

China Airlines, Ltd.

**Financial Statements for the
Years Ended December 31, 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 December 31, 2012 and 2011 and the related statements of income, changes in stockholders' equity and cash flows for the years 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 December 31, 2012 and 2011 and the results of its operations and its cash flows for the years 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 years ended December 31, 2012 and 2011 on which we have issued an unqualified opinion in our report dated March 29, 2013.

March 29, 2013

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
DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

ASSETS	2012		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 9,011,364	5	\$ 8,947,397	4	Short-term loans (Notes 13 and 27)	\$ 1,600,000	1	\$ -	-
Financial assets at fair value through profit or loss - current (Note 2, 5 and 23)	1,253,615	1	3,278,739	2	Derivative financial liabilities for hedging - current (Notes 2, 23 and 24)	23,703	-	47,076	-
Available-for-sale financial assets - current (Notes 2, 6 and 23)	62,738	-	96,131	-	Accounts payable	337,538	-	536,479	-
Derivative financial assets for hedging - current (Notes 2, 23 and 24)	52,767	-	108,668	-	Accounts payable to related parties (Note 25)	1,185,343	1	965,595	1
Receivables:					Accrued expenses (Notes 2 and 25)	9,597,896	5	12,253,634	6
Notes and accounts, net (Notes 2, 3 and 7)	7,058,818	4	9,723,620	5	Advance ticket sales (Note 2)	7,168,399	4	8,771,281	4
Notes and accounts - related parties (Note 25)	385,058	-	282,809	-	Bonds payable - current portion (Notes 2, 14, 23 and 25)	6,130,000	3	12,200,000	6
Other receivables (Note 8)	391,992	-	510,901	-	Loans and debts - current portion (Notes 15, 23 and 26)	16,671,452	9	18,047,762	9
Inventories, net (Notes 2 and 9)	8,521,792	4	8,587,292	4	Capital lease obligations - current portion (Notes 2 and 16)	840,208	-	1,185,639	1
Deferred income tax assets - current (Notes 2 and 20)	212,169	-	152,994	-	Other current liabilities	2,029,065	1	1,774,466	1
Other current assets	1,366,991	1	1,233,952	1					
					Total current liabilities	45,583,604	24	55,781,932	28
Total current assets	28,317,304	15	32,922,503	16					
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Financial assets at fair value through profit or loss - noncurrent (Notes 2, 5 and 23)	-	-	374,085	-	Derivative financial liabilities for hedging - noncurrent (Notes 2, 23 and 24)	11,429	-	25,325	-
Derivative financial assets for hedging - noncurrent (Notes 2, 23 and 24)	759	-	-	-	Bonds payable - noncurrent (Notes 2, 14, 23 and 25)	16,205,000	9	16,550,000	8
Financial assets carried at cost - noncurrent (Notes 2, 10 and 23)	371,367	-	371,367	-	Loans and debts - noncurrent (Notes 15, 23 and 26)	63,749,392	33	69,385,610	34
Investments accounted for by the equity method (Notes 2 and 11)	9,310,864	5	9,255,182	5	Capital lease obligations - noncurrent (Notes 2 and 16)	248,664	-	1,135,067	1
Other financial assets - noncurrent	13,659	-	12,980	-					
					Total long-term liabilities, net of current portion	80,214,485	42	87,096,002	43
Total long-term investments	9,696,649	5	10,013,614	5					
PROPERTIES (Notes 2, 12 and 26)					OTHER LIABILITIES				
Cost					Accrued pension costs (Notes 2 and 17)	6,900,732	4	6,378,717	3
Land	1,678,783	1	1,688,283	1	Deferred profits on sale-leaseback (Note 2)	4,735,675	3	5,312,853	3
Buildings	7,245,117	4	7,260,091	4	Others	749,087	-	1,061,014	-
Machinery and equipment	4,103,114	2	4,159,896	2					
Flight equipment	198,224,033	104	198,271,143	98	Total other liabilities	12,385,494	7	12,752,584	6
Furniture	708,947	-	693,434	-					
Leased flight and other equipment	14,056,268	7	14,291,735	7	Total liabilities	138,183,583	73	155,630,518	77
Leasehold improvements	1,044,553	1	996,380	-					
Revaluation increment	41,298	-	41,298	-	STOCKHOLDERS' EQUITY				
Total cost and revaluation increment	227,102,113	119	227,402,260	112	Capital stock, NTS10.00 par value; authorized - 5,200,000 thousand shares; issued and outstanding - 5,200,000 thousand shares in 2012 and 4,631,622 thousand shares in 2011	52,000,000	27	46,316,224	23
Accumulated depreciation	102,287,521	54	92,020,668	45	Capital surplus	1,405,394	1	422,101	-
					Retained earnings				
	124,814,592	65	135,381,592	67	Legal reserve	316,010	-	799,630	-
Construction in progress and prepayments for equipment (Note 27)	8,740,858	5	5,150,783	3	Special reserve	3,873,370	2	5,162,071	3
					Unappropriated earnings (accumulated deficit)	58,804	-	(1,772,321)	(1)
Net properties	133,555,450	70	140,532,375	70	Total retained earnings	4,248,184	2	4,189,380	2
					Other equity				
INTANGIBLE ASSETS					Cumulative translation adjustments	(2,599,694)	(1)	(1,598,197)	(1)
Computer software, net (Note 2)	408,222	-	385,726	-	Net loss not recognized as pension cost	(2,917,215)	(2)	(2,325,184)	(1)
Deferred pension cost (Note 2)	59,136	-	118,271	-	Unrealized valuation loss on financial instruments	(182)	-	50,010	-
					Unrealized revaluation increment	41,298	-	41,298	-
Net intangible assets	467,358	-	503,997	-	Company shares held by subsidiaries reclassified to treasury stock	(36,554)	-	(36,554)	-
					Total other equity	(5,512,347)	(3)	(3,868,627)	(2)
OTHER ASSETS					Total stockholders' equity	52,141,231	27	47,059,078	23
Deposits (Note 27)	10,196,933	5	10,521,794	5					
Deferred income tax assets - noncurrent (Notes 2 and 20)	6,834,273	4	6,695,423	3					
Restricted assets - noncurrent (Notes 25 and 26)	545,460	-	660,980	-					
Other assets (Note 2)	711,387	1	838,910	1					
Net other assets	18,288,053	10	18,717,107	9					
TOTAL	\$ 190,324,814	100	\$ 202,689,596	100	TOTAL	\$ 190,324,814	100	\$ 202,689,596	100

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

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
REVENUES (Notes 2 and 25)				
Passenger	\$ 86,621,265	65	\$ 80,825,429	61
Cargo	40,808,925	31	46,388,470	35
Others	<u>5,178,641</u>	<u>4</u>	<u>5,026,570</u>	<u>4</u>
Total revenues	<u>132,608,831</u>	<u>100</u>	<u>132,240,469</u>	<u>100</u>
COSTS (Notes 9, 21 and 25)				
Flight operations	81,912,308	62	83,461,996	63
Terminal and landing fees	19,379,015	15	18,894,391	14
Passenger services	8,286,577	6	7,904,359	6
Aircraft maintenance	11,001,675	8	11,882,485	9
Others	<u>2,846,879</u>	<u>2</u>	<u>2,872,199</u>	<u>2</u>
Total costs	<u>123,426,454</u>	<u>93</u>	<u>125,015,430</u>	<u>94</u>
GROSS PROFIT	<u>9,182,377</u>	<u>7</u>	<u>7,225,039</u>	<u>6</u>
OPERATING EXPENSES (Notes 21 and 25)				
Marketing and selling	6,251,334	5	6,178,062	5
General and administrative	<u>2,587,953</u>	<u>2</u>	<u>2,611,841</u>	<u>2</u>
Total operating expenses	<u>8,839,287</u>	<u>7</u>	<u>8,789,903</u>	<u>7</u>
OPERATING INCOME (LOSS)	<u>343,090</u>	<u>-</u>	<u>(1,564,864)</u>	<u>(1)</u>
NONOPERATING INCOME AND GAINS				
Interest income	180,921	-	159,157	-
Investment income recognized under the equity method (Notes 2 and 11)	652,849	1	662,566	1
Dividend income (Note 2)	186,901	-	97,529	-
Gain on disposal of properties, net (Notes 2 and 25)	7,388	-	41,505	-
Valuation gain on financial instruments, net (Notes 2 and 5)	472,167	-	6,057	-
Foreign exchange gain, net	3,556	-	189,217	-
Others	<u>612,480</u>	<u>1</u>	<u>541,251</u>	<u>-</u>
Total nonoperating income and gains	<u>2,116,262</u>	<u>2</u>	<u>1,697,282</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 25)	2,163,563	2	2,244,708	2
Others	<u>160,446</u>	<u>-</u>	<u>235,944</u>	<u>-</u>
Total nonoperating expenses and losses	<u>2,324,009</u>	<u>2</u>	<u>2,480,652</u>	<u>2</u>

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars, Except Earnings [Loss] Per Share)

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
PRETAX INCOME (LOSS)	\$ 135,343	-	\$ (2,348,234)	(2)
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 20)	<u>76,539</u>	<u>-</u>	<u>(393,963)</u>	<u>(1)</u>
NET INCOME (LOSS)	<u>\$ 58,804</u>	<u>-</u>	<u>\$ (1,954,271)</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>
EARNINGS (LOSS) PER SHARE (NEW TAIWAN DOLLARS; Note 22)				
Basic and diluted	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ (0.51)</u>	<u>\$ (0.42)</u>

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

(Concluded)

CHINA AIRLINES, LTD.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)**

	Capital Stock Issued and Outstanding		Capital Surplus (Notes 2 and 18)	Retained Earnings (Accumulated Deficit) (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, 18 and 19)	Total Stockholders' Equity
				Shares (In Thousands)	Amount (Note 18)	Legal Reserve	Special Reserve						
	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)
Appropriation of 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	-	-	-	-	-	-	-	78,226	-	-	-	-	78,226
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	1,693,608	-	-	-	-	1,693,608
Cash dividends received by subsidiaries for holding the Company's shares	-	-	1,156	-	-	-	-	-	-	-	-	-	1,156
Compensation recognized for employee stock options	-	-	28,123	-	-	-	-	-	-	-	-	-	28,123
Net loss in 2011	-	-	-	-	-	(1,954,271)	(1,954,271)	-	-	-	-	-	(1,954,271)
Change in unrealized valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(17,583)	-	-	(17,583)
Change in unrealized gain on cash flow hedging financial instruments	-	-	-	-	-	-	-	-	-	124,072	-	-	124,072
Revaluation increment transferred to other income on disposal of revalued assets	-	-	-	-	-	-	-	-	-	-	(9,037)	-	(9,037)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	348,467	-	-	-	348,467
Unrealized gain on financial instruments of equity-method investees	-	-	-	-	-	-	-	-	-	7,943	-	-	7,943
Net loss not recognized as pension cost of equity-method investees	-	-	-	-	-	-	-	-	(51,677)	-	-	-	(51,677)
BALANCE, DECEMBER 31, 2011	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
Appropriation of the 2011 earnings													
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	-	-	-	-	-	-	-	(62,809)	-	-	-	-	(62,809)
Translation adjustments on aircraft required to be treated as foreign operating entity	-	-	-	-	-	-	-	(938,688)	-	-	-	-	(938,688)
Net income in 2012	-	-	-	-	-	58,804	58,804	-	-	-	-	-	58,804
Change in unrealized valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(27,716)	-	-	(27,716)
Change in unrealized gain on cash flow hedging financial instruments	-	-	-	-	-	-	-	-	-	(18,371)	-	-	(18,371)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	(546,675)	-	-	-	(546,675)
Unrealized loss on financial instruments of equity-method investees	-	-	-	-	-	-	-	-	-	(4,105)	-	-	(4,105)
Net loss not recognized as pension cost of equity-method investees	-	-	-	-	-	-	-	-	(45,356)	-	-	-	(45,356)
BALANCE, DECEMBER 31, 2012	<u>5,200,000</u>	<u>\$ 52,000,000</u>	<u>\$ 1,405,394</u>	<u>\$ 316,010</u>	<u>\$ 3,873,370</u>	<u>\$ 58,804</u>	<u>\$ 4,248,184</u>	<u>\$ (2,599,694)</u>	<u>\$ (2,917,215)</u>	<u>\$ (182)</u>	<u>\$ 41,298</u>	<u>\$ (36,554)</u>	<u>\$ 52,141,231</u>

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 58,804	\$ (1,954,271)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred income taxes	16,541	(458,618)
Depreciation and amortization	10,889,199	10,403,689
Provision for doubtful accounts	-	72,017
Compensation cost of employee stock options	-	28,123
Valuation gain on financial instruments, net	(472,167)	(6,057)
Investment income recognized under the equity method	(652,849)	(662,566)
Cash dividends received from equity-method investees	502,442	436,190
Loss on inventories, properties and idle properties	125,259	298,396
Gain on disposal of properties	(7,388)	(41,505)
Gain on disposal of idle properties, net	(22,929)	(75,159)
Amortization of deferred profit on sale-leaseback	(577,178)	(629,707)
Amortization of deferred credits	(66,414)	(66,414)
Net changes in operating assets and liabilities:		
Financial assets and liabilities held for trading	2,871,376	(2,972,745)
Notes and accounts receivable	2,664,802	1,640,821
Notes and accounts receivable - related parties	(102,249)	215,403
Other receivables	118,909	109,726
Inventories	(5,030)	(2,047,680)
Other current assets	(32,798)	(874,121)
Accounts payable	(198,941)	228,393
Accounts payable - related parties	219,748	(104,262)
Accrued expenses	(2,500,579)	(7,949)
Advance ticket sales	(1,602,882)	121,461
Other current liabilities	254,599	(16,565)
Accrued pension cost	34,474	139,409
Other liabilities	(231,853)	(177,667)
Net cash provided by operating activities	<u>11,282,896</u>	<u>3,598,342</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for by the equity method	(30,409)	(200,000)
Increase in other financial assets - noncurrent	(679)	-
Acquisition of properties	(6,437,786)	(5,762,965)
Proceeds of the disposal of properties	206,590	218,310
Increase in computer software	(61,313)	(58,430)
Proceeds of the disposal of idle properties	27,861	93,165
Decrease in refundable deposits	324,861	764,204
Increase in deferred charges	(8,870)	(23,430)
Decrease in restricted assets	<u>115,520</u>	<u>344,964</u>
Net cash used in investing activities	<u>(5,864,225)</u>	<u>(4,624,182)</u>

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	\$ 1,600,000	\$ (1,100,000)
Decrease in short-term bills payable	-	(1,249,625)
Proceeds of long-term debts	12,668,866	17,476,748
Repayments of long-term debts and capital lease obligations	(19,838,897)	(16,518,938)
Issuance of bonds payable	5,785,000	6,000,000
Repayment of bonds payable	(12,200,000)	(3,500,000)
Increase (decrease) in guarantee deposits received	(13,660)	26,070
Decrease in deferred profits on sale-leaseback	-	(186,997)
Cash dividends	-	(1,852,649)
Issuance of common stock for cash	<u>6,667,069</u>	<u>-</u>
Net cash used in financing activities	<u>(5,331,622)</u>	<u>(905,391)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(23,082)</u>	<u>81,648</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,967	(1,849,583)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>8,947,397</u>	<u>10,796,980</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,011,364</u>	<u>\$ 8,947,397</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 2,157,303	\$ 2,267,516
Less: Capitalized interest	<u>90,300</u>	<u>75,309</u>
Interest paid (excluding capitalized interest)	<u>\$ 2,067,003</u>	<u>\$ 2,192,207</u>
Income tax paid	<u>\$ 65,345</u>	<u>\$ 67,179</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term loans and debts	<u>\$ 16,671,452</u>	<u>\$ 18,047,762</u>
Current portion of capital lease obligations	<u>\$ 840,208</u>	<u>\$ 1,185,639</u>
Current portion of bonds payable	<u>\$ 6,130,000</u>	<u>\$ 12,200,000</u>

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

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In New Taiwan Dollars, Unless Stated Otherwise)

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 December 31, 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 10,866 and 10,578 employees as of December 31, 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

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. 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 are determined as follows: (a) listed stocks - at closing prices as of the balance sheet date; (b) beneficial certificates (open-end funds) - at net asset value as of the balance sheet date; 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 fair value 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 recognized at fair value plus transaction costs that are directly attributable to the acquisition or issuance. When fair value is remeasured, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using transaction date accounting.

Cash dividends are recognized as investment income on ex-dividend dates but are accounted for as reductions of the original cost of investment if these dividends are declared on the investees' earnings attributable to periods before the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares.

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 as investment income on ex-dividend dates but are accounted for as reductions of the original investment costs if these dividends are declared on the investees' earnings attributable to periods before the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares. 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 of 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.

For equity-method investments, stock dividends received are recorded only as an increase in the number of shares held and not as investment income. The cost per share is recalculated on the basis of the new number of shares.

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, 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. They are all amortized using the straight-line method. The amortization periods are 10 years for training expenses and the terms of the bonds or loans.

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 year ended December 31, 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>December 31</u>	
	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 874,093	\$ 716,536
Revolving fund	111,735,746	122,679,984
Checking accounts and demand deposits	4,713,159,193	4,256,564,478
Time deposits	3,985,688,251	3,767,681,541
Cash equivalents	<u>199,906,451</u>	<u>799,754,590</u>
	<u>\$ 9,011,363,734</u>	<u>\$ 8,947,397,129</u>

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

Financial instruments held for trading are summarized as follows:

	<u>December 31</u>	
	<u>2012</u>	<u>2011</u>
<u>Financial assets held for trading</u>		
Current		
Beneficial certificates	\$ 600,404,225	\$ 3,004,222,113
Listed stocks	<u>653,211,167</u>	<u>274,516,500</u>
	<u>\$ 1,253,615,392</u>	<u>\$ 3,278,738,613</u>

Net gains on beneficial certificates were \$472,167,000 in 2012 and \$5,962,000 in 2011.

Financial instruments designated as at FVTPL were as follows:

	December 31, 2011
<u>Financial assets designated as at FVTPL</u>	
Noncurrent	
Convertible bonds	
China Life Insurance Co., Ltd.	<u>\$ 374,085,000</u>

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

The transactions on financial assets designated as at FVTPL resulted in gains of \$95,000 in 2011.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	<u>2012</u>	<u>% of</u>	<u>2011</u>	<u>% of</u>
	Carrying Value	Ownership	Carrying Value	Ownership
<u>Current</u>				
Foreign marketable equity securities				
France Telecom	<u>\$ 62,738,292</u>	-	<u>\$ 96,131,011</u>	-

7. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	<u>2012</u>	<u>2011</u>
Notes receivable	\$ 258,579,958	\$ 294,225,639
Accounts receivable	<u>6,852,271,772</u>	<u>9,558,405,149</u>
	7,110,851,730	9,852,630,788
Less: Allowance for doubtful accounts	<u>52,033,720</u>	<u>129,010,305</u>
	<u>\$ 7,058,818,010</u>	<u>\$ 9,723,620,483</u>

8. OTHER RECEIVABLES

	December 31	
	<u>2012</u>	<u>2011</u>
Tax refunds	\$ 116,337,850	\$ 293,143,806
Accrued revenue	272,351,871	214,741,615
Others	<u>3,302,314</u>	<u>3,015,606</u>
	<u>\$ 391,992,035</u>	<u>\$ 510,901,027</u>

9. INVENTORIES, NET

	December 31	
	2012	2011
Aircraft spare parts	\$ 8,010,553,545	\$ 7,955,786,647
Items for in-flight sale	357,010,106	349,466,926
Work in process - maintenance services	<u>154,228,363</u>	<u>282,038,792</u>
	<u>\$ 8,521,792,014</u>	<u>\$ 8,587,292,365</u>

As of December 31, 2012 and 2011, the allowances for inventory devaluation were \$80,819,000 and \$83,891,000, respectively. The costs of inventories recognized as operating costs due to the reversal of write-downs of inventories was \$3,072,000 in 2012 and write-downs of inventories was \$17,810,000 in 2011.

10. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2012		2011	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
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	<u>5,925,000</u>	6.58	<u>5,925,000</u>	6.58
	370,894,380		370,894,380	
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

	December 31			
	2012		2011	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Investees on which the Company exercises significant influence</u>				
Taiwan Air Cargo Terminal	\$ 1,513,701,724	54.00	\$ 1,613,091,139	54.00
Cal Park	1,469,920,155	100.00	1,466,188,021	100.00
Mandarin Airlines	1,226,818,604	93.99	1,150,278,944	93.99
Cal-Dynasty International	1,016,755,000	100.00	1,050,253,970	100.00
China Pacific Catering Services	688,008,930	51.00	641,880,959	51.00
Taoyuan International Airport Services	652,809,376	49.00	649,302,758	49.00
Cal-Asia Investment	430,945,000	100.00	383,610,273	100.00
Abacus Distribution Systems (Taiwan)	421,450,514	93.93	410,229,241	93.93

(Continued)

	December 31			
	2012		2011	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
China Aircraft Services	\$ 381,819,505	20.00	\$ 381,186,876	20.00
Taiwan Airport Services	312,007,212	47.35	332,630,056	47.35
Kaohsiung Catering Services	242,279,047	35.78	238,320,783	35.78
Asian Compressor Technology Services	233,647,293	24.50	230,665,809	24.50
Cal Hotel	193,633,640	100.00	203,061,718	100.00
Science Park Logistics	190,874,553	28.48	177,403,739	28.48
China Pacific Laundry Services	157,875,614	55.00	150,802,938	55.00
Hwa Hsia	101,352,011	100.00	104,075,059	100.00
Dynasty Holidays	36,126,244	51.00	38,268,728	51.00
Yestrip	33,776,973	100.00	26,609,460	100.00
Global Sky Express	6,960,097	25.00	7,218,765	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.	32,895	100.00	32,895	100.00
	<u>\$ 9,310,864,077</u>		<u>\$ 9,255,181,821</u>	

(Concluded)

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

	Year Ended December 31	
	2012	2011
Taiwan Air Cargo Terminal	\$ (99,389,415)	\$ (36,207,137)
Cal Park	3,732,134	8,774,261
Mandarin Airlines	77,867,389	145,592,245
Cal-Dynasty International	9,408,018	1,079,501
China Pacific Catering Services	141,259,349	113,194,240
Taoyuan International Airport Services	44,908,586	22,637,711
Cal-Asia Investment	27,986,923	29,585,706
Abacus Distribution Systems (Taiwan)	143,645,270	132,381,857
China Aircraft Services	21,069,126	15,926,399
Taiwan Airport Services	40,054,214	44,584,201
Kaohsiung Catering Services	55,844,046	57,913,301
Asian Compressor Technology Services	99,849,392	107,631,009
Cal Hotel	(9,428,078)	(45,243,343)
Science Park Logistics	26,763,814	15,825,126
China Pacific Laundry Services	23,686,893	21,884,072
Hwa Hsia	29,165,206	25,354,720
Dynasty Holidays	3,409,910	(5,128,274)
Yestrip	11,950,372	5,314,288
Global Sky Express	<u>1,066,332</u>	<u>1,466,255</u>
	<u>\$ 652,849,481</u>	<u>\$ 662,566,138</u>

The subsidiaries, Freighter Princess Ltd., Freighter Prince Ltd. and Freighter Queen Ltd., were established in March 2001, September 2001 and January 2002, respectively, for 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 investee's net assets, or goodwill, and (b) a sale of depreciable assets to the Company by its subsidiary.

	Goodwill	Transaction between Company and Subsidiary
<u>December 31, 2012</u>		
Balance, beginning of year	\$ 52,423,365	\$(117,777,801)
Reduction	<u>-</u>	<u>32,868,224</u>
Balance, end of year	<u>\$ 52,423,365</u>	<u>\$(84,909,577)</u>
<u>December 31, 2011</u>		
Balance, beginning of year	\$ 52,423,365	\$(150,646,025)
Reduction	<u>-</u>	<u>32,868,224</u>
Balance, end of year	<u>\$ 52,423,365</u>	<u>\$(117,777,801)</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>December 31</u>	
	2012	2011
Revaluation increase - cost		
Buildings	<u>\$ 41,297,645</u>	<u>\$ 41,297,645</u>
Accumulated depreciation		
Buildings	\$ 2,911,003,578	\$ 2,735,167,939
Machinery and equipment	3,112,684,292	3,050,569,033
Flight equipment	88,057,564,718	78,780,714,029
Furniture	476,109,554	413,077,707
Leased flight and other equipment	6,828,800,242	6,208,371,294
Leasehold improvements	<u>901,359,053</u>	<u>832,767,516</u>
	<u>\$ 102,287,521,437</u>	<u>\$ 92,020,667,518</u>

Interests capitalized amounted to \$90,300,000 in 2012 and \$75,309,000 in 2011, with interests calculated at rates ranging from 1.97% to 2.26% and from 1.91% to 2.06%, 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>December 31</u>	
	2012	2011
Bank loans. Interest - 1.15% to 1.23% in 2012	<u>\$ 1,600,000,000</u>	<u>\$ -</u>

14. BONDS PAYABLE

	<u>December 31</u>	
	2012	2011
Five-year secured domestic bonds - issued at par in 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
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>
	22,335,000,000	28,750,000,000
Less: Current portion	<u>6,130,000,000</u>	<u>12,200,000,000</u>
	<u>\$ 16,205,000,000</u>	<u>\$ 16,550,000,000</u>

The indicator rate mentioned above is the 90 days' commercial paper rates in Taiwan's secondary market.

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 included 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.

15. LONG-TERM DEBTS

	<u>December 31</u>	
	2012	2011
Bank loans	\$ 65,146,978,619	\$ 77,201,623,954
Commercial paper, net of unamortized discounts of \$31,133,866 and \$23,252,282 in the years ended December 31, 2012 and 2011, respectively	<u>15,273,866,134</u>	<u>10,231,747,718</u>
	80,420,844,753	87,433,371,672
Less: Current portion	<u>16,671,452,387</u>	<u>18,047,761,512</u>
	<u>\$ 63,749,392,366</u>	<u>\$ 69,385,610,160</u>

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

<u>Amounts</u>	<u>Currency</u>		
	New Taiwan Dollars	U.S. Dollars	Japanese Yen
<u>Original currency</u>			
2012	\$ 45,816,983,418	\$ 664,951,834	\$ -
2011	49,575,496,546	895,741,879	1,240,000,000
<u>Translated in New Taiwan dollars</u>			
2012	45,816,983,418	19,329,995,201	-
2011	49,575,496,546	27,143,693,451	482,433,957
<u>Interest rates</u>			
2012	1.287%-2.638%	0.308%-4.39%	-
2011	0.7%-2.6%	0.3911%-4.77%	0.6957%
<u>Periods</u>			
2012	2002/4/11-2020/2/26	2001/7/20-2017/9/21	-
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 1.375% to 2.125% in 2012 and 1.341% to 2.102% in 2011.

16. LONG-TERM CAPITAL LEASE OBLIGATIONS

	<u>December 31</u>	
	2012	2011
Capital lease obligations	\$ 1,088,871,938	\$ 2,320,705,642
Less: Current portion	<u>840,208,297</u>	<u>1,185,639,137</u>
	<u>\$ 248,663,641</u>	<u>\$ 1,135,066,505</u>

As of December 31, 2012, the Company was in contract with certain foreign companies under capital lease agreements of aircraft and related parts expiring on various dates until February 2014.

Future minimum rental payments on flight equipment are summarized as follows:

Period	Amount
2013	\$ 840,208,297
January to February 2014	248,663,641

17. 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 \$121,249,000 in 2012 and \$113,599,000 in 2011.

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 cost of \$630,585,000 in 2012 and \$749,430,000 in 2011.

Other defined benefit pension plan is summarized as follows:

a. Net pension cost

	2012	2011
Service cost	\$ 221,882,556	\$ 251,472,577
Interest cost	194,445,426	213,032,486
Projected return on plan assets	(25,978,704)	(30,270,669)
Loss on plan assets	(20,905,498)	(12,740,573)
Amortization of prior service cost	59,135,597	59,135,597
Amortization of pension gains or losses	<u>202,005,328</u>	<u>268,800,843</u>
	<u>\$ 630,584,705</u>	<u>\$ 749,430,261</u>

b. Reconciliation of the fund status of the plan and accrued pension cost:

	December 31	
	2012	2011
Benefit obligation:		
Vested benefit obligation	\$ (6,275,326,221)	\$ (5,641,281,091)
Non-vested benefit obligation	<u>(3,325,203,393)</u>	<u>(3,448,394,448)</u>
Accumulated benefit obligation	(9,600,529,614)	(9,089,675,539)
Additional benefits based on future salaries	<u>(1,237,895,932)</u>	<u>(1,268,607,961)</u>
Projected benefit obligation	(10,838,425,546)	(10,358,283,500)
Fair value of plan assets	<u>2,699,797,555</u>	<u>2,710,958,860</u>
Funded status	(8,138,627,991)	(7,647,324,640)
Unrecognized prior service cost	59,135,592	118,271,189
Unrecognized net actuarial loss	3,975,855,946	3,459,892,285
Additional liability	<u>(2,797,095,606)</u>	<u>(2,309,555,513)</u>
Accrued pension cost	<u>\$ (6,900,732,059)</u>	<u>\$ (6,378,716,679)</u>
Vested benefits	<u>\$ 10,450,897,047</u>	<u>\$ 9,170,131,479</u>

	<u>December 31</u>	
	2012	2011
c. Actuarial assumptions		
Discount rate used in determining present values	1.75%	2.00%
Future salary increase rate	1.50%	1.50%
Expected rate of return on plan assets	1.75%	2.00%
	<u>December 31</u>	
	2012	2011
d. Contributions to the fund	<u>\$ 520,714,735</u>	<u>\$ 553,644,102</u>
e. Payments from the fund	<u>\$ 557,854,744</u>	<u>\$ 309,753,726</u>

18. STOCKHOLDERS' EQUITY

Common Stock

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.

Employee Stock Option Plans

Under the Company Law, 10% of the publicly issued common shares 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:

	Number of Options (In Thousands)	Weighted -average Exercise Price
<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
	<u> -</u>	
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	\$12.15
Exercise price	\$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:

	December 31	
	2012	2011
Arising from the issuance of common shares	\$ 1,391,536,015	\$ 419,989,822
Expired employee stock options	11,747,160	-
Arising from treasury stock transactions	1,155,512	1,155,512
Arising from long-term investments	<u>955,395</u>	<u>955,395</u>
	<u>\$ 1,405,394,082</u>	<u>\$ 422,100,729</u>

Appropriation of Earnings and Dividend Policy

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.

There were no earnings to be appropriated in 2012 and 2011; thus; no bonus to employees was estimated.

The bonus to employees was estimated on the basis of past experiences. However, there were net losses in 2012 and 2011; thus, no bonus to employees was estimated. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are retroactively adjusted 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:

	Appropriation of Earnings	Dividends Per Share (NT\$)
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 cash profit sharing in cash with its 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.

The appropriation of earnings for 2012 had been proposed by the board of directors on March 29, 2013. The appropriations were as follows:

	Appreciation of Earnings
Legal reserve	\$ 5,880,445
Special reserve	<u>52,924,004</u>
	<u>\$ 58,804,449</u>

There was no earnings to be appropriated after recognized above legal reserve and special reserve. The 2012 appropriations of earnings will be resolved by the stockholders in their meeting scheduled for June 2013.

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.

19. TREASURY STOCK

Purpose of Treasury Stock	(Shares in Thousands)		
	Number of Shares, Beginning of Year	Reduction During the Year (Note)	Number of Shares, End of Year
<u>Year ended December 31, 2012</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>2,889</u>	-	<u>2,889</u>
<u>Year ended December 31, 2011</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>2,889</u>	-	<u>2,889</u>

The Company's shares held by its subsidiaries as of December 31, 2012 and 2011 were as follows:

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>December 31, 2012</u>			
Mandarin Airlines	2,075	\$ 24,895,536	\$ 24,895,536
Hwa Hsia	814	<u>9,769,824</u>	<u>9,769,824</u>
		<u>\$ 34,665,360</u>	<u>\$ 34,665,360</u>
<u>December 31, 2011</u>			
Mandarin Airlines	2,075	\$ 27,385,090	\$ 27,385,090
Hwa Hsia	814	<u>10,746,806</u>	<u>10,746,806</u>
		<u>\$ 38,131,896</u>	<u>\$ 38,131,896</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.

20. INCOME TAX

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

	2012	2011
Income tax expense (benefit) on income (loss) before income tax at statutory rate	\$ 23,008,317	\$(399,199,776)
Add (deduct) tax effects of:		
Permanent differences	(96,211,447)	(37,004,274)
Temporary differences	(28,536,938)	(58,417,941)
Loss carryforwards	101,740,068	494,621,991
Overseas income tax expense	<u>59,964,074</u>	<u>64,346,625</u>
Income tax expense - current	<u>\$ 59,964,074</u>	<u>\$ 64,346,625</u>

- b. Income tax expense (benefit) consisted of the following:

	2012	2011
Income tax expense - current	\$ 59,964,074	\$ 64,346,625
Net changes in deferred income tax expense (benefit):		
Allowance for doubtful accounts	(4,126,578)	(4,701,504)
Allowance for loss on inventories	(93,197,949)	(3,027,711)
Equity in net gain or loss of foreign equity-method investees	9,243,187	775,033
Loss on disposal of properties	27,101,449	(27,101,449)
Depreciation difference between accounting and tax on properties	(1,479,662)	(1,479,662)
Allowance for loss on idle properties	(7,545,164)	(13,164,385)
Accrued expense for frequent-flyer program	5,572,417	1,786,491
Unrealized lawsuit loss	37,539,432	26,813,880
Provision for pension cost	(5,860,799)	(23,699,407)
Unrealized foreign exchange gain or loss	55,662,892	96,588,942
Difference between accounting and tax on interest	5,627,713	5,627,713
Loss carryforwards	(62,836,291)	(548,773,588)
Investment tax credits	111,417,863	947,642,479
Other valuation allowance	(60,577,673)	(915,993,563)
Adjustment of prior years' tax	<u>33,680</u>	<u>396,689</u>
Income tax expense (benefit)	<u>\$ 76,538,591</u>	<u>\$(393,963,417)</u>

c. Deferred income tax assets (liabilities) as of December 31, 2012 and 2011 consisted of the following:

	December 31	
	2012	2011
Current		
Allowance for loss on inventories	\$ 107,459,495	\$ 14,261,546
Loss on disposal of properties	-	27,101,449
Accrued expenses for frequent-flyer program	10,989,409	16,561,826
Unrealized lawsuit loss	37,539,432	37,539,432
Allowance for doubtful accounts	8,828,082	4,701,504
Investment income tax credits	<u>165,684,028</u>	<u>111,417,863</u>
Deferred tax assets	330,500,446	211,583,620
Less: Valuation allowance	<u>(59,440,943)</u>	<u>(44,577,863)</u>
Deferred income tax assets, net	271,059,503	167,005,757
Unrealized gain on financial instruments	(1,118,201)	(11,902,268)
Unrealized foreign exchange gain	<u>(57,772,644)</u>	<u>(2,109,752)</u>
Deferred income tax assets, net	<u>\$ 212,168,658</u>	<u>\$ 152,993,737</u>
Noncurrent		
Equity in net loss of foreign equity-method investees	\$ 86,986,824	\$ 96,230,011
Allowance for loss on idle properties	183,469,570	175,924,406
Provision for pension cost	697,312,677	691,451,878
Difference between accounting and tax on interest	75,956,946	81,584,659
Unrealized lawsuit loss	85,804,417	123,343,849
Cumulative translation adjustments	532,467,399	327,341,382
Unrealized loss on financial instruments	2,222,322	3,566,915
Loss carryforwards	5,272,751,661	5,209,915,370
Investment income tax credits	<u>65,233,108</u>	<u>230,917,136</u>
Deferred income tax assets	7,002,204,924	6,940,275,606
Less: Valuation allowance	<u>(23,403,085)</u>	<u>(98,843,838)</u>
Deferred income tax assets, net	6,978,801,839	6,841,431,768
Depreciation difference between accounting and tax on properties	<u>(144,529,091)</u>	<u>(146,008,753)</u>
Deferred income tax assets, net	<u>\$ 6,834,272,748</u>	<u>\$ 6,695,423,015</u>

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

	December 31	
	2012	2011
Balance of ICA	<u>\$ 111,570,165</u>	<u>\$ 24,942,084</u>

The expected creditable tax ratio of 2012 was 20.48%. Since the Company had an accumulated deficit as of December 31, 2011, there was no expected creditable tax ratio.

e. Unused investment tax credits as of December 31, 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 training expenses and purchases of eligible equipment	\$ 165,684,028 40,542,154 <u>24,690,954</u>	\$ 165,684,028 40,542,154 <u>24,690,954</u>	2013 2014 2015
		<u>\$ 230,917,136</u>	<u>\$ 230,917,136</u>	

f. Unused tax loss carryforwards as of December 31, 2012 were as follows:

Expiry Year	Unused Amount
2018	\$ 8,172,477,310
2019	19,338,075,471
2021	2,907,162,474
2012	<u>598,470,986</u>
	<u>\$ 31,016,186,241</u>

g. The income tax returns of the Company through 2010 have been examined by the tax authorities. On the Company's 2009 tax returns assessed by the tax authorities, investment tax credits were reduced to \$162,397,000, which affected the usage of investment tax credits in the following years. The Company disagreed with the tax authorities' assessment of its 2009 tax return and had applied for a reexamination.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2012		
	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel			
Salaries	\$ 9,263,590,803	\$ 2,174,834,922	\$ 11,438,425,725
Labor and health insurance	587,798,687	407,111,901	994,910,588
Pension cost	537,119,691	214,714,372	751,834,063
Others	1,752,715,430	214,952,991	1,967,668,421
Depreciation	10,355,412,608	357,433,511	10,712,846,119
Amortization	2,418,506	173,934,193	176,352,699
	2011		
	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel			
Salaries	\$ 9,250,252,749	\$ 2,188,707,448	\$ 11,438,960,197
Labor and health insurance	542,117,138	431,561,104	973,678,242
Pension cost	614,596,517	248,432,925	863,029,442
Others	1,749,778,957	155,617,032	1,905,395,989
Depreciation	9,869,502,485	373,520,933	10,243,023,418
Amortization	2,418,487	158,246,585	160,665,072

22. EARNINGS (LOSS) PER SHARE

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

	Amounts (Thousands) (As Numerator)		Shares (Thousands) (As Denominator)	Earnings (Loss) Per Share (NT\$)	
	Pretax	After Tax		Pretax	After Tax
<u>2012</u>					
Basic and diluted loss per share					
Net income on common stock	\$ 135,343	\$ 58,804	5,134,993	\$ 0.03	\$ 0.01
<u>2011</u>					
Basic and diluted loss per share					
Net loss on common stock	\$ (2,384,234)	\$ (1,954,271)	4,628,733	\$ (0.51)	\$ (0.42)

The Accounting Research and Development Foundation issued Interpretation 2007-052, which requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company decides to settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares, and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. This dilutive effect of the potential shares should be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

23. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

	December 31			
	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 27,486,946,128	\$ 27,486,946,128	\$ 30,367,338,125	\$ 30,367,338,125
Financial assets at fair value through profit or loss	1,253,615,392	1,253,615,392	3,652,823,613	3,652,823,613
Available-for-sale financial assets	62,738,292	62,738,292	96,131,011	96,131,011
Derivative financial assets for hedging	53,525,730	53,525,730	108,667,850	108,667,850
Financial assets carried at cost	371,366,902	-	371,366,902	-
<u>Financial liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	14,710,377,051	14,710,377,051	17,231,288,467	17,231,288,467
Derivative financial liabilities for hedging	35,131,928	35,131,928	72,400,976	72,400,976
Bonds issued	22,335,000,000	22,433,709,066	28,750,000,000	29,543,925,532
Loans and debts	80,420,844,753	80,628,967,040	87,433,371,672	87,461,638,881
Capital lease obligations	1,088,871,938	1,088,871,937	2,320,705,642	2,320,705,642

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, portion 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 portion of 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 0.868% to 0.9051% in 2012 and 1.1281 % to 1.25% in 2011 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 the fair value of semifinancial 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	
	December 31		December 31	
	2012	2011	2012	2011
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 1,253,615,392	\$ 3,278,738,613	\$ -	\$ 374,085,000
Available-for-sale financial assets	62,738,292	96,131,011	-	-
Derivative financial assets for hedging	-	-	53,525,730	108,667,850
<u>Financial liabilities</u>				
Derivative financial liabilities for hedging	-	-	35,131,928	72,400,976
Bonds issued	9,599,586,000	10,793,610,000	12,834,123,066	18,750,315,532
Loans and debts	-	-	80,628,967,040	87,461,638,881

d. As of December 31, 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 \$20,737,308,000 and \$24,596,691,000, respectively, and those at floating rate, which were exposed to cash flow interest rate risk, amounted to \$84,707,408,000 and \$93,907,387,000, respectively.

- e. The adjustments of stockholders' equity credited directly from the available-for-sale financial assets amounted to \$27,716,000 for 2012 and \$17,583,000 for 2011, respectively.

24. 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 December 31, 2012 and 2011.

Hedge	December 31					
	2012			2011		
	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
<u>The Company</u>						
Interest rate swaps	\$ 6,080,000,000	\$ 758,888	\$ (14,408,011)	\$ 3,335,000,000	\$ -	\$ (26,577,900)
Currency options						
Call	683,139,535	38,449,431	38,449,431	696,969,697	4,602,140	4,515,794
Put	683,139,535	506,083	(223,528)	696,969,697	794,188	(2,659,461)
Forward exchange	1,075,581,395	46,997	(15,723,915)	1,090,909,091	9,674,025	8,908,414
Fuel swaps (Note)						
Call	13,764,331	13,764,331	13,764,331	93,597,496	93,597,496	93,597,496
Put	3,464,506	-	(3,464,506)	41,517,468	-	(41,517,468)

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 as Hedging Instruments	Financial Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period
		December 31, 2012			
		Nominal Amount	Fair Value		
<u>The Company</u>					
Floating-interest long-term debts	Interest rate swaps	\$ 6,080,000,000	\$ (14,408,011)	2008 to 2017	2008 to 2017
Fuel cost in U.S. dollars	Currency options				
	Call	261,627,907	16,930,988	2012 to 2013	2012 to 2013
	Put	261,627,907	(104,016)	2012 to 2013	2012 to 2013
Lease cost in U.S. dollars	Currency options				
	Call	421,511,628	21,518,443	2012 to 2013	2012 to 2013
	Put	421,511,628	(119,512)	2012 to 2013	2012 to 2013
Lease cost in U.S. dollars	Forward exchange	1,075,581,395	(15,723,915)	2012 to 2013	2012 to 2013
Fuel cost in U.S. dollars	Fuel swaps				
	Call	13,764,331	13,764,331	2012 to 2013	2012 to 2013
	Put	3,464,506	(3,464,506)	2012 to 2013	2012 to 2013
			<u>\$ 18,393,802</u>		

Hedged Items	Designated as Hedging Instruments	Financial Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period
		December 31, 2011			
		Nominal Amount	Fair Value		
<u>The Company</u>					
Floating-interest long-term debts	Interest rate swaps	\$ 3,335,000,000	\$ (26,577,900)	2007 to 2016	2007 to 2016
Fuel cost in U.S. dollars	Currency options				
	Call	242,424,243	1,335,266	2011 to 2012	2011 to 2012
	Put	242,424,243	(223,816)	2011 to 2012	2011 to 2012
Lease cost in U.S. dollars	Currency options				
	Call	454,545,454	3,180,528	2011 to 2012	2011 to 2012
	Put	454,545,454	(2,435,645)	2011 to 2012	2011 to 2012
Lease cost in U.S. dollars	Forward exchange	1,090,909,091	8,908,414	2011 to 2012	2011 to 2012
Fuel cost in U.S. dollars	Fuel swaps				
	Call	93,597,496	93,597,496	2011 to 2012	2011 to 2012
	Put	41,517,468	(41,517,468)	2011 to 2012	2011 to 2012
			<u>\$ 36,266,875</u>		

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

Adjustment Items	December 31	
	2012	2011
Amount recognized in equity during the year	\$ 47,941,472	\$ 118,908,800
Amount removed from equity and included in profit or loss for the year	(66,312,356)	5,162,519

25. RELATED-PARTY TRANSACTIONS

a. The Company's related parties

Related Party	Relationship with the Company
Taiwan Air Cargo Terminal	Subsidiary
Cal Park	Subsidiary
Mandarin Airlines	Subsidiary
Cal-Dynasty International	Subsidiary
China Pacific Catering Services	Subsidiary
Taoyuan International Airport Services	Subsidiary
Cal-Asia Investment	Subsidiary
Abacus Distribution Systems (Taiwan)	Subsidiary
China Aircraft Service	Equity-method investee
Taiwan Airport Services	Subsidiary
Kaohsiung Catering Services	Equity-method investee
Asian Compressor Technology Services	Equity-method investee
Cal Hotel	Subsidiary
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:

	2012		2011	
	Amount	%	Amount	%
1) Revenues				
Mandarin Airlines	\$ 1,976,879,342	1.49	\$ 1,992,992,303	1.51
Yangtze River Express Airlines	242,126,617	0.18	413,227,934	0.31
Global Sky Express	137,128,997	0.10	173,667,300	0.13
China Aviation Development Foundation	38,485,679	0.03	43,945,387	0.03
Taiwan Air Cargo Terminal	18,374,554	0.02	16,577,041	0.01
Others	<u>64,184,072</u>	<u>0.05</u>	<u>56,740,885</u>	<u>0.05</u>
	<u>\$ 2,477,179,261</u>	<u>1.87</u>	<u>\$ 2,697,150,850</u>	<u>2.04</u>

	2012		2011	
	Amount	%	Amount	%
2) Costs				
China Pacific Catering Services	\$ 1,149,899,895	0.93	\$ 1,022,825,052	0.82
Taoyuan International Airport Services	974,717,296	0.79	963,217,353	0.77
Taiwan Airport Services	364,839,483	0.30	357,520,529	0.29
Mandarin Airlines	286,280,459	0.23	253,102,909	0.21
Hwa Hsia	270,234,599	0.22	250,323,655	0.20
Taiwan Air Cargo Terminal	258,818,372	0.21	273,858,674	0.22
Cal Park	213,019,195	0.17	213,019,195	0.17
China Aircraft Services	189,516,950	0.15	204,948,299	0.16
Kaohsiung Catering Services	124,485,523	0.10	116,392,074	0.09
Cal Hotel	81,118,096	0.07	79,955,286	0.06
China Pacific Laundry Services	74,135,799	0.06	78,817,192	0.06
Yangtze River Express Airlines Co., Ltd.	68,307,236	0.06	47,023,485	0.04
Dynasty Holidays	64,215,917	0.05	56,842,650	0.05
China Aviation Development Foundation	62,275,301	0.05	68,044,125	0.05
Asian Compressor Technology Services	35,548,641	0.03	48,243,448	0.04
Cal-Dynasty International	27,440,178	0.02	37,352,941	0.03
Science Park Logistics	24,966,491	0.02	27,310,453	0.02
Others	10,459,565	0.01	10,525,919	0.01
	<u>\$ 4,280,278,996</u>	<u>3.47</u>	<u>\$ 4,109,323,239</u>	<u>3.29</u>

	December 31			
	2012		2011	
	Amount	%	Amount	%
3) Notes and accounts receivable - related parties				
Mandarin Airlines	\$ 338,512,733	87.91	\$ 224,039,272	79.22
Yestrip	18,056,192	4.69	14,972,813	5.29
Yangtze River Express Airlines	16,250,325	4.22	29,123,374	10.30
Global Sky Express	4,363,693	1.13	7,121,113	2.52
China Aviation Development Foundation	3,339,547	0.87	3,697,160	1.31
Taiwan Air Cargo Terminal	1,910,073	0.50	1,014,467	0.36
Others	2,625,004	0.68	2,840,858	1.00
	<u>\$ 385,057,567</u>	<u>100.00</u>	<u>\$ 282,809,057</u>	<u>100.00</u>

4) Accounts payable to related parties				
China Pacific Catering Services	\$ 290,415,552	24.50	\$ 261,782,338	27.11
Taoyuan International Airport Services	261,255,031	22.04	259,901,080	26.92
Mandarin Airlines	230,578,097	19.45	174,655,487	18.09
Cal Park	159,764,400	13.48	-	-
Taiwan Airport Services	62,406,266	5.26	72,934,113	7.55
Hwa Hsia	48,928,624	4.13	39,299,101	4.07
Taiwan Air Cargo Terminal	33,683,711	2.84	38,785,230	4.02
China Aircraft Services	28,928,367	2.44	35,726,255	3.70
Kaohsiung Catering Services	19,885,340	1.68	23,009,686	2.38
Yangtze River Express Airlines	18,248,433	1.54	16,079,730	1.67
China Pacific Laundry Services	12,363,578	1.04	13,943,715	1.44
Others	18,885,455	1.60	29,477,968	3.05
	<u>\$ 1,185,342,854</u>	<u>100.00</u>	<u>\$ 965,594,703</u>	<u>100.00</u>

5) Lease of properties

In December 2008, the Company rented out planes to Mandarin Airlines under an operating leasing contract. The monthly rent received is based on this contract. The rental rate was adjusted in August 2009. As of December 31, 2012 and 2011, the monthly rentals received amounted to \$1,183,607,000 and \$1,073,312,000, respectively.

The Company rented planes from Mandarin Airlines under an operating lease agreement. The Company paid the rental by flight hours. The Company paid hourly flight rentals of about \$237,688,000 in 2012 and \$185,184,000 in 2011, respectively.

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. As of December 31, 2012 and 2011, the Company had paid usage rentals of about \$62,275,000 and \$68,044,000, 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 2012 and 2011, the Company paid rentals of \$213,019,000 each.

6) Endorsements and guarantees

	December 31			
	2012		2011	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
<u>The Company</u>				
Cal Park	\$ 3,400,000,000	\$ 3,237,000,000	\$ 3,400,000,000	\$ 3,320,000,000
Taiwan Air Cargo Terminal	1,080,000,000	-	-	-
Freighter Princess Ltd.	-	-	29,519,987	29,519,987
Freighter Prince Ltd.	300,477,541	300,477,541	334,243,354	334,243,354
Freighter Queen Ltd.	244,982,212	244,982,212	297,216,378	297,216,378
Cal Hotel	180,000,000	118,497,000	180,000,000	146,379,000
<u>Cal Asia</u>				
Taikoo Spirit Aerospace Systems (Jinjiang) Composite	15,851,744	15,328,634	16,524,242	13,004,576

As of December 31, 2012 and 2011, U.S. Treasury Bills amounting to \$545,460,000 and \$660,980,000, respectively, had been pledged as collaterals for financing lease transactions of Freighter Princess Ltd., Freighter Prince Ltd. and Freighter Queen 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 the Company's credit policy.

7) Bonds payable - related parties

Related parties that invested in the first issue of private unsecured bonds in 2012 and 2010 (Note 14) are summarized as follows:

Related Parties	December 31, 2012	
	Units	Aggregate 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
<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

Related Parties	December 31, 2011	
	Units	Aggregate Par/Dollars
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

As of December 31, 2012 and 2011, interest expenses were \$28,463,000 and \$19,826,000, respectively. The interests payable were \$6,649,000 in 2012 and \$2,454,000 in 2011.

8) Property transactions

To enhance asset use and improve resource sharing within its network, the Company sold the land and building located in the Taichung Port road to Mandarin Airlines for \$29,320,000 in December 2012. The gain on disposal of properties was \$126,000, which had been collected in full.

c. Compensation of directors, supervisors and management personnel

	December 31	
	2012	2011
Salaries	\$ 34,161,116	\$ 38,127,633
Incentive and special compensation	<u>12,382,557</u>	<u>12,111,219</u>
	<u>\$ 46,543,673</u>	<u>\$ 50,238,852</u>

26. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collaterals for long-term and short-term bank loans and business transactions:

	December 31	
	2012	2011
Properties - flight equipment, net	\$ 94,975,848,646	\$ 104,105,500,044
Properties - buildings	2,245,118,771	2,298,687,338
Properties - machinery and equipment	657,623,789	707,627,408
Restricted assets - noncurrent (US treasury bill)	<u>545,459,753</u>	<u>660,979,718</u>
	<u>\$ 98,424,050,959</u>	<u>\$ 107,772,794,508</u>

27. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2012, the Company had commitments and contingent liabilities, as follows:

- a. 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 statements for a 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 liabilities 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 March 29, 2013, 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 a headquarters building under various operating lease agreements expiring on various dates until December 2024. Lease deposits aggregated \$9,955,713,000.

Minimum rentals for future years are summarized as follows:

Year	Amount
2013	\$ 5,709,957,197
2014	4,809,665,216
2015	3,888,058,877
2016	3,207,577,549
2017	3,109,079,957

Rentals from 2018 and on will aggregate \$10,358,235,000. The present value of these rentals, discounted at the discount interest rate 1.37% for one-year time deposits of Chunghwa Post Co., Ltd., is \$9,676,950,000.

- 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 December 31, 2012, the Company had paid about US\$237,194,000, which was included in the "prepayments for equipment" in the properties section of the balance sheets.

- d. In December 2012, the Company entered into a contract to buy six 777-300ER aircraft from the Boeing Company, with the option to buy six more 700-300ER aircraft, at aggregate purchase prices of US\$2,067,261,000 and US\$2,213,015,000, respectively. As of December 31, 2012, the Company had paid about US\$20,673,000, which was included in the “prepayments for equipment” in the properties section of the balance sheets.

28. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

The material financial assets and liabilities denominated in foreign currency were as follows:

(Unit: Foreign Currencies/New Taiwan Dollars)

	2012			2011		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 59,054,021	29.0698	\$ 1,716,688,580	\$ 123,586,016	30.3030	\$ 3,745,027,050
EUR	14,949,828	38.4615	574,992,810	13,462,095	40.4858	545,023,672
HKD	289,354,718	3.7453	1,083,720,225	360,575,843	3.8926	1,403,577,527
JPY	2,202,309,200	0.3361	740,196,122	1,517,912,341	0.3891	590,619,692
RMB	1,024,262,032	4.6577	4,770,705,266	873,956,113	4.7596	4,159,681,517
Foreign operating entity						
USD	1,424,477,867	29.0698	41,409,286,698	1,317,164,584	30.3030	39,914,038,382
Investments accounted for using the equity method						
USD	49,800,880	29.0698	1,447,700,000	47,317,520	30.3030	1,433,864,243
HKD	101,945,808	3.7453	381,819,505	97,926,908	3.8926	381,186,876
JPY	107,479,189	0.3361	36,126,244	98,362,112	0.3891	38,268,728
<u>Financial liabilities</u>						
Monetary items						
USD	883,538,220	29.0698	25,684,279,348	1,185,879,061	30.3030	35,935,693,185
EUR	7,015,864	38.4615	269,840,653	9,708,706	40.4858	393,064,717
HKD	63,060,777	3.7453	236,181,528	59,839,143	3.8926	232,929,849
JPY	3,423,949,732	0.3361	1,150,789,505	4,872,121,446	0.3891	1,895,742,455
RMB	308,515,409	4.6577	1,436,972,220	236,237,315	4.7596	1,124,395,124

29. 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 and 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 related information of investees on which the Company exercises significant influence: Table 6 (attached).
 - 10) Derivative financial transactions (Note 24)
- b. Investment in Mainland China: Table 7 (attached)

30. SEGMENT 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 the 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 INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
 YEAR ENDED DECEMBER 31, 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 (the "Company")	Cal Park	100% subsidiary	\$ 10,428,246,216	\$ 3,400,000,000	\$ 3,400,000,000	\$ -	6.52	\$ 26,070,615,540
		Taiwan Air Cargo Terminal	54% subsidiary	10,428,246,216	1,080,000,000	1,080,000,000	-	2.07	26,070,615,540
		Freighter Princess Ltd.	100% subsidiary	10,428,246,216	28,821,289	-	-	-	26,070,615,540
		Freighter Prince Ltd.	100% subsidiary	10,428,246,216	331,214,608	300,477,541	300,477,541	0.58	26,070,615,540
		Freighter Queen Ltd.	100% subsidiary	10,428,246,216	253,074,717	244,982,212	244,982,212	0.47	26,070,615,540
		Cal Hotel	100% subsidiary	10,428,246,216	180,000,000	180,000,000	-	0.35	26,070,615,540
1	Cal Asia	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	Investments accounted for by the cost method	86,189,000	16,375,375	15,851,744	-	3.68	2,154,716,686

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

DECEMBER 31, 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	December 31, 2012				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines (the "Company")	<u>Stock</u>							
	Taiwan Air Cargo Terminal	Subsidiary	Investments accounted for by the equity method	135,000,000	\$ 1,513,701,724	54.00	\$ 1,513,701,724	-
	Cal Park	Subsidiary	Investments accounted for by the equity method	150,000,000	1,469,920,155	100.00	1,469,920,155	-
	Mandarin Airlines	Subsidiary	Investments accounted for by the equity method	188,154,025	1,226,818,604	93.99	1,335,204,762	Note 1
	Cal-Dynasty International	Subsidiary	Investments accounted for by the equity method	2,614,500	1,016,755,000	100.00	1,016,755,000	-
	China Pacific Catering Services	Subsidiary	Investments accounted for by the equity method	43,911,000	688,008,930	51.00	688,008,930	-
	Taoyuan International Airport Services	Subsidiary	Investments accounted for by the equity method	34,300,000	652,809,376	49.00	652,809,376	-
	Cal-Asia Investment	Subsidiary	Investments accounted for by the equity method	46,516,200	430,945,000	100.00	430,945,000	-
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments accounted for by the equity method	13,021,042	421,450,514	93.93	421,450,514	-
	China Aircraft Service	Equity-method investees	Investments accounted for by the equity method	28,400,000	381,819,505	20.00	335,062,342	Note 2
	Taiwan Airport Services	Subsidiary	Investments accounted for by the equity method	20,626,644	312,007,212	47.35	312,007,212	-
	Kaohsiung Catering Services	Equity-method investees	Investments accounted for by the equity method	14,329,759	242,279,047	35.78	243,699,384	Note 2
	Asian Compressor Technology Services	Equity-method investees	Investments accounted for by the equity method	7,732,200	233,647,293	24.50	233,647,293	-
	Cal Hotel Co., Ltd.	Subsidiary	Investments accounted for by the equity method	46,500,000	193,633,640	100.00	193,633,640	-
	Science Park Logistics	Equity-method investees	Investments accounted for by the equity method	13,293,000	190,874,553	28.48	183,788,014	Note 2
	China Pacific Laundry Services	Subsidiary	Investments accounted for by the equity method	13,750,000	157,875,614	55.00	157,875,614	-
	Hwa Hsia	Subsidiary	Investments accounted for by the equity method	50,000	101,352,011	100.00	111,121,837	Note 1
	Dynasty Holidays	Subsidiary	Investments accounted for by the equity method	408	36,126,244	51.00	36,126,244	-
	Yestrip	Subsidiary	Investments accounted for by the equity method	1,600,000	33,776,973	100.00	33,776,973	-
	Global Sky Express	Subsidiary	Investments accounted for by the equity method	250,000	6,960,097	25.00	6,960,097	-
	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 Han Financial Holdings	-	Financial assets at fair value through profit or loss - current	13,267,800	222,899,040	-	222,899,040	-
	China Life Insurance Co., Ltd.	-	Financial assets at fair value through profit or loss - current	16,424,127	430,312,127	-	430,312,127	-
	France Telecom	-	Available-for-sale - current	195,587	62,738,292	-	62,738,292	-
	Abacus International Holdings Ltd. - unlisted common stock	-	Financial assets at cost - noncurrent	1,359,368	297,946,451	13.59	229,591,988	Notes 3 and 5
	Abacus International Holdings Ltd. - unlisted preferred stock	-	Financial assets at cost - noncurrent	135,937	472,522	-	-	Notes 3 and 5
	Jardine Air Terminal Services	-	Financial assets at cost - noncurrent	12,000,000	56,022,929	15.00	49,589,888	Note 6
	Chung Hua Express Co.	-	Financial assets at cost - noncurrent	1,100,000	11,000,000	11.00	16,090,179	Note 5
	Regal International Advertising	-	Financial assets at cost - noncurrent	592,500	5,925,000	6.58	775,047	Note 5
	<u>Beneficial certificates</u>							
UPAMC James Bond Money Market Fund		Financial assets at fair value through profit or loss - current	12,332,965.40	200,171,428	-	200,171,428	-	
Union Money Market Fund		Financial assets at fair value through profit or loss - current	15,603,545.13	200,166,958	-	200,166,958	-	
Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	16,459,686.12	200,065,839	-	200,065,839	-	
Mandarin Airlines	<u>Stock</u>							
	China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	24,895,536	-	24,895,536	-
	France Telecom	-	Available-for-sale financial asset - current	8,274	2,654,045	-	2,654,045	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2012				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Pacific Catering Services	<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	-
	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>Beneficial certificates</u> HSBC NTD Money Market Fund II	-	Available-for-sale financial asset - current	6,598,135.80	97,111,363	-	97,111,363	-
	JF (Taiwan) Taiwan Money Market Fund	-	Available-for-sale financial asset - current	6,041,184.80	96,658,353	-	96,658,353	-
	FSITC Money Market Fund	-	Available-for-sale financial asset - current	575,217.62	99,677,736	-	99,677,736	-
	Hua Nan Phoenix Money Market Fund	-	Available-for-sale financial asset - current	6,318,456.80	100,023,699	-	100,023,699	-
Taoyuan International Airport Services	<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> Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.5	70,078,783	-
	<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>Stock</u> Xiamen International Airport Air Cargo Terminal	Equity-method investees	Investments accounted for by the equity method	-	227,803,837	14.00	225,953,040	Notes 2 and 4
	Xiamen International Airport Air Cargo Storage	Equity-method investees	Investments accounted for by the equity method	-	91,874,709	14.00	46,303,289	Notes 2 and 4
	Eastern United International Logistics	Equity-method investees	Investments accounted for by the equity method	1,050,000	27,013,721	35.00	38,541,400	Note 5
	Yangtze River Express Airlines	Equity-method investees	Investments accounted for by the equity method	-	-	25.00	(2,028,978,536)	-
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	62,534,884	8.00	24,838,070	-
Abacus Distribution Systems (Taiwan)	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	18,488,372	5.45	8,900,551	-
	<u>Beneficial certificates</u> Mirae Asset Solomon Money Market Fund	-	Financial assets at fair value through profit or loss - current	265,726.48	3,256,052	-	3,256,052	-
	Eastspring Inv Well Pool Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,428,448.80	32,067,268	-	32,067,268	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,292,766.13	30,101,676	-	30,101,676	-
	Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,751,466.00	40,486,748	-	40,486,748	-
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,898,491.78	23,075,978	-	23,075,978	-
	<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	-
Taiwan Airport Services	<u>Stock</u> TransAsia Airways	-	Available-for-sale financial asset - noncurrent	2,265,182	34,770,544	0.40	34,770,544	-
	Taiwan Airport Service (Samoa)	Subsidiary	Investments accounted for by the equity method	-	318,803,124	100.00	318,803,124	Note 4
	Titan V.C. Corp.	-	Financial assets carried at cost - noncurrent	1,448,171	2,065,210	5.30	7,805,642	Note 5
	Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	70,078,783	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2012				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Hwa Hsia	<u>Beneficial certificates</u> Fuh-Hwa Money Market Fund	-	Financial assets at fair value through profit or loss - current	479,808	\$ 6,742,501	-	\$ 6,742,501	-
	Prudential Financial Global Small & Mid cap Fund	-	Financial assets at fair value through profit or loss - current	84,320	2,303,622	-	2,303,622	-
	Prudential Financial High-Tech Fund	-	Financial assets at fair value through profit or loss - current	118,970	1,766,705	-	1,766,705	-
	Prudential Financial Taiwan Enterprise Fund	-	Financial assets at fair value through profit or loss - current	55,300	1,217,706	-	1,217,706	-
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	720,646	9,461,365	-	9,461,365	-
	Taishin Ta-Chong Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,169,056	16,122,803	-	16,122,803	-
	Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	405,795	6,023,738	-	6,023,738	-
	Paradigm Pion Money Market Fund	-	Financial assets at fair value through profit or loss - current	540,590	6,066,281	-	6,066,281	-
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	469,881	6,027,770	-	6,027,770	-
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	840,827	12,077,470	-	12,077,470	-
	Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss - current	689,230	10,143,071	-	10,143,071	-
	Yuanta De-Bao Money Market Fund	-	Financial assets at fair value through profit or loss - current	516,921	6,034,065	-	6,034,065	-
	<u>Stock</u> Hwa Shin Building Safeguard China Airlines	Subsidiary Parent company	Investments accounted for by the equity method Available-for-sale financial asset - current	1,000,000 814,152	18,630,712 9,769,824	100.00 -	18,630,712 9,769,824	Note 5 -
	<u>Beneficial certificates</u> Taishin Ta-Chong Money Market Fund	-	Financial assets at fair value through profit or loss - current	665,783.90	9,182,026	-	9,182,025	-
Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,522.71	4,588,884	-	4,588,884	-	
Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss - current	200,000.00	1,792,000	-	1,792,000	-	
<u>Bond</u> First Issue of Private Unsecured Bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	10	10,00,000	-	10,00,000	-	
Taiwan Airport Service (Samoa)	<u>Stock</u> Xiamen International Airport Air Cargo Terminal Xiamen International Airport Air Cargo Storage	Equity-method investees Equity-method investees	Investments accounted for by the equity method Investments accounted for by the equity method	- -	227,282,093 91,520,698	14.00 14.00	225,953,040 46,303,289	Notes 2 and 4 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 \$229,591,988, which included common stock and preferred stock as of and for the year ended December 31, 2012.

Note 4: The Company does not issue stocks because it is a limited company.

Note 5: The net asset value was calculated using the investee's unaudited financial statements as of and for the year ended December 31, 2012 because the audited financial statements were not prepared on time.

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 the audited financial statements were not prepared on time.

(Concluded)

CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 YEAR ENDED DECEMBER 31, 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 (Note)		Disposal			Ending Balance		
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
China Airlines	<u>Beneficial certificates</u> UPAMC James Bond Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	\$ -	58,622,408.17	\$ 950,171,428	46,289,442.77	\$ 750,217,565	\$ 750,000,000	\$ 217,565	12,332,965.40	\$ 200,171,428
	Union Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	31,223,907.83	400,166,958	15,620,362.70	200,089,036	200,000,000	89,036	15,603,545.13	200,166,958
	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	124,610,923.61	1,500,000,000	152,843,484.71	1,850,065,839	260,994,722.20	3,158,319,490	3,150,000,000	8,319,490	16,459,686.12	200,065,839
	Taishin 1699 Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	69,097,779.07	900,000,000	206,551,821.71	2,700,000,000	275,649,600.78	3,604,967,834	3,600,000,000	4,967,834	-	-
	Taishin Ta-Chong Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	29,236,561.70	400,000,000	167,264,588.30	2,300,000,000	196,501,150.00	2,702,655,825	2,700,000,000	2,655,825	-	-
	Eastspring Inv Well Poll Money Market	Financial assets at fair value through profit or loss - current	-	-	-	-	151,930,278.70	2,000,000,000	151,930,278.70	2,001,873,326	2,000,000,000	1,873,326	-	-
	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	-	-
	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	-	-
	FSITC Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	20,307,534.50	300,000,000	20,307,534.50	300,289,881	300,000,000	289,881	-	-
	Taishin Lucky Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	18,549,778.30	200,000,000	18,549,778.30	200,113,153	200,000,000	113,153	-	-
		<u>Stock</u> China Life Insurance Co., Ltd.	Financial assets at fair value through profit or loss - current	-	-	-	-	29,755,127.00	544,566,122	13,331,000.00	378,780,468	114,253,995	264,526,473	16,424,127.00
Mandarin Airlines	<u>Bond</u> First Issue of Private Unsecured Bonds in 2012 - China Airlines	Bonds investments with no active market - noncurrent	China Airlines	Parent company	-	-	280	280,000,000	-	-	-	-	280	280,000,000
Taoyuan International Airport Service	<u>Bond</u> First Issue of Private Unsecured Bonds in 2012 - China Airline	Bonds investments with no active market - noncurrent	China Airlines	Parent company	-	-	100	100,000,000	-	-	-	-	100	100,000,000

Note: Including valuation gain and 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
 YEAR ENDED DECEMBER 31, 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	\$ 258,818,372	0.21	30 days	\$ -	-	\$ (33,683,711)	(2.21)	-	
	Cal Park	Subsidiary	Purchase	213,019,195	0.17	2 months	-	-	(159,764,400)	(10.49)	-	
	Mandarin Airlines	Subsidiary	Sale	(1,976,879,342)	(1.49)	2 months	-	-	338,512,733	4.31	-	
				Purchase	286,280,459	0.23	2 months	-	-	(230,578,097)	(15.14)	-
	China Pacific Catering Services	Subsidiary	Purchase	1,149,899,895	0.93	60 days	-	-	(290,415,552)	(19.07)	-	
	Taoyuan International Airport Service	Subsidiary	Purchase	974,717,296	0.79	40 days	-	-	(261,255,031)	(17.16)	-	
	China Aircraft Services	Equity-method investee	Purchase	189,516,950	0.15	30 days	-	-	(28,928,367)	(1.90)	-	
	Taiwan Airport Services	Subsidiary	Purchase	364,839,483	0.30	40 days	-	-	(62,406,266)	(4.10)	-	
	Kaohsiung Catering Services	Equity-method investee	Purchase	124,485,523	0.10	40 days	-	-	(19,885,340)	(1.31)	-	
	Hwa Hsia	Subsidiary	Purchase	270,234,599	0.22	2 months	-	-	(48,928,624)	(3.21)	-	
	Yangtze River Express Airlines	Subsidiary's equity-method investee	Sale	(242,126,617)	(0.18)	2 months	-	-	16,250,325	0.21	-	
	Global Sky Express	Subsidiary	Sale	(137,128,997)	(0.10)	30 days	-	-	4,363,693	0.06	-	
Taiwan Air Cargo Terminal	China Airlines	Parent company	Sale	(258,818,372)	(19.48)	2 months	-	-	33,683,711	41.77	-	
Cal Park	China Airlines	Parent company	Sale	(213,019,195)	(72.16)	2 months	-	-	159,764,400	88.11	-	
Mandarin Airlines	China Airlines	Parent company	Purchase	1,976,879,342	29.85	2 months	-	-	(338,512,733)	(88.94)	-	
			Sale	(286,280,459)	(3.90)	2 months	-	-	230,578,097	67.28	-	
China Pacific Catering Services	China Airlines	Parent company	Sale	(1,149,899,895)	(58.41)	60 days	-	-	290,415,552	71.90	-	
Taoyuan International Airport Service	China Airlines	Parent company	Sale	(974,717,296)	(40.65)	30 days	-	-	261,255,031	63.99	-	
China Aircraft Services	China Airlines	Investor using equity method	Sale	(189,516,950)	(13.74)	30 days	-	-	28,928,367	12.43	-	
Taiwan Airport Services	China Airlines	Parent company	Sale	(364,839,483)	(38.79)	45 days	-	-	62,406,266	43.29	-	
Kaohsiung Catering Services	China Airlines	Investor using equity method sales	Sale	(124,485,523)	(6.82)	40 days	-	-	19,885,340	8.17	-	
Hwa Hsia	China Airlines	Parent company	Sale	(270,234,599)	(84.95)	2 months	-	-	48,928,624	88.25	-	
Yangtze River Express Airlines	China Airlines	Parent company of stockholder using equity-method	Purchase	242,126,617	2.18	2 months	-	-	(16,250,325)	(0.33)	-	
Global Sky Express	China Airlines	Parent company	Purchase	137,128,997	86.91	15 days	-	-	(4,363,693)	(90.67)	-	

CHINA AIRLINES, LTD. AND INVESTEEES

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

DECEMBER 31, 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	\$ 338,512,733	7.16	\$ -	-	\$ 338,512,733	\$ -
Mandarin Airlines	China Airlines	Parent company	230,578,097	1.60	-	-	146,607,567	-
Taoyuan International Airport Service	China Airlines	Parent company	261,255,031	3.74	-	-	143,235,303	-
China Pacific Catering Services	China Airlines	Parent company	290,415,552	4.16	-	-	196,718,628	-
Cal Park	China Airlines	Parent company	159,764,400	1.33	-	-	106,509,600	-

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
 YEAR ENDED DECEMBER 31, 2012
 (In New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2012			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2012	December 31, 2011	Shares	Percentage of Ownership	Carrying Value			
China Airlines, Ltd.	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	\$ 1,350,000,000	\$ 1,350,000,000	135,000,000	54.00	\$ 1,513,701,724	\$ (184,054,471)	\$ (99,389,415)	-
	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	1,500,000,000	1,500,000,000	150,000,000	100.00	1,469,920,155	3,732,134	3,732,134	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368,252	2,042,368,252	188,154,025	93.99	1,226,818,604	47,875,909	77,867,389	Note 1
	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	1,016,755,000	9,408,018	9,408,018	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110,000	439,110,000	43,911,000	51.00	688,008,930	276,979,115	141,259,349	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000,000	147,000,000	34,300,000	49.00	652,809,376	91,650,176	44,908,586	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 46,516,200	US\$ 45,476,200	46,516,200	100.00	430,945,000	27,986,923	27,986,923	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200,000	52,200,000	13,021,042	93.93	421,450,514	152,920,052	143,645,270	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000,000	HK\$ 58,000,000	28,400,000	20.00	381,819,505	105,345,626	21,069,126	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289,100	12,289,100	20,626,644	47.35	312,007,212	84,587,758	40,054,214	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240,221	140,240,221	14,329,757	35.78	242,279,047	156,077,577	55,844,046	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50	233,647,293	407,548,538	99,849,392	-
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000,000	465,000,000	46,500,000	100.00	193,633,640	(9,428,078)	(9,428,078)	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	150,654,000	150,654,000	13,293,000	28.48	190,874,553	93,957,662	26,763,814	-
	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	157,875,614	43,067,077	23,686,893	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00	101,352,011	29,165,206	29,165,206	Note 1
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00	36,126,244	6,686,102	3,409,910	-
	Yestrip	Taipei, Taiwan	Travel business	26,264,643	26,264,643	1,600,000	100.00	33,776,973	11,950,372	11,950,372	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00	6,960,097	4,265,325	1,066,332	-
	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	227,803,837	118,068,833	16,529,675	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	91,874,709	72,574,738	10,160,473	Note 4
	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK\$ 3,329,268	HK\$ 3,329,268	1,050,000	35.00	27,013,721	14,615,118	7,258,284	-
Yangtze River Express Airlines	Shanghai, China	Forwarding and storage of air cargo	US\$ 38,796,173	US\$ 38,796,173	-	25.00	-	(525,172,051)	-	Notes 3 and 4	
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,876,976	US\$ 5,876,976	-	100.00	318,803,124	26,690,148	26,690,148	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	18,630,712	7,260,451	7,260,451	-
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	227,282,093	118,068,833	16,529,675	Note 4
	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	91,520,698	72,574,738	10,160,473	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.

TABLE 7

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENTS IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 2012

(In New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital (Note 8)	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2012 (Note 8)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2012 (Note 8)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 4) (Notes 4 and 8)	Carrying Value as of December 31, 2012	Accumulated Inward Remittance of Earnings as of December 31, 2012
					Outflow	Inflow					
Xiamen International Air Cargo Terminal	Forwarding and storage of air cargo	\$ 1,045,551,933 (RMB 224,480,000)	Indirect (Note 1)	\$ 119,704,826 (US\$ 4,117,846)	\$ -	\$ -	\$ 119,704,826 (US\$ 4,117,846)	14.00%	\$ 16,529,675 (US\$ 558,703)	\$ 227,803,837 (US\$ 7,836,452)	\$ 54,878,372 (US\$ 1,887,816) (Note 5)
Xiamen International Airport Air Cargo Storage	Forwarding and storage of air cargo	65,207,266 (RMB 14,000,000)	Indirect (Note 1)	56,611,657 (US\$ 1,947,441)	-	-	56,611,657 (US\$ 1,947,441)	14.00%	10,160,473 (US\$ 343,424)	91,874,709 (US\$ 3,160,489)	-
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	403,779,070 (US\$ 13,890,000)	Indirect (Note 1)	32,302,326 (US\$ 1,111,200)	30,232,558 (US\$ 1,040,000)	-	62,534,884 (US\$ 2,151,200)	8.00%	-	62,534,884 (US\$ 2,151,200)	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	385,102,562 (RMB 82,681,520)	Indirect (Note 1)	18,488,372 (US\$ 636,000)	-	-	18,488,372 (US\$ 636,000)	5.45%	-	18,488,372 (US\$ 636,000)	-
Yangtze River Express Airlines	Forwarding and storage of air cargo	2,328,830,927 (RMB 500,000,000)	Indirect (Note 1)	1,127,795,727 (US\$ 38,796,173)	-	-	1,127,795,727 (US\$ 38,796,173)	25.00%	-	-	-
Shanghai Eastern Aircraft Maintenance	Aircraft line maintenance	90,116,279 (US\$ 3,100,000)	Indirect (Note 2)	7,209,302 (US\$ 248,000)	-	-	7,209,302 (US\$ 248,000)	8.00%	-	7,209,302 (US\$ 248,000)	-
Shanghai Eastern United International	Forwarding of air cargo and ocean freight	29,069,767 (US\$ 1,000,000)	Indirect (Note 3)	4,985,465 (US\$ 171,500)	-	-	4,985,465 (US\$ 171,500)	17.15%	-	4,985,465 (US\$ 171,500)	-

Accumulated Investment in Mainland China as of December 31, 2012 (Note 8)	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
\$1,379,330,232 (US\$48,068,160)	\$1,403,979,836 (Note 6)	\$33,167,723,241 (Note 7)

Note 1: China Airlines, Ltd. the "Company" invested in Cal-Asia Investment, which, in turn, invested in a company located in Mainland China.

Note 2: The 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.

(Continued)

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

Note 5: The inward remittance of earnings in 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 Adjudgment 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 year-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.

(Concluded)