put	46,884,315	(46,884,315)		
			<u>\$ 53,024,054</u>		



The gain or loss on cash flow hedging instruments that was recognized as adjustments to stockholders' earning is summarized as follows:

Adjustment Items	Six Months Ended June 30	
	2012	2011
Amount recognized in equity during the period	\$(205,072,507)	\$ 77,437,287
Amount removed from equity and included in profit or loss for the period	(106,917,045)	59,804,731

## 26. RELATED-PARTY TRANSACTIONS

### a. Related parties and their relationships with the Company

Related Party	Relationship with the Company
Taiwan Air Cargo Terminal	Subsidiary
Cal Park	Subsidiary
Mandarin Airlines	Subsidiary
Cal-Dynasty International	Subsidiary
Taoyuan International Airport Services	Subsidiary
China Pacific Catering Services	Subsidiary
Cal-Asia Investment	Subsidiary
China Aircraft Services	Equity-method investee
Abacus Distribution Systems (Taiwan)	Subsidiary
Taiwan Airport Services	Subsidiary
Kaohsiung Catering Services	Equity-method investee
Cal Hotel	Subsidiary
Asian Compressor Technology Services	Equity-method investee
Science Park Logistics	Equity-method investee
China Pacific Laundry Services	Subsidiary
Hwa Hsia	Subsidiary
Dynasty Holidays	Subsidiary
Yestrip	Subsidiary
Global Sky Express	Subsidiary
Freighter Princess Ltd.	Subsidiary
Freighter Prince Ltd.	Subsidiary
Freighter Queen Ltd.	Subsidiary
Yangtze River Express Airlines	Subsidiary's equity-method investee
China Aviation Development Foundation	Major stockholder (35.91%)

### b. Significant transactions with related parties, in addition to those mentioned in Note 15, are summarized as follows:

	Six Months Ended June 30			
	2012		2011	
	Amount	%	Amount	%
1) Revenues				
Mandarin Airlines	\$ 904,688,711	1.38	\$ 969,085,803	1.51
Yangtze River Express Airlines	158,465,033	0.24	215,181,268	0.34
Global Sky Express	73,085,786	0.11	88,008,884	0.14
China Aviation Development Foundation	17,515,673	0.03	23,375,329	0.04
Taiwan Air Cargo Terminal	9,467,983	0.01	7,257,449	0.01
Others	54,695,866	0.09	29,116,681	0.04
	<u>\$ 1,217,919,052</u>	<u>1.86</u>	<u>\$ 1,332,025,414</u>	<u>2.08</u>

**Six Months Ended June 30**

	2012		2011	
	Amount	%	Amount	%
2) Costs				
China Pacific Catering Services	\$ 561,649,519	0.90	\$ 488,520,569	0.81
Taoyuan International Airport Services	486,363,572	0.78	473,908,745	0.79
Taiwan Airport Services	183,285,208	0.29	174,583,970	0.29
Mandarin Airlines	150,259,312	0.24	126,200,374	0.21
Hwa Hsia	132,626,656	0.21	124,947,290	0.21
Taiwan Air Cargo Terminal	132,163,845	0.21	138,619,510	0.23
Cal Park	106,509,598	0.17	106,509,598	0.18
China Aircraft Services	98,432,921	0.16	93,103,965	0.15
Kaohsiung Catering Services	67,374,306	0.11	56,627,083	0.09
Cal Hotel	46,169,896	0.07	41,339,497	0.07
China Pacific Laundry Services	35,122,613	0.06	36,845,190	0.06
Dynasty Holidays	32,602,180	0.05	24,551,309	0.04
China Aviation Development Foundation	28,735,515	0.05	37,239,140	0.06
Yangtze River Express Airlines.	16,218,993	0.03	23,720,261	0.04
Cal-Dynasty International	15,511,039	0.02	17,777,778	0.03
Science Park Logistics	13,158,348	0.02	23,223,654	0.04
Others	<u>4,382,983</u>	<u>0.02</u>	<u>15,876,750</u>	<u>0.03</u>
	<u>\$ 2,110,566,504</u>	<u>3.39</u>	<u>\$ 2,003,594,683</u>	<u>3.33</u>
3) Notes and accounts receivables - related parties				
Mandarin Airlines	\$ 300,368,617	86.10	\$ 309,785,667	71.99
Yangtze River Express Airlines	16,295,523	4.67	89,900,988	20.89
Yestrip	13,392,022	3.84	11,178,667	2.60
Global Sky Express	6,319,646	1.81	8,335,921	1.94
Asian Compressor Technology Services	4,758,955	1.36	162,511	0.04
China Aviation Development Foundation	2,817,410	0.81	6,936,729	1.61
Others	<u>4,919,152</u>	<u>1.41</u>	<u>4,006,705</u>	<u>0.93</u>
	<u>\$ 348,871,325</u>	<u>100.00</u>	<u>\$ 430,307,188</u>	<u>100.00</u>
4) Accounts payable to related parties				
China Pacific Catering Services	\$ 301,523,857	26.08	\$ 330,676,756	24.33
Mandarin Airlines	265,313,865	22.95	374,908,020	27.58
Taoyuan International Airport Services	262,583,901	22.71	222,837,502	16.39
Hwa Hsia	68,060,035	5.89	51,148,109	3.76
Taiwan Airport Services	65,189,154	5.64	61,326,096	4.51
Cal Park	53,254,800	4.61	55,917,540	4.11
Taiwan Air Cargo Terminal	31,354,964	2.71	29,418,317	2.16
China Aircraft Services	30,695,000	2.65	31,790,536	2.34
Kaohsiung Catering Services	22,156,229	1.92	21,220,952	1.56
Yangtze River Express Airlines	14,148,037	1.22	141,128,819	10.38
China Pacific Laundry Services	12,297,713	1.06	13,342,322	0.98
China Aviation Development Foundation	12,062,993	1.04	9,857,238	0.73
Cal Hotel	11,491,448	0.99	5,897,225	0.43
Others	<u>6,136,598</u>	<u>0.53</u>	<u>9,779,620</u>	<u>0.74</u>
	<u>\$ 1,156,268,594</u>	<u>100.00</u>	<u>\$ 1,359,249,052</u>	<u>100.00</u>
5) Lease of property and equipment				

In December 2008, the Company rents out planes to Mandarin Airlines under an annual operating leasing contract. The rent is received monthly based on this contract. The rental rate was adjusted in August 2009. As of June 30, 2012 and 2011, the monthly rentals received amounted to \$607,080,000 and \$508,914,000, respectively.

For expanded passenger service, the Company rents planes from Mandarin Airlines under an operating lease agreement. The Company pays rental based on flight hours. In the six months ended June 30, 2012 and 2011, the Company paid hourly flight rentals of about \$113,360,000 and \$86,989,000, respectively.

For airplane pilot training, the Company rents flight training machines and flight simulators from China Aviation Development Foundation under an operating lease agreement. The Company pays rental based on usage hours. For the six months ended June 30, 2012 and 2011, the Company paid usage rentals of about \$28,736,000 and \$37,239,000, respectively.

In March 2010, the Company signed with CAL Park a one-year renewable operating lease agreement to use the Operating and Aviation Headquarters building of the Taiwan Taoyuan International Airport at a fixed rental of \$17,752,000 monthly. In the six months ended June 30, 2012 and 2011, the Company paid rentals of \$106,510,000.

6) Endorsements and guarantees

	June 30			
	2012		2011	
	Authorized Amount	Occupied Amount	Authorized Amount	Occupied Amount
<u>The Company</u>				
Cal Park	\$ 3,400,000,000	\$ 3,320,000,000	\$ 3,400,000,000	\$ 3,320,000,000
Freighter Princess Ltd.	-	-	28,236,509	28,236,509
Freighter Prince Ltd.	329,237,207	329,237,207	338,144,512	338,144,512
Freighter Queen Ltd.	251,563,824	251,563,824	284,293,927	284,293,927
Cal Hotel	180,000,000	132,438,000	180,000,000	153,349,500
Taiwan Air Cargo Terminal	1,080,000,000	-	-	-
<u>Cal Asia</u>				
Taikoo Spirit Aerospace Systems (Jinjiang) Composite	16,277,612	12,810,478	15,805,797	15,430,406

As of June 30, 2012 and 2011, U.S. Treasury Bills amounting to US\$580,801,000 and US\$650,750,000 had been pledged as collateral for financing lease transaction of Freighter Princess Ltd., Freighter Queen Ltd. and Freighter Princess Ltd. and were included in restricted assets - noncurrent.

The transactions between the Company and related parties refer to the air transportation industry. The transaction price is negotiated under a regular transaction process, and the term of making collections and payments for receivables and payables is from 30 days to 2 months, which is consistent with credit policy.

7) Bonds payable to related parties

Related parties invested the private unsecured bonds (Note 15) are summarized as follows:

Related Parties	June 30, 2012	
	Units	Par/Dollars
<u>The first issue of private unsecured bonds in 2012</u>		
Taoyuan International Airport Services	100	\$ 100,000,000
Mandarin Airlines	280	280,000,000
Abacus Distribution Systems (Taiwan)	60	60,000,000

(Continued)

<b>Related Parties</b>	<b>June 30, 2012</b>	
	<b>Units</b>	<b>Par/Dollars</b>
<u>The first issue of private unsecured bonds in 2010</u>		
Taoyuan International Airport Services	300	\$ 300,000,000
Mandarin Airlines	300	300,000,000
Abacus Distribution Systems (Taiwan)	60	60,000,000
China Pacific Catering Services	40	40,000,000
Hwa Hsia	10	10,000,000
		(Concluded)

<b>Related Parties</b>	<b>June 30, 2011</b>	
	<b>Units</b>	<b>Par/Dollars</b>
<u>The first issue of private unsecured bonds in 2010</u>		
Taoyuan International Airport Services	300	\$ 300,000,000
Mandarin Airlines	300	300,000,000
Abacus Distribution Systems (Taiwan)	60	60,000,000
China Pacific Catering Services	40	40,000,000
Hwa Hsia	10	10,000,000

In the six months ended June 30, 2012 and 2011, interest expenses were \$14,005,000 and \$9,804,000, respectively. As of June 30, 2012 and 2011, interests payable were \$6,601,000 and \$2,454,000, respectively.

## 27. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collateral for long-term and short-term bank loans, business transactions and financing lease transaction of subsidiary:

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
Restricted assets - noncurrent		
U.S. Treasury Bills	\$ 580,801,031	\$ 650,674,948
Pledged certificates of deposit	-	7,250,000
Properties - land and flight equipment (net)	<u>101,450,783,426</u>	<u>105,273,351,463</u>
	<u>\$ 102,031,584,457</u>	<u>\$ 105,931,276,411</u>

## 28. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2012, significant commitments and contingent liabilities of the Company were as follows:

- In 2009, the Securities and Futures Investors Protection Center (SFIPC) filed a civil lawsuit against Far East Air Transport Ltd. (FEAT) and its executives, directors and supervisors (natural persons) because of allegedly false financial statement for period starting from the second quarter of 2005 to the third quarter of 2007; the filing was based on Article 20 and Article 20 - 1 of the Securities and Exchange Act; Article 23 of the Company Act; and Articles 28, 184 and 185 of the Civil Code. In this lawsuit, the SFIPC imposed joint and several liability on FEAT'S executives, directors, and supervisors for them to give a total compensation of \$297,061,000 to the investors of FEAT. Later, in January 2010,

SFIPC included in its lawsuit the directors and supervisors who are legal persons of FEAT (including the Company) as joint defendants. As of August 9, 2011, the date of the accompanying auditors' report, there were 36 joint defendants in this lawsuit. Although the case is still under review by the Taipei District Court, the Company believes this case will have no material impact on its financial and sales operations.

- b. The Company leased certain flight equipment, hangar and headquarters building under various operating lease agreements expiring on various dates until January 2024. Lease deposits aggregated \$9,843,211,000.

Future lease payments are summarized as follows:

Period/Year	Amount
July to December in 2012	\$ 2,863,895,666
2013	4,967,721,753
2014	4,298,644,280
2015	3,380,969,307
2016	2,688,322,978
2017	2,586,244,696

Rentals from 2018 and on will aggregate \$6,555,522,000. The present value of these rentals, discounted using the discount interest rate 1.37% for one-year time deposits of Chunghwa Post Co., Ltd., is \$6,062,168,000

- c. In January 2008, the Company entered into a contract to buy from Airbus fourteen A350-900 aircraft, with the option to buy six more A350-900 aircraft, with aggregate purchase prices of US\$3,933,235,000 and US\$1,802,645,000, respectively. As of June 30, 2012, the Company had paid about US\$119,197,000, which was included in the "prepayments for equipment" in the properties section of the balance sheets.

## 29. EXCHANGE RATE INFORMATION OF FOREIGN CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant foreign currency financial assets and liabilities were as follows:

(Unit: Foreign Currencies/New Taiwan Dollars)

	June 30					
	2012			2011		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 84,042,944	29.8507	\$ 2,508,740,708	\$ 149,207,890	28.9855	\$ 4,324,865,296
EUR	14,976,288	37.4532	560,909,910	20,897,007	41.4938	867,096,229
HKD	269,200,760	3.8521	1,036,988,248	266,339,018	3.7216	991,207,289
JPY	1,791,588,889	0.3769	675,249,852	3,146,221,119	0.3611	1,136,100,446
RMB	962,695,239	4.6992	4,523,897,467	964,206,857	4.4823	4,321,864,395
Foreign operating entity						
USD	1,390,534,493	29.8507	41,508,427,990	1,277,233,085	28.9855	37,021,239,585
Investments accounted for using the equity method						
USD	49,150,718	29.8507	1,467,185,612	47,423,069	28.9855	1,374,581,710
HKD	100,150,011	3.8521	385,785,866	97,988,345	3.7216	364,675,642
JPY	99,132,061	0.3769	37,361,799	101,387,876	0.3611	36,615,340
<u>Financial liabilities</u>						
Monetary items						
USD	180,906,988	29.8507	5,400,200,227	187,332,484	28.9855	5,429,925,715
EUR	6,845,289	37.4532	256,377,978	8,821,402	41.4938	366,033,285
HKD	61,881,310	3.8521	238,372,994	58,743,489	3.7216	218,619,769
JPY	4,001,965,902	0.3769	1,508,340,948	5,983,534,353	0.3611	2,160,654,255
RMB	303,293,039	4.6992	1,425,234,649	209,275,750	4.4823	938,036,694

### **30. ADDITIONAL DISCLOSURES**

a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:

1) Financing provided: None

2) Endorsement/guarantee provided: Table 1 (attached)

3) Marketable securities held: Table 2 (attached)

4) Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)

5) Acquisition of individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None

6) Disposal of individual real estates at cost or prices of at least NT\$100 million or 20% of the paid-in capital: None

7) Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)

8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)

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

10) Derivative financial transactions (Note 25)

b. Investments in Mainland China: Table 7 (attached)

### **31. OPERATING SEGMENT FINANCIAL INFORMATION**

The Company mainly engages in air transportation services for passengers, cargo and others. The major revenue-generating asset is the aircraft fleet, which is jointly used for passenger and cargo services. Thus, the Company's sole reportable segment is flight segment. For operating segment reporting in the consolidated financial statements, the reportable segment of the Company and its consolidated subsidiaries comprises the flight and the non-flight business departments.

CHINA AIRLINES, LTD. AND INVESTEEES

ENDORSEMENT/GUARANTEE PROVIDED  
SIX MONTHS ENDED JUNE 30, 2012  
(In New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship						
0	China Airlines	Cal Park	100% subsidiary	\$ 10,416,282,279	\$ 3,400,000,000	\$ 3,400,000,000	\$ -	6.53	\$ 26,040,705,697
		Taiwan Air Cargo Terminal	54% subsidiary	10,416,282,279	1,080,000,000	1,080,000,000	-	2.07	26,040,705,697
		Freighter Princess Ltd.	100% subsidiary	10,416,282,279	28,821,289	-	-	-	26,040,705,697
		Freighter Prince Ltd.	100% subsidiary	10,416,282,279	329,237,207	329,237,207	329,237,207	0.63	26,040,705,697
		Freighter Queen Ltd.	100% subsidiary	10,416,282,279	251,563,824	251,563,824	251,563,824	0.48	26,040,705,697
		Cal Hotel	100% subsidiary	10,416,282,279	180,000,000	180,000,000	-	0.35	26,040,705,697
1	Cal Asia	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	Investments accounted for by the cost method	84,928,472	16,277,612	16,277,612	-	3.83	212,321,179

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

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

## CHINA AIRLINES, LTD. AND INVESTEEES

## MARKETABLE SECURITIES HELD

JUNE 30, 2012

(In New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2012				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines	<u>Stock</u>							
	Taiwan Air Cargo Terminal	Subsidiary	Investments accounted for by the equity method	135,000,000	\$ 1,579,678,916	54.00	\$ 1,579,678,916	-
	Cal Park	Subsidiary	Investments accounted for by the equity method	150,000,000	1,465,448,692	100.00	1,465,448,692	-
	Mandarin Airlines	Subsidiary	Investments accounted for by the equity method	188,154,025	1,107,513,434	93.99	1,235,063,661	Note 1
	Cal-Dynasty International	Subsidiary	Investments accounted for by the equity method	2,614,500	1,042,543,254	100.00	1,042,543,254	-
	Taoyuan International Airport Services	Subsidiary	Investments accounted for by the equity method	34,300,000	663,918,263	49.00	663,918,263	-
	China Pacific Catering Services	Subsidiary	Investments accounted for by the equity method	43,911,000	618,651,376	51.00	618,651,376	-
	Cal-Asia Investment	Subsidiary	Investments accounted for by the equity method	46,516,200	424,642,358	100.00	424,642,358	-
	China Aircraft Service	Equity-method investees	Investments accounted for by the equity method	28,400,000	385,785,866	20.00	339,028,703	Notes 2 and 5
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments accounted for by the equity method	13,021,042	346,500,613	93.93	346,500,613	-
	Taiwan Airport Services	Subsidiary	Investments accounted for by the equity method	20,626,644	305,141,889	47.35	305,141,889	-
	Kaohsiung Catering Services	Equity-method investees	Investments accounted for by the equity method	14,329,759	214,372,183	35.78	215,792,520	Note 2
	Cal Hotel	Subsidiary	Investments accounted for by the equity method	46,500,000	198,174,527	100.00	198,174,527	-
	Asian Compressor Technology Services	Equity-method investees	Investments accounted for by the equity method	7,732,200	191,621,008	24.50	191,621,008	Note 5
	Science Park Logistics	Equity-method investees	Investments accounted for by the equity method	13,293,000	177,462,853	28.48	170,376,314	Note 2
	China Pacific Laundry Services	Subsidiary	Investments accounted for by the equity method	13,750,000	148,759,231	55.00	148,759,231	-
	Hwa Hsia	Subsidiary	Investments accounted for by the equity method	50,000	97,575,518	100.00	108,485,155	Note 1
	Dynasty Holidays	Subsidiary	Investments accounted for by the equity method	408	37,361,799	51.00	37,361,799	-
	Yestrip	Subsidiary	Investments accounted for by the equity method	1,600,000	27,447,814	100.00	27,447,814	-
	Global Sky Express	Subsidiary	Investments accounted for by the equity method	250,000	6,572,487	25.00	6,572,487	-
	Freighter Princess Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	35,088	100.00	35,088	-
	Freighter Prince Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	34,602	100.00	34,602	-
	Freighter Queen Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	32,895	100.00	32,895	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss - current	12,636,000	207,862,200	-	207,862,200	-
	China Life Insurance Co., Ltd.	-	Financial assets at fair value through profit or loss - current	29,137,529	810,023,306	-	810,023,306	-
	France Telecom	-	Available-for-sale financial asset - current	195,587	76,037,193	-	76,037,193	-
	Abacus International Holdings Ltd. - unlisted common stock	-	Financial assets at cost - noncurrent	1,359,368	297,946,451	13.59	236,265,760	Notes 3 and 6
	Abacus International Holdings Ltd. - unlisted preferred stock	-	Financial assets at cost - noncurrent	135,937	472,522	-	-	Notes 3 and 6
	Chung Hua Express Co.	-	Financial assets at cost - noncurrent	1,100,000	11,000,000	11.00	14,633,474	Note 5
Jardine Air Terminal Services	-	Financial assets at cost - noncurrent	12,000,000	56,022,929	15.00	51,003,467	Note 7	
Regal International Advertising	-	Financial assets at cost - noncurrent	592,500	5,925,000	6.58	229,938	Note 8	
Far Eastern Air Transport	-	Financial assets at cost - noncurrent	5,727	-	-	-	-	
	<u>Beneficial certificates</u>							
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	41,366,839.91	501,006,208	-	501,006,208	-
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at fair value through profit or loss - current	41,840,634.40	550,509,779	-	550,509,779	-
	Taishin Ta Chong Money Market Fund	-	Financial assets at fair value through profit or loss - current	29,134,403.70	400,382,456	-	400,382,456	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	26,769,373.67	350,194,270	-	350,194,270	-
Taiwan Air Cargo Terminal	<u>Beneficial certificates</u>							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,152,710.27	80,489,140	-	80,489,140	-

(Continued)



Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2012				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Mandarin Airlines	<u>Stock</u>							
	China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	\$ 27,800,015	-	\$ 27,800,015	-
	France Telecom	-	Available-for-sale financial asset - current	8,274	3,216,634	-	3,216,634	-
	<u>Bond</u>							
	First Issue of Private Unsecured Bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - current	300	300,000,000	-	300,000,000	-
Taoyuan International Airport Services	First Issue of Private Unsecured Bonds in 2012 - China Airlines	Parent company	Bond investments with no active market - noncurrent	280	280,000,000	-	280,000,000	-
	<u>Stock</u>							
China Pacific Catering Services	Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	73,133,283	-
	<u>Bond</u>							
	First Issue of Private Unsecured Bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - current	300	300,000,000	-	300,000,000	-
Cal-Asia Investment	First Issue of Private Unsecured Bonds in 2012 - China Airlines	Parent company	Bond investments with no active market - noncurrent	100	100,000,000	-	100,000,000	-
	<u>Beneficial certificates</u>							
	HSBC NTD Money Market Fund II	-	Available-for-sale financial asset - current	6,398,578	93,875,453	-	93,875,453	-
	JF (Taiwan) Taiwan Money Market Fund	-	Available-for-sale financial asset - current	6,043,301	96,403,938	-	96,403,938	-
	FSITC Money Market Fund	-	Available-for-sale financial asset - current	164,475	28,403,747	-	28,403,747	-
Abacus Distribution Systems (Taiwan)	<u>Bond</u>							
	First Issue of Private Unsecured Bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - current	40	40,000,000	-	40,000,000	-
	<u>Stock</u>							
	Xiamen International Airport Air Cargo Terminal	Equity-method investee	Investments accounted for by the equity method	-	221,327,463	14.00	219,424,804	Notes 2 and 4
	Xiamen International Airport Air Cargo Storage	Equity-method investee	Investments accounted for by the equity method	-	87,881,701	14.00	41,085,613	Notes 2 and 4
	Eastern United International Logistics	Equity-method investee	Investments accounted for by the equity method	1,050,000	23,295,164	35.00	27,380,239	Note 9
	Yangtze River Express Airlines	Equity-method investee	Investments accounted for by the equity method	-	-	25.00	(1,404,731,463)	Notes 4 and 5
Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	64,214,925	8.00	35,800,000	Note 10	
Abacus Distribution Systems (Taiwan)	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	18,985,075	5.45	10,542,472	Note 10
	<u>Beneficial certificates</u>							
	Mirae Asset Solomon Money Market Fund	-	Financial assets at fair value through profit or loss - current	265,726.48	3,245,396	-	3,245,396	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,931,482.60	28,571,230	-	28,571,230	-
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,818,299.60	37,081,182	-	37,081,182	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,093,687.15	40,471,177	-	40,471,177	-
	Taishin Ta Chong Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,600,861.60	22,000,000	-	22,000,000	-
	Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,072,443.10	30,385,129	-	30,385,129	-
	Mega Diamond Money Market fund	-	Financial assets at fair value through profit or loss - current	3,661,438.47	44,344,694	-	44,344,694	-
	<u>Bond</u>							
First Issue of Private Unsecured Bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - current	60	60,000,000	-	60,000,000	-	
First Issue of Private Unsecured Bonds in 2012 - China Airlines	Parent company	Bond investments with no active market - noncurrent	60	60,000,000	-	60,000,000	-	

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2012				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Taiwan Airport Services	<u>Stock</u>							
	TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,265,182	\$ 38,734,612	0.40	\$ 38,734,612	-
	Taiwan Airport Service (Samoa)	Subsidiary	Investments accounted for by the equity method	-	306,693,447	100.00	306,693,447	Note 4
	Titan V.C. Corp.	-	Financial assets carried at cost - noncurrent	1,448,171	2,065,210	5.30	7,993,904	Note 5
	Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	73,133,283	-
	<u>Beneficial certificates</u>							
	Fuh-Hwa Money Market Fund	-	Financial assets at fair value through profit or loss - current	123,426.00	1,728,386	-	1,728,386	-
	Prudential Financial Global Small & Mid Cap Fund	-	Financial assets at fair value through profit or loss - current	84,320.00	2,232,794	-	2,232,794	-
	Prudential Financial High-Tech Fund	-	Financial assets at fair value through profit or loss - current	118,970.00	1,707,220	-	1,707,220	-
	Prudential Financial Taiwan Enterprise Fund	-	Financial assets at fair value through profit or loss - current	55,300.00	1,127,014	-	1,127,014	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,699,435.00	48,395,638	-	48,395,638	-
	Taishin Ta Chong Money Market Fund	-	Financial assets at fair value through profit or loss - current	805,928.00	11,075,552	-	11,075,552	-
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	492,164.00	7,044,196	-	7,044,196	-
	Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,575,284.00	23,096,032	-	23,096,032	-
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	469,881.00	6,006,860	-	6,006,860	-
	Polaris De-Bao Money Market Fund	-	Financial assets at fair value through profit or loss - current	516,921.00	6,012,664	-	6,012,664	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	405,795.00	6,002,678	-	6,002,678	-
	Paradigm Pion Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,433,550.00	16,031,968	-	16,031,968	-
	Hwa Hsia	<u>Stock</u>						
Hwa Shin Building Safeguard		Subsidiary	Investments accounted for by the equity method	1,000,000	15,696,870	100.00	15,696,870	Note 5
China Airlines		Parent company	Available-for-sale financial asset - current	814,152	10,909,637	-	10,909,637	-
<u>Beneficial certificates</u>								
Taishin Ta Chong Money Market Fund		-	Financial assets at fair value through profit or loss - current	1,404,287.30	18,370,746	-	18,370,746	-
Taishin 1699 Money Market Fund		-	Financial assets at fair value through profit or loss - current	349,522.71	4,803,351	-	4,803,351	-
Yuanta Taiwan Stock Index Fund		-	Financial assets at fair value through profit or loss - current	200,000.00	1,647,200	-	1,647,200	-
<u>Bond</u>								
First Issue of Private Unsecured Bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - current	10	10,000,000	-	10,000,000	-	
Taiwan Airport Service (Samoa)	<u>Stock</u>							
	Xiamen International Airport Air Cargo Terminal	Equity-method investee	Investments accounted for by the equity method	-	219,419,672	14.00	219,424,804	Notes 2 and 4
	Xiamen International Airport Air Cargo Storage	Equity-method investee	Investments accounted for by the equity method	-	87,249,821	14.00	41,085,613	Notes 2 and 4

Note 1: Based on the ROC Statement of Financial Accounting Standards No. 30 - "Accounting for Treasury Stocks," Company shares held by subsidiaries are reclassified from investment in shares of stocks to treasury stocks. In addition, the difference between the carrying value and net asset value of Mandarin Airlines is due to the difference between the investment acquisition cost and the Company's equity in the investee's net assets.

Note 2: The difference between carrying value and net asset value was the difference between the investment acquisition cost and the Company's equity in the investee's net assets.

Note 3: The subsidiary's net asset value was \$236,265,760, which included common stock and preferred stock as of June 30, 2012.

Note 4: The Company was established as a limited company.

(Continued)

Note 5: The net asset value was calculated using the investee's unaudited financial statements as of and for the six months ended June 30, 2012 because these were the most recent financial statements available.

Note 6: The net asset value was calculated using the investee's audited financial statements as of and for the year ended December 31, 2011 because these were the most recent financial statements available.

Note 7: The net asset value was calculated using the investee's unaudited financial statements as of and for the year ended December 31, 2011 because these were the most recent financial statements available.

Note 8: The net asset value was calculated using the investee's unaudited financial statements as of and for the three months ended March 31, 2012 because these were the most recent financial statements available.

Note 9: The net asset value was calculated using the investee's unaudited financial statements as of and for the four months ended April 30, 2012 because these were the most recent financial statements available.

Note 10: The net asset value was calculated using the investee's unaudited financial statements as of and for the five months ended May 31, 2012 because these were the most recent financial statements available.

(Concluded)

## CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 2012  
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Issuer/Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units	Amount	Shares/Units	Amount (Note)	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
China Airlines	<u>Beneficial certificates</u> Eastspring Investments Well Pool Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	\$ -	41,840,634.40	\$ 550,509,779	-	\$ -	\$ -	\$ -	41,840,634.40	\$ 550,509,779
	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	124,610,923.61	1,500,000,000	91,058,068.20	1,101,006,208	174,302,151.90	2,106,618,721	2,100,000,000	6,618,721	41,366,839.91	501,006,208
	Taishin Ta Chong Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	29,236,561.70	400,000,000	51,025,662.50	700,382,456	51,127,820.50	701,374,253	700,000,000	1,374,253	29,134,403.70	400,382,456
	Taishin 1699 Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	69,097,779.07	900,000,000	126,389,635.14	1,650,194,270	168,718,040.54	2,204,110,972	2,200,000,000	4,110,972	26,769,373.67	350,194,270
	Yuanta Wan Tai Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	13,687,754.90	200,000,000	13,687,754.90	200,580,360	200,000,000	580,360	-	-
	Jih Sun Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	14,032,232.04	200,000,000	14,012,372.93	200,000,000	28,044,604.97	400,479,763	400,000,000	479,763	-	-
	PCA Well Pool Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	15,252,272.60	200,000,000	15,252,272.60	200,356,903	200,000,000	356,903	-	-
	FSITC Taiwan Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	13,557,299.90	200,000,000	13,557,299.90	200,231,829	200,000,000	231,829	-	-
	Polaris De-Bao Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	34,467,786.30	400,000,000	34,467,786.30	400,477,529	400,000,000	477,529	-	-
Mandarin Airlines	<u>Bond</u> First Issue of Private Unsecured Bonds in 2012 - China Airlines	Bond investments with no active market - noncurrent	China Airlines	Parent company	-	-	280	280,000,000	-	-	-	-	280	280,000,000
Taoyuan International Airport Services	<u>Bond</u> First Issue of Private Unsecured Bonds in 2012 - China Airlines	Bond investments with no active market - noncurrent	China Airlines	Parent company	-	-	100	100,000,000	-	-	-	-	100	100,000,000

Note: Including valuation gain or loss on financial assets at the end of the period.

## CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 2012  
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note	
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total		
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 132,163,845	0.21	30 days	\$ -	-	\$ (31,354,964)	(1.74)	-	
	Taoyuan International Airport Services	Subsidiary	Purchase	486,363,572	0.78	40 days	-	-	(262,583,901)	(14.61)	-	
	China Pacific Catering Services	Subsidiary	Purchase	561,649,519	0.90	60 days	-	-	(301,523,857)	(16.78)	-	
	Mandarin Airlines	Subsidiary	Sale	(904,688,711)	(1.38)	2 months	-	-	300,368,617	3.79	-	
				Purchase	150,259,312	0.24	2 months	-	-	(265,313,865)	(14.76)	-
	Taiwan Airport Services	Subsidiary	Purchase	183,285,208	0.29	40 days	-	-	(65,189,154)	(3.63)	-	
	Hwa Hsia	Subsidiary	Purchase	132,626,656	0.21	2 months	-	-	(68,060,035)	(3.79)	-	
	Yangtze River Express Airlines	Subsidiary's equity-method investee	Sale	(158,465,033)	(0.24)	2 months	-	-	16,295,523	0.21	-	
	Cal Park	Subsidiary	Purchase	106,509,598	0.17	2 months	-	-	(53,254,800)	(2.96)	-	
Taiwan Air Cargo Terminal	China Airlines	Parent company	Sale	(132,163,845)	(19.75)	30 days	-	-	31,354,964	39.24	-	
Taoyuan International Airport Services	China Airlines	Parent company	Sale	(486,363,572)	(40.94)	30 days	-	-	262,583,901	62.56	-	
China Pacific Catering Services	China Airlines	Parent company	Sale	(561,649,519)	(57.84)	60 days	-	-	301,523,857	71.88	-	
Mandarin Airlines	China Airlines	Parent company	Purchase	904,688,711	27.42	2 months	-	-	(300,368,617)	(77.44)	-	
			Sale	(150,259,312)	(4.23)	2 months	-	-	265,313,865	67.51	-	
Taiwan Airport Services	China Airlines	Parent company	Sale	(183,285,208)	(39.52)	45 days	-	-	65,189,154	41.50	-	
Hwa Hsia	China Airlines	Parent company	Sale	(132,626,656)	(85.59)	2 months	-	-	68,060,035	91.16	-	
Yangtze River Express Airlines	China Airlines	Parent company of stockholder using equity-method	Purchase	158,465,033	3.22	2 months	-	-	(16,295,523)	(1.60)	-	
Cal Park	China Airlines	Parent company	Sale	(106,509,598)	(72.16)	2 months	-	-	53,254,800	71.17	-	

**CHINA AIRLINES, LTD. AND INVESTEEES**

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

**JUNE 30, 2012**

**(In New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 300,368,617	6.90	\$ -	-	\$ 281,545,597	\$ -
Mandarin Airlines	China Airlines	Parent company	265,313,865	1.37	-	-	251,094,687	-
Taoyuan International Airport Services	China Airlines	Parent company	262,583,901	3.72	-	-	117,136,208	-
China Pacific Catering Services	China Airlines	Parent company	301,523,857	3.99	-	-	99,369,567	-

## CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
SIX MONTHS ENDED JUNE 30, 2012  
(In New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2012			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2012	June 30, 2011	Shares	Percentage of Ownership	Carrying Value			
China Airlines, Ltd. (the "Company")	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	\$ 1,350,000,000	\$ 1,350,000,000	135,000,000	54.00	\$ 1,579,678,916	\$ (61,874,487)	\$ (33,412,223)	-
	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	1,500,000,000	1,500,000,000	150,000,000	100.00	1,465,448,692	(739,329)	(739,329)	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate and hotel services	US\$ 26,145,000	US\$ 26,145,000	2,614,500	100.00	1,042,543,254	7,917,448	7,917,448	Note 2
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368,252	2,042,368,252	188,154,025	93.99	1,107,513,434	(62,134,168)	(41,966,566)	Note 1
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000,000	147,000,000	34,300,000	49.00	663,918,263	64,827,560	31,765,505	-
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110,000	439,110,000	43,911,000	51.00	618,651,376	152,539,027	78,701,963	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000,000	HK\$ 58,000,000	28,400,000	20.00	385,785,866	40,031,653	8,006,331	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 46,516,200	US\$ 45,476,200	46,516,200	100.00	424,642,358	14,968,723	14,968,723	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200,000	52,200,000	13,021,042	93.93	346,500,613	73,130,841	68,695,369	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289,100	12,289,100	20,626,644	47.35	305,141,889	33,896,291	16,027,969	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240,221	140,240,221	14,329,757	35.78	214,372,183	78,427,758	28,061,195	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	150,654,000	150,654,000	13,293,000	28.48	177,462,853	46,874,284	13,352,114	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50	191,621,008	236,012,684	57,823,107	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants, and health clubs	137,500,000	137,500,000	13,750,000	55.00	148,759,231	18,051,669	9,928,418	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00	97,575,518	16,612,802	16,612,802	Note 1
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000,000	465,000,000	46,500,000	100.00	198,174,527	(4,887,191)	(4,887,191)	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00	37,361,799	565,987	288,653	-
	Yestrip	Taipei, Taiwan	Travel business	26,264,643	36,264,643	1,600,000	100.00	27,447,814	5,621,213	5,621,213	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00	6,572,487	2,714,886	678,722	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	35,088	-	-	-
Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	34,602	-	-	-	
Freighter Queen Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	32,895	-	-	-	
Cal-Asia Investment	Xiamen International Airport Air Cargo Terminal	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 4,117,846	US\$ 4,117,846	-	14.00	221,327,463	57,173,133	8,004,243	Note 4
	Xiamen International Airport Air Cargo Storage	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 1,947,441	US\$ 1,947,441	-	14.00	87,881,701	32,619,110	4,566,677	Note 4
	Eastern United International Logistics Yangtze River Express Airlines	Hong Kong Shanghai, China	Forwarding and storage of air cargo	HK\$ 3,329,268	HK\$ 3,329,268	1,050,000	35.00	23,295,164	2,271,265	2,810,564	Note 5
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Forwarding and storage of air cargo	US\$ 38,796,173	US\$ 38,796,173	-	25.00	-	(895,789,826)	-	Notes 3 and 4
	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,876,976	US\$ 5,876,976	-	100.00	306,693,447	12,570,920	12,570,920	Note 4
Hwa Hsia	Hwa Shin Building Safeguard	Taoyuan, Taiwan	Building security and maintenance services	10,000,000	10,000,000	1,000,000	100.00	15,696,870	3,123,209	4,326,609	Note 5
Taiwan Airport Service (Samoa)	Xiamen International Airport Air Cargo Terminal	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 3,950,226	US\$ 3,950,226	-	14.00	219,419,672	57,173,133	8,004,243	Notes 4 and 5
	Xiamen International Airport Air Cargo Storage	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 1,926,750	US\$ 1,926,750	-	14.00	87,249,821	32,619,110	4,566,677	Note 4

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

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

Note 3: The Company did not recognize an income on this investment. Based on Statement of Financial Accounting Standards No. 5 - "Long-term Investments under the Equity Method," the recognized book value of the investment was zero; thus, the Company let go of this investment.

Note 4: The investee was established as a limited company.

Note 5: The investee could not provide its financial statements in time; thus, the Company estimated its investment income.

## CHINA AIRLINES, LTD. AND INVESTEEES

## INVESTMENTS IN MAINLAND CHINA

SIX MONTHS ENDED JUNE 30, 2012

(In New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2012	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2012	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 4)	Carrying Value as of June 30, 2012	Accumulated Inward Remittance of Earnings as of June 30, 2012
					Outflow	Inflow					
Xiamen International Air Cargo Terminal	Forwarding and storage of air cargo	\$ 1,054,887,218 (RMB 224,480,000)	Indirect (Note 1)	\$ 122,920,776 (US\$ 4,117,846)	\$ -	\$ -	\$ 122,920,776 (US\$ 4,117,846)	14.00%	\$ 8,004,243 (US\$ 269,743)	\$ 221,327,463 (US\$ 7,414,470)	\$ 56,018,279 (US\$1,887,816) (Note 5)
Xiamen International Airport Air Cargo Storage	Forwarding and storage of air cargo	65,789,474 (RMB 14,000,000)	Indirect (Note 1)	58,132,567 (US\$ 1,947,441)	-	-	58,132,567 (US\$ 1,947,441)	14.00%	4,566,677 (US\$ 153,897)	87,881,701 (US\$ 2,944,037)	-
Taikoo (Xiamen) Landing Gear Services	Maintenance services of landing gear	802,686,567 (US\$ 26,890,000)	Indirect (Note 1)	33,170,149 (US\$ 1,111,200)	30,409,357 (US\$ 1,040,000)	-	63,579,506 (US\$ 2,151,200)	8.00%	-	64,214,925 (US\$ 2,151,200)	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	388,540,977 (RMB 82,681,520)	Indirect (Note 1)	18,985,075 (US\$ 636,000)	-	-	18,985,075 (US\$ 636,000)	5.45%	-	18,985,075 (US\$ 636,000)	-
Yangtze River Express Airlines	Forwarding and storage of air cargo	2,349,624,060 (RMB 500,000,000)	Indirect (Note 1)	1,158,094,716 (US\$ 38,796,173)	-	-	1,158,094,716 (US\$ 38,796,173)	25.00%	-	-	-
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	92,537,313 (US\$ 3,100,000)	Indirect (Note 2)	7,402,985 (US\$ 248,000)	-	-	7,402,985 (US\$ 248,000)	8.00%	-	7,402,985 (US\$ 248,000)	-
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	29,850,746 (US\$ 1,000,000)	Indirect (Note 3)	5,119,403 (US\$ 171,500)	-	-	5,119,403 (US\$ 171,500)	17.15%	-	5,119,403 (US\$ 171,500)	-

Accumulated Investment in Mainland China as of June 30, 2012	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,434,235,028 (US\$48,068,160)	\$1,440,713,622 (Note 6)	\$31,248,846,837 (Note 7)

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

Note 2: The Company invested in China Aircraft Services, which in turn, invested in a company located in Mainland China.

Note 3: Cal-Asia Investment invested in Eastern United International Logistics (Holdings), which in turn, invested in a company located in Mainland China.

Note 4: The investment gain (loss) was based on the financial statements audited by the CPAs of China Airlines, Ltd. in the ROC; accrual accounting was used in the preparation of these financial statements.

Note 5: The inward remittance of earnings of investees for the six months ended June 30, 2012 amounted to US\$1,887,816.

Note 6: The amount comprised US\$47,035,573 and NT\$36,666,667.

Note 7: The limit stated in the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China Adjustment Rule," is the larger of the Company's net asset value or 60% of the consolidated net asset value.

Note 8: The RMB and U.S. dollar amounts of assets are translated at period-end rates and those of gains (losses), at the average of the month-end rates of IATA (International Air Transport Association) for the reporting period.