

China Airlines, Ltd.

**Financial Statements for the
Years Ended December 31, 2010 and 2009 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, 2010 and 2009 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, 2010 and 2009 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, 2010 and 2009 on which we have issued an unqualified opinion in our report dated March 11, 2011.

March 11, 2011

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, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010		2009		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents (Notes 2 and 3)	\$ 10,796,980	6	\$ 5,527,353	3	\$ 1,100,000	1	\$ 4,100,000	2
Financial assets at fair value through profit or loss - current (Notes 2, 4 and 23)	300,032	-	300,133	-	1,249,625	1	2,648,760	1
Available-for-sale financial assets - current (Notes 2, 5 and 23)	117,315	-	337,256	-	-	-	-	-
Derivative financial assets for hedging - current (Notes 2, 23 and 24)	210	-	6,454	-	-	-	-	-
Receivables:								
Notes and accounts, net (Notes 2 and 6)	11,436,458	6	11,999,005	6	68,745	-	2,737,749	1
Notes and accounts - related parties (Note 25)	498,212	-	480,890	-	308,087	-	265,995	-
Other receivables (Note 7)	618,392	-	585,191	-	1,069,857	1	729,739	-
Inventories, net (Notes 2 and 8)	6,666,268	3	5,408,701	3	12,355,106	6	11,307,402	5
Deferred income tax assets - current (Notes 2 and 20)	149,236	-	698,995	-	8,649,819	4	8,309,890	4
Other current assets	359,831	-	231,895	-	3,500,000	2	3,865,600	2
Total current assets	30,942,934	15	25,575,873	12	17,253,668	8	17,829,532	8
					1,060,208	-	1,256,854	1
					1,791,031	1	1,384,486	1
					48,406,146	24	55,524,380	26
LONG-TERM INVESTMENTS								
Financial assets at fair value through profit or loss - non-current (Notes 2, 4 and 23)	373,990	-	374,045	-	50,834	-	232,419	-
Financial assets carried at cost - non-current (Notes 2, 9 and 23)	371,367	-	371,367	-	22,750,000	11	17,600,000	8
Investments accounted for by the equity method (Notes 2 and 10)	8,779,371	5	8,438,120	4	66,951,428	33	80,641,270	38
Other financial assets - non-current	13,014	-	11,867	-	2,232,749	1	3,643,497	2
Total long-term investments	9,537,742	5	9,195,399	4	91,985,011	45	102,117,186	48
PROPERTIES (Notes 2, 11 and 26)								
Cost								
Land	1,527,773	1	2,106,788	1	6,646,911	3	5,516,648	3
Buildings	8,108,762	4	7,849,514	4	6,129,557	3	6,788,738	3
Machinery and equipment	3,702,290	2	3,610,674	2	1,279,025	1	449,124	-
Flight equipment	191,215,677	94	186,180,806	88	14,055,493	7	12,754,510	6
Furniture	742,006	-	666,670	-	154,446,650	76	170,396,076	80
Leased flight and other equipment	13,901,146	7	22,877,463	11	-	-	-	-
Leasehold improvements	1,083,146	-	961,239	-	-	-	-	-
Revaluation increment	50,335	-	50,335	-	-	-	-	-
Total cost and revaluation increment	220,331,135	108	224,303,489	106	46,316,224	23	45,722,490	22
Accumulated depreciation	83,502,436	41	74,047,109	35	392,822	-	629,150	-
Construction in progress and prepayments for equipment (Note 27)	136,828,699	67	150,256,380	71	-	-	-	-
	5,364,742	3	4,777,628	2	-	-	-	-
Net properties	142,193,441	70	155,034,008	73	7,996,300	4	(4,034,018)	(2)
INTANGIBLE ASSETS								
Computer software, net (Note 2)	368,886	-	361,670	-	(3,370,031)	(2)	(130,206)	-
Deferred pension cost (Note 2)	177,407	-	544,049	1	(2,621,974)	(1)	(1,550,808)	(1)
Net intangible assets	546,293	-	905,719	1	(64,422)	-	(162,526)	-
					50,335	-	830,471	1
					(36,554)	-	(36,554)	-
					(6,042,646)	(3)	(1,049,623)	-
OTHER ASSETS								
Deposits (Note 27)	11,285,998	6	12,486,276	6	48,662,700	24	41,267,999	20
Deferred income tax assets - non-current (Notes 2 and 20)	6,625,279	3	6,463,988	3	-	-	-	-
Restricted assets - non-current (Notes 25 and 26)	1,005,944	1	793,231	-	-	-	-	-
Other assets (Note 2)	971,719	-	1,209,581	1	-	-	-	-
Net other assets	19,888,940	10	20,953,076	10	-	-	-	-
TOTAL	\$ 203,109,350	100	\$ 211,664,075	100	\$ 203,109,350	100	\$ 211,664,075	100

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

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars and Shares)

	2010		2009	
	Amount	%	Amount	%
REVENUES (Notes 2 and 25)				
Passenger	\$ 75,721,475	55	\$ 59,130,366	60
Cargo	56,758,861	41	33,709,541	35
Others	<u>5,660,124</u>	<u>4</u>	<u>5,243,880</u>	<u>5</u>
Total revenues	<u>138,140,460</u>	<u>100</u>	<u>98,083,787</u>	<u>100</u>
COSTS (Notes 21 and 25)				
Flight operations	71,796,622	52	56,006,387	57
Terminal and landing fees	19,233,440	14	16,848,163	17
Passenger services	8,492,098	6	7,618,603	8
Aircraft maintenance	10,458,699	7	7,411,478	8
Others	<u>3,573,222</u>	<u>3</u>	<u>3,237,427</u>	<u>3</u>
Total costs	<u>113,554,081</u>	<u>82</u>	<u>91,122,058</u>	<u>93</u>
GROSS PROFIT	<u>24,586,379</u>	<u>18</u>	<u>6,961,729</u>	<u>7</u>
OPERATING EXPENSES (Note 21)				
Marketing and selling	7,126,596	5	6,279,492	6
General and administrative	<u>2,694,728</u>	<u>2</u>	<u>2,377,962</u>	<u>3</u>
Total operating expenses	<u>9,821,324</u>	<u>7</u>	<u>8,657,454</u>	<u>9</u>
OPERATING INCOME (LOSS)	<u>14,765,055</u>	<u>11</u>	<u>(1,695,725)</u>	<u>(2)</u>
NONOPERATING INCOME AND GAINS				
Interest income (Note 25)	109,043	-	50,516	-
Investment income recognized under the equity method (Notes 2 and 10)	905,588	1	281,713	-
Dividend income (Note 2)	187,712	-	287,019	-
Gain on disposal of properties, net (Note 2)	7,148	-	3,739	-
Gain on sale of available-for-sale financial assets (Notes 2 and 5)	118,139	-	-	-
Valuation gain on financial instruments, net (Notes 2 and 4)	343,945	-	2,526,558	3
Others	<u>500,575</u>	<u>1</u>	<u>1,018,474</u>	<u>1</u>
Total nonoperating income and gains	<u>2,172,150</u>	<u>2</u>	<u>4,168,019</u>	<u>4</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 25)	2,655,929	2	3,429,016	3
Foreign exchange loss, net (Note 2)	691,284	1	218,756	-

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars and Shares)

	2010		2009	
	Amount	%	Amount	%
Impairment loss (Notes 2 and 11)	579,015	-	-	-
Others (Notes 14 and 27)	<u>1,390,866</u>	<u>1</u>	<u>2,763,988</u>	<u>3</u>
Total nonoperating expenses and losses	<u>5,317,094</u>	<u>4</u>	<u>6,411,760</u>	<u>6</u>
PRETAX INCOME (LOSS)	11,620,111	9	(3,939,466)	(4)
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 20)	<u>998,017</u>	<u>1</u>	<u>(134,554)</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ 10,622,094</u>	<u>8</u>	<u>\$ (3,804,912)</u>	<u>(4)</u>
	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS (LOSS) PER SHARE (Note 22)				
Basic	<u>\$ 2.53</u>	<u>\$ 2.31</u>	<u>\$ (1.08)</u>	<u>\$ (1.04)</u>
Diluted	<u>\$ 2.51</u>	<u>\$ 2.29</u>	<u>\$ (1.08)</u>	<u>\$ (1.04)</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, 2010 AND 2009
(In Thousands of New Taiwan Dollars)**

	Capital Stock Issued and Outstanding		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 11)	Company Shares Held by Subsidiaries Reclassified into Treasury Stock (Notes 2, 18 and 19)	Total Stockholders' Equity
	Shares (In Thousands)	Amount	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)						
BALANCE, JANUARY 1, 2009	4,625,170	\$ 46,251,703	\$ 4,728,750	\$ 949,183	\$ (31,335,519)	\$ 25,657,586	\$ (1,206,178)	\$ (690,297)	\$ 830,471	\$ (36,554)	\$ 30,685,913
Accumulated deficit offset against reserve and capital surplus	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	(4,728,750)	-	4,728,750	-	-	-	-	-	-
Special reserve	-	-	-	(949,183)	949,183	-	-	-	-	-	-
Capital surplus	-	-	-	-	10,755,829	10,755,829	-	-	-	-	-
Capital reduction to offset accumulated deficit	(1,490,176)	(14,901,757)	-	-	14,901,757	14,901,757	-	-	-	-	-
Issuance of common stock for cash - September 29, 2009	602,911	6,029,106	-	-	(229,106)	(229,106)	-	-	-	-	5,800,000
- September 30, 2009	600,000	6,000,000	-	-	-	-	-	-	-	-	6,480,000
Compensation recognized for employee stock options	-	-	-	-	-	-	-	-	-	-	148,088
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	-	-	-	(35,817)
Translation adjustments on a foreign operating entity	-	-	-	-	-	(484,636)	-	-	-	-	(484,636)
Conversion of bonds into capital stock	234,344	2,343,438	-	-	-	(47,310)	-	-	-	-	2,296,128
Net loss in 2009	-	-	-	-	(3,804,912)	(3,804,912)	-	-	-	-	(3,804,912)
Unrealized valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	52,239	-	-	52,239
Unrealized gain on cash flow hedge	-	-	-	-	-	-	-	472,238	-	-	472,238
Net loss not recognized as pension cost	-	-	-	-	-	-	(301,139)	-	-	-	(301,139)
Unrealized gain on financial instruments of equity-method investees	-	-	-	-	-	-	-	3,294	-	-	3,294
Net loss not recognized as pension cost of equity-method investees	-	-	-	-	-	-	(43,491)	-	-	-	(43,491)
Adjustment due to nonproportional subscription for new shares issued by its investee	-	-	-	-	-	94	-	-	-	-	94
BALANCE, DECEMBER 31, 2009	4,572,249	45,722,490	-	-	(4,034,018)	(4,034,018)	(1,550,808)	(162,526)	830,471	(36,554)	41,267,999
Unrealized revaluation increment transferred to retained earnings	-	-	-	-	780,136	780,136	-	-	(780,136)	-	-
Accumulated deficit offset against capital surplus	-	-	-	-	-	-	-	-	-	-	-
Capital surplus	-	-	-	(628,088)	628,088	-	-	-	-	-	-
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	-	-	-	(257,314)
Translation adjustments on a foreign operating entity	-	-	-	-	-	(2,982,511)	-	-	-	-	(2,982,511)
Conversion of bonds into capital stock	59,373	593,734	-	-	-	391,866	-	-	-	-	985,600
Net income in 2010	-	-	-	-	10,622,094	10,622,094	-	-	-	-	10,622,094
Unrealized valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	(147,213)	-	-	(147,213)
Unrealized gain on cash flow hedge	-	-	-	-	-	-	-	246,694	-	-	246,694
Net loss not recognized as pension cost	-	-	-	-	-	-	(1,040,771)	-	-	-	(1,040,771)
Unrealized loss on financial instruments of equity-method investees	-	-	-	-	-	-	-	(1,377)	-	-	(1,377)
Net loss not recognized as pension cost of equity-method investees	-	-	-	-	-	-	(30,395)	-	-	-	(30,395)
Adjustment due to nonproportional subscription for new shares issued by its investee	-	-	-	-	-	(106)	-	-	-	-	(106)
BALANCE, DECEMBER 31, 2010	4,631,622	\$ 46,316,224	\$ 7,996,300	\$ 7,996,300	\$ 7,996,300	\$ 7,996,300	\$ (2,621,974)	\$ (64,422)	\$ 50,335	\$ (36,554)	\$ 48,662,700

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 10,622,094	\$ (3,804,912)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income taxes	989,409	(194,849)
Depreciation and amortization	10,054,254	9,986,113
Allowance for doubtful accounts	38,000	11,000
Gain on sale of available-for-sale financial assets	(118,139)	-
Compensation cost of employee stock options	-	148,088
Valuation gain on financial instruments, net	(343,945)	(2,526,558)
Investment income recognized under the equity method	(905,588)	(281,713)
Cash dividends received from equity-method investees	361,322	393,125
Loss on inventories, properties and idle properties	226,438	155,742
Gain on disposal of properties	(7,148)	(3,739)
Impairment loss	579,015	-
Loss (gain) on disposal of idle properties, net	(16,492)	13,617
Loss on convertible bonds converted due to induced conversion	-	866,628
Amortization of deferred profit on sale-leaseback	(659,181)	(666,745)
Amortization of deferred credits	(66,413)	(66,413)
Net changes in operating assets and liabilities:		
Financial assets and liabilities held for trading	(2,393,648)	(15,961,282)
Notes and accounts receivable	524,547	(3,925,638)
Notes and accounts receivable - related parties	(17,322)	(181,995)
Other receivables	(33,160)	(44,068)
Inventories	(1,351,000)	(408,193)
Other current assets	(127,936)	86,384
Accounts payable	(421,652)	142,939
Accounts payable - related parties	(18,516)	60,661
Accrued expenses	987,512	1,101,096
Advance ticket sales	339,929	(93,746)
Other current liabilities	406,545	209,886
Accrued pension cost	456,134	409,951
Other liabilities	874,636	-
Net cash provided by (used in) operating activities	<u>19,979,695</u>	<u>(14,574,621)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to financial assets at fair value through profit or loss	-	(250,000)
Proceeds from disposal of available-for-sale financial assets	181,914	-
Investees' return of capital - available-for-sale financial assets	-	28,545
Increase in investments accounted for by the equity method	(24,597)	(250,653)
Investees' return of capital - investments accounted for by the equity method	10,000	-
Increase in other financial assets - noncurrent	(1,147)	(7,607)
Additions to properties	(5,206,611)	(1,229,906)

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
Proceeds of the disposal of properties	7,585	7,741
Increase in computer software	(57,148)	(123,179)
Proceeds of the disposal of idle properties	28,775	56,978
Decrease (increase) in deposits made	1,200,278	(372,450)
Increase in deferred charges	(28,417)	(57,090)
Increase in restricted assets - noncurrent	<u>(212,713)</u>	<u>(529,205)</u>
Net cash used in investing activities	<u>(4,102,081)</u>	<u>(2,726,826)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(3,000,000)	(4,830,033)
Increase (decrease) in short-term bills payable	(1,399,135)	1,252,110
Proceeds of long-term debts	7,118,705	15,981,819
Repayments of long-term debt and capital lease obligations	(19,106,367)	(20,059,990)
Proceeds of bond issuance	8,650,000	12,900,000
Redemption of bonds issued	(2,880,000)	(1,971,700)
Increase in deposits-in	21,678	58,503
Issuance of common stock for cash	<u>-</u>	<u>12,280,000</u>
Net cash provided by (used in) financing activities	<u>(10,595,119)</u>	<u>15,610,709</u>
EFFECTS OF EXCHANGE RATE CHANGES	<u>(12,868)</u>	<u>(63,585)</u>
INCREASE (DECREASE) IN CASH	5,269,627	(1,754,323)
CASH, BEGINNING OF YEAR	<u>5,527,353</u>	<u>7,281,676</u>
CASH, END OF YEAR	<u>\$ 10,796,980</u>	<u>\$ 5,527,353</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 2,709,735	\$ 4,252,428
Less: Capitalized interest	<u>76,655</u>	<u>98,113</u>
Interest paid (excluding capitalized interest)	<u>\$ 2,633,080</u>	<u>\$ 4,154,315</u>
Income tax paid	<u>\$ 70,970</u>	<u>\$ 75,983</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term loans and debts	<u>\$ 17,253,668</u>	<u>\$ 17,829,532</u>
Current portion of capital lease obligations	<u>\$ 1,060,208</u>	<u>\$ 1,256,854</u>
Current portion of bonds issued	<u>\$ 3,500,000</u>	<u>\$ 3,865,600</u>
Convertible bonds transferred to common stock	<u>\$ 985,600</u>	<u>\$ 1,429,500</u>

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

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2010 AND 2009 (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 China Aviation Development Foundation and National Development Fund, Executive Yuan (which acquired the Company’s common shares through a private placement in September 2009). As of December 31, 2010 and 2009, China Aviation Development Foundation held 39.10% and 39.61% of the Company’s shares, respectively. As of December 31, 2010 and 2009, National Development Fund, Executive Yuan held 11.22% and 11.37% of the Company’s shares, respectively. The Company had 10,492 and 10,081 employees as of December 31, 2010 and 2009, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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. Under these guidelines and principles, the Company has to make certain estimates and assumptions that could affect the allowance for doubtful accounts, loss on market value decline of inventories, property depreciation, asset impairment, accrued expenses - frequent flyer program, pension cost, income tax, loss on pending lawsuits and bonuses of employees. Actual results could differ from these estimates.

For the convenience of readers, 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 financial statements shall prevail.

The Company’s significant accounting policies are summarized as follows:

Current or 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 are commercial paper, which 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 - closing prices as of the balance sheet date; (b) beneficial certificates (open-end funds) - net asset value as of the balance sheet date; and (c) convertible bonds - at values determined using valuation techniques.

Financial assets designated as at fair value through profit or loss are hybrid instruments, and designated as at fair value through profit or loss on initial recognition.

Fair value 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.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Allowances for Doubtful Accounts

Allowances for doubtful accounts are provided on the basis of a periodic evaluation of their collectibility. The evaluation is based on aging analysis, the economic environment, etc.

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 cost or net realizable value. Inventory write-downs are made item 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.

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.

Investments Accounted for Using the Equity Method

Investments in companies in which the Company exercises significant influence on the investees' operating and financial policy decisions are accounted for using 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 is greater than the Company 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.

Costs of investments sold are determined using the weighted-average method.

Under Statement of Financial Accounting Standards No. 30 - "Accounting for Treasury Stocks," the Company reclassified its shares held by its subsidiaries into 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.

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.

Leased Flight and Other Equipment

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.

Computer Software Costs

Computer software costs are amortized using the straight-line method over the estimated useful lives of the software.

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 amortized using the straight-line method over the estimated useful lives or the terms of the bonds or loans.

Accrued Expenses - Frequent-flyer Program

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

Convertible Bonds

The net carrying amount of the bonds which was issued before December 31, 2005 (the face amount plus redemption premium accrued to the date of conversion but will not be paid) is credited to the appropriate capital accounts (capital stock equal to par value, with the balance credited to capital surplus) upon conversion of the bonds. No gain or loss is recognized on such conversions.

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 and unused investment credits, 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 according to 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 eligible equipment or technology, research and development expenses and personnel training expenses are recognized in the period those acquisitions or expenses are incurred.

Adjustments to prior year's tax liabilities are added to or deducted from the current year's income tax expense.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders resolve to retain the earnings.

Asset Impairment

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.

Revenues

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

Foreign-currency Transactions and Transactions of Foreign Subsidiaries or Foreign Operating Entity

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the settlement period.

The year-end balances of foreign-currency assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as credits or charges to income.

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currency (ex. investments in equity instruments), which are measured at fair value, are reported using the closing exchange rate. For a non-monetary 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 non-monetary financial asset at fair value through profit or loss, exchange differences are recognized in the income statement. Non-monetary financial assets and liabilities denominated in foreign currency, which are measured 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 is 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 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.

Hedge Accounting

The Company enters into some derivative transactions that aim to manage interest rate, exchange rate, fuel price, 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 into 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 into 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 non-financial asset or a non-financial liabilities, it removes the associated gains and losses that were recognized directly in equity and includes them in the initial cost or other 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 adjustments to stockholders' equity is still recognized as adjustments to stockholders' equity before forecast transactions occur and then reclassified into current profit or loss when forecast transactions occur.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2010.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2010	2009
Cash on hand	\$ 639,281	\$ 1,700,089
Revolving fund	113,299,029	125,983,896
Cash in banks	6,568,081,267	4,285,070,294
Certificates of deposit	4,114,960,258	1,064,733,113
Cash equivalents	<u>-</u>	<u>49,865,950</u>
	<u>\$ 10,796,979,835</u>	<u>\$ 5,527,353,342</u>

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

Financial instruments held for trading are summarized as follows:

	December 31	
	2010	2009
<u>Financial assets held for trading</u>		
Current		
Beneficial certificates	<u>\$ 300,031,543</u>	<u>\$ 300,132,515</u>
<u>Financial liabilities held for trading</u>		
Fuel swap contracts	\$ -	\$ 2,731,167,924
Foreign exchange swap contracts	<u>-</u>	<u>6,581,432</u>
	<u>\$ -</u>	<u>\$ 2,737,749,356</u>

The gains on beneficial certificates were \$6,191,000 in 2010 and \$1,892,000 in 2009. Transactions on derivative instruments held for trading resulted in gains of \$337,809,000 in 2010 and \$2,400,621,000 in 2009.

Financial instruments designated as at FVTPL were as follows:

	December 31	
	2010	2009
<u>Financial assets designated as at FVTPL</u>		
Noncurrent		
Convertible bonds		
China Life Insurance Co., Ltd.	<u>\$ 373,990,000</u>	<u>\$ 374,044,825</u>

The Company purchased the first subordinated unsecured mandatory convertible bonds issued privately by China Life Insurance with the par value of \$250,000,000 on March 31, 2009. The coupon interest is 4% with maturity of five years. On the maturity date, the bonds under the mandatory term should be converted in full into the common stock of China Life Insurance at the current conversion price.

The transactions on financial assets designated as at FVTPL resulted in losses of \$55,000 in 2010 and gains of \$124,045,000 in 2009.

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2010		2009	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
<u>Current</u>				
Domestic marketable equity securities				
Trade-Van Information Service	\$ -	-	\$ 179,429,200	5.98
Foreign marketable equity securities				
France Telecom	<u>117,314,587</u>	-	<u>157,826,974</u>	-
	<u>\$ 117,314,587</u>		<u>\$ 337,256,174</u>	

In their meeting in June 2009, the stockholders of Trade-Van Information Service resolved to reduce this investee's capital. The Company thus received, on the date of the approval of the investee's capital reduction, a capital return of \$28,545,000 from Trade Van Information Service. In April 2010, the Company disposed of its entire holding in Trade-Van Information Service and received \$181,914,000. The gain on the disposal of available-for-sale financial assets was \$118,139,000.

6. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2010	2009
Notes receivable	\$ 234,646,483	\$ 221,341,551
Accounts receivable	<u>11,266,471,700</u>	<u>11,826,051,055</u>
	11,501,118,183	12,047,392,606
Less: Allowance for doubtful accounts	<u>64,660,316</u>	<u>48,387,901</u>
	<u>\$ 11,436,457,867</u>	<u>\$ 11,999,004,705</u>

7. OTHER RECEIVABLES

	December 31	
	2010	2009
Tax refunds	\$ 396,418,687	\$ 350,928,412
Accrued revenue	215,454,315	203,355,833
Others	<u>6,519,369</u>	<u>30,906,484</u>
	<u>\$ 618,392,371</u>	<u>\$ 585,190,729</u>

8. INVENTORIES, NET

	December 31	
	2010	2009
Aircraft spare parts	\$ 6,208,381,108	\$ 5,043,414,045
Items for in-flight sale	333,675,809	325,428,434
Work in process - maintenance services	<u>124,210,598</u>	<u>39,858,503</u>
	<u>\$ 6,666,267,515</u>	<u>\$ 5,408,700,982</u>

As of December 31, 2010 and 2009, the allowances for inventory devaluation were \$66,081,000 and \$54,231,000, respectively. The losses of \$11,850,000 and \$5,393,000 due to write-downs of inventory were included in the operating costs in 2010 and 2009, respectively.

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2010		2009	
	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

(Continued)

	December 31			
	2010		2009	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
Regal International Advertising	\$ 5,925,000	6.58	\$ 5,925,000	6.58
Far Eastern Air Transport	-	5.73	-	5.73
	<u>370,894,380</u>		<u>370,894,380</u>	
Unlisted preferred stocks				
Abacus International Holdings Ltd.	<u>472,522</u>	-	<u>472,522</u>	-
	<u>\$ 371,366,902</u>		<u>\$ 371,366,902</u>	

(Concluded)

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2010		2009	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Investees on which the Company exercises significant influence</u>				
Taiwan Air Cargo Terminal	\$ 1,649,298,276	54.00	\$ 1,623,563,079	54.00
Cal Park	1,457,413,760	100.00	1,475,996,024	100.00
Cal-Dynasty International	1,009,378,367	100.00	1,127,171,161	100.00
Mandarin Airlines	1,004,699,155	93.99	498,577,598	93.99
Taoyuan International Airport Services	671,375,416	49.00	695,787,042	49.00
China Pacific Catering Services	637,608,109	51.00	619,668,637	51.03
China Aircraft Services	359,886,699	20.00	387,241,761	20.00
Cal-Asia Investment	351,186,589	100.00	370,503,548	100.00
Abacus Distribution Systems (Taiwan)	395,687,814	93.93	358,671,149	93.93
Taiwan Airport Services	296,924,254	47.35	294,479,638	47.35
Kaohsiung Catering Services	230,693,413	35.78	189,439,185	31.76
Asian Compressor Technology Services	184,112,301	24.50	180,137,826	24.50
Science Park Logistics	174,871,708	28.48	167,336,740	28.48
China Pacific Laundry Services	126,459,123	55.00	114,135,211	55.00
Hwa Hsia	102,263,416	100.00	100,323,284	100.00
Cal Hotel	48,305,061	100.00	150,487,152	100.00
Dynasty Holidays	44,393,676	51.00	43,367,962	51.00
Yestrip	27,333,357	100.00	34,542,308	100.00
Global Sky Express	7,377,510	25.00	6,587,884	25.00
Freighter Princess Ltd.	35,088	100.00	35,088	100.00
Freighter Prince Ltd.	34,602	100.00	34,602	100.00
Freighter Queen Ltd.	<u>32,895</u>	100.00	<u>32,895</u>	100.00
	<u>\$ 8,779,370,589</u>		<u>\$ 8,438,119,774</u>	

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

	Year Ended December 31	
	2010	2009
Taiwan Air Cargo Terminal	\$ 25,735,197	\$ (32,907,636)
Cal Park	(18,582,264)	(20,794,915)
Cal-Dynasty International	(10,178,667)	23,872,947
Mandarin Airlines	507,732,425	44,370,620
Taoyuan International Airport Services	17,562,808	139,373
China Pacific Catering Services	110,254,668	80,790,656
China Aircraft Services	14,765,782	23,602,814
Cal-Asia Investment	30,302,159	18,612,118
Abacus Distribution Systems (Taiwan)	130,768,167	104,123,080
Taiwan Airport Services	13,217,582	(17,887,691)
Kaohsiung Catering Services	49,476,560	36,613,811
Asian Compressor Technology Services	67,863,890	70,932,192
Science Park Logistics	15,510,768	8,635,723
China Pacific Laundry Services	13,605,565	7,432,820
Hwa Hsia	25,381,454	29,299,428
Cal Hotel	(102,182,091)	(108,563,553)
Dynasty Holidays	5,855,220	7,897,401
Yestrip	6,709,095	4,511,872
Global Sky Express	<u>1,789,626</u>	<u>1,032,041</u>
	<u>\$ 905,587,944</u>	<u>\$ 281,713,101</u>

The equity-method investees' financial statements, which had been used to determine the carrying amount of the Company's investments, had been audited. The subsidiaries, Freighter Queen Ltd., Freighter Prince Ltd. and Freighter Princess Ltd, were established in March 2001, September 2001 and January 2002, respectively, for the Company's leasing aircraft. In iys balance sheets, the Company recognized the fixed assets and liabilities related to the leased aircraft as a leasing transaction.

The difference between the investment cost and the investee's net assets derives from goodwill and related-party transaction of depreciable assets between the Company and its subsidiary. The information on goodwill in 2010 and 2009 was as follows:

	Goodwill	Transaction between Company and Subsidiary
<u>December 31, 2010</u>		
Beginning	\$ 53,843,702	\$(183,514,249)
Decrease	<u>1,420,337</u>	<u>32,868,224</u>
Ending	<u>\$ 52,423,365</u>	<u>\$(150,646,025)</u>
<u>December 31, 2009</u>		
Beginning	\$ 53,843,702	\$(216,382,473)
Decrease	<u>-</u>	<u>32,868,224</u>
Ending	<u>\$ 53,843,702</u>	<u>\$(183,514,249)</u>

On December 28, 2010, the Company acquired 4.02% equity in Kaohsiung Catering Services for \$24,597,000 for aviation business development.

In their meeting in December 2009, the stockholders of Yestrip resolved to reduce this investee's capital. The Company thus received, on the date of the authorities' approval of the Yestrip's capital reduction, a capital return of \$10,000,000 in February 2010.

In May 2009 and July 2009, the Company invested \$50,000,000 and \$200,000,000, respectively, for Cal Hotel to meet certain operating needs.

11. PROPERTIES

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Revaluation increase - cost		
Building	<u>\$ 50,335,009</u>	<u>\$ 50,335,009</u>
Accumulated depreciation		
Building	\$ 3,469,488,614	\$ 3,376,430,701
Machinery and equipment	3,086,701,234	3,020,750,509
Flight equipment	70,066,802,888	56,453,568,890
Furniture	413,573,173	434,554,194
Leased flight and other equipment	5,592,854,537	9,988,746,988
Leasehold improvements	<u>873,015,258</u>	<u>773,058,234</u>
	<u>\$ 83,502,435,704</u>	<u>\$ 74,047,109,516</u>

Interests capitalized in the years ended December 31, 2010 and 2009 amounted to \$76,655,000 and \$98,113,000, respectively. These interests were calculated at rates ranging from 1.6017% to 2.2177% and from 1.8432% to 3.2686% in the years ended December 31, 2010 and 2009, 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.

The Company had planned to use the land in Nan Kan in Taoyuan as the site for a headquarter building. However, after the headquarters finally moved to Cal Park in Nan Kan in March 2011, the Company decided to change the purpose for the land, depending on future operations. Thus, the land was regarded as an individual cash-generating unit and subjected to an impairment test. Using a land appraisal report, the Company recognized the difference between the net fair value of \$1,468,433,000 and the book value of \$2,047,448,000 as an impairment loss of \$579,015,000.

12. SHORT-TERM LOANS

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Bank loans. Interest - 0.72% to 0.88% in 2010 and 0.8% to 1.15% in 2009	<u>\$ 1,100,000,000</u>	<u>\$ 4,100,000,000</u>

The short-term loans in the year ended December 31, 2010 will mature on various dates before March 22, 2011.

13. COMMERCIAL PAPER

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Aggregate face value - discounted interest of 0.698%-0.738% and 0.758%-0.958% in the years ended December 31, 2010 and 2009, respectively	\$ 1,250,000,000	\$ 2,650,000,000
Less: Unamortized discount	<u>375,288</u>	<u>1,239,528</u>
	<u>\$ 1,249,624,712</u>	<u>\$ 2,648,760,472</u>

Commercial paper issued in 2010 matured on various dates before January 21, 2011.

14. BONDS ISSUED

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Current		
First issue of secured bonds in 2006	\$ 2,600,000,000	\$ 1,950,000,000
First issue of secured bonds in 2007	900,000,000	900,000,000
Third issue of unsecured domestic convertible bonds	<u>-</u>	<u>1,015,600,000</u>
	<u>\$ 3,500,000,000</u>	<u>\$ 3,865,600,000</u>
Noncurrent		
First issue of secured bonds in 2006	\$ -	\$ 2,600,000,000
First issue of secured bonds in 2007	1,200,000,000	2,100,000,000
First issue of private unsecured bonds in 2009	9,900,000,000	9,900,000,000
Second issue of private unsecured bonds in 2009	3,000,000,000	3,000,000,000
First issue of secured bonds in 2010	3,600,000,000	-
First issue of private unsecured bonds in 2010	<u>5,050,000,000</u>	<u>-</u>
	<u>\$ 22,750,000,000</u>	<u>\$ 17,600,000,000</u>

On May 5, 12 and 19, 2010, the first issue of 2010 private unsecured bonds with aggregate face values of \$1,500,000,000, \$1,500,000,000 and \$2,050,000,000 were issued as Types A, B and C bonds, respectively, with maturities of three years. The interests at 2.8% are payable semiannually. The bonds are repayable in lump sum on maturity. The investors included affiliate: Taoyuan International Airport Services, Mandarin Airlines, Abacus Distribution Systems (Taiwan), China Pacific Catering Services and Hwa Hsia.

On January 25, February 1 and 8, 2010, the first issue of 2010 secured bonds with an aggregate face value of \$3,600,000,000. These bonds will mature on February 8, 2015 at an annual interest rate which was indicator rate plus 1.5% payable quarterly. The three consecutive annual repayments at 30%, 30% and 40% of the principal will start on January 25, 2013. The guarantor institutions are Cathay United Bank, Bank of Kaohsiung, Union Bank of Taiwan, E.Sun Bank, Yuanta Bank, JIH SUN International Bank, Hua Nan Bank and Industrial Bank of Taiwan.

On June 15, 2009, the second issue of 2009 private unsecured bonds with aggregate face values of \$2,200,000,000 and \$800,000,000 were issued as Types A and B bonds, respectively, with maturities of three years and five years, respectively. The bonds are repayable in lump on maturity. The interests, 3.4% for Type A bonds and 3.6% for Type B bonds, are payable semi-annually.

On April 15, 2009, the first issue of 2009 private unsecured bonds with aggregate face values of \$8,800,000,000 and \$1,100,000,000 were issued as Types A and B bonds, respectively, with maturities of three years and five years, respectively. The bonds are repayable in lump sum on maturity. The interests, 3.4% for Type A bonds and 3.6% for Type B bonds, are payable semiannually.

The first issue of 2007 secured bonds with an aggregate face value of \$3,000,000,000 was on November 2, 2007. These bonds will mature on November 2, 2012 at an annual interest rate which was indicator rate plus 0.4%. The interests are payable quarterly. The three consecutive annual repayments at 30%, 30% and 40% of the principal will start on November 2, 2010. The guarantor institutions are Shanghai Commercial & Savings Bank, Taiwan Land Bank and First Commercial Bank.

The first issue of 2006 secured bonds with an aggregate face value of \$6,500,000,000 was on July 26 and 27, 2006 (two business days). These bonds will mature on July 27, 2011 at an annual interest rate of 2.21%. The three consecutive annual repayments at 30%, 30% and 40% of the principal will start on July 27, 2009. The guarantor institutions are the Bank of Taiwan, Cathay United Bank, and China Development Industrial Bank.

The third issue of unsecured domestic convertible bonds with an aggregate face value of \$10,000,000,000 was on August 8, 2005. These bonds will mature on August 7, 2010 at an annual zero interest rate. The bond repayment terms, conversion features and other conditions are summarized as follows:

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. Between September 8, 2005 and August 7, 2008, the holders can require the Company to redeem their bonds at 99.7% of face value.
- c. The Company may redeem the bonds piecemeal between September 8, 2005 and June 28, 2010 under certain conditions.
- d. Between September 8, 2005 and July 28, 2010 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT\$18.25, subject to adjustment if there is capital injection by cash, stock dividend distribution, or capital reduction to offset accumulated deficit.
- e. As of August 7, 2010, bonds with aggregate face value of \$7,203,000,000 had been converted into 502,778,000 common shares of the Company. The Company repurchased and wrote off bonds with aggregate face value of \$2,767,000,000, and also redeemed the remaining bonds in August 2010, with an aggregate face value of \$30,000,000.

The second issue of unsecured domestic convertible bonds with an aggregate face value of \$10,000,000,000 was on February 24, 2004. These bonds will mature on February 23, 2009 at an annual zero interest rate. The bond repayment terms, conversion features and other conditions are summarized as follows:

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. Between August 24, 2004, and February 23, 2007, the holders can require the Company to redeem their bonds at 99.7% of face value.
- c. The Company may redeem the bonds piecemeal between February 23, 2007 and January 14, 2009 under certain conditions.

- d. Between August 24, 2004 and February 13, 2009 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT\$17.5, subject to adjustment if there is capital injection by cash, stock dividend distribution, or issuance of stock as employee stock bonus.
- e. Between February 2, 2009 and February 10, 2009, the Company reset the conversion price from NT\$13.9 to NT\$6.1 in accordance with conversion features for induced conversion. When bonds with aggregate face value of \$1,429,500,000 were converted into 234,344,000 common shares of the Company, the Company recognized a conversion loss of conversion price adjustment of \$866,628,000 as nonoperating losses. As of February 24, 2009, bonds with aggregate face value of \$9,545,900,000 had been converted into 779,353,000 common shares of the Company. The Company repurchased and wrote off bonds with aggregate face value of \$432,400,000 and also redeemed the remaining bonds in March 2009, with an aggregate face value of \$21,700,000.

15. LONG-TERM LOANS

	December 31	
	2010	2009
Bank loans	\$ 81,207,197,696	\$ 93,326,787,188
Commercial paper, net of unamortized discounts of \$7,100,891 and \$10,984,890 in the years ended December 31, 2010 and 2009, respectively	<u>2,997,899,109</u>	<u>5,144,015,110</u>
	84,205,096,805	98,470,802,298
Less: Current portion	<u>17,253,668,462</u>	<u>17,829,532,001</u>
	<u>\$ 66,951,428,343</u>	<u>\$ 80,641,270,297</u>

Bank loans (New Taiwan dollars, U.S. dollars and Japanese yen) are repayable quarterly, semiannually or in lump sum upon maturity in February 20, 2020. Related information is summarized as follows:

	Currency		
	New Taiwan Dollars	U.S. Dollars	Japanese Yen
<u>Amounts</u>			
Original currency			
2010	\$ 48,224,426,346	\$ 1,101,711,283	\$ 2,480,000,000
2009	51,132,077,199	1,266,889,971	3,720,000,000
Translated in New Taiwan dollars			
2010	48,224,426,346	32,119,862,512	862,908,838
2009	51,132,077,199	40,867,418,449	1,327,291,540
<u>Interest rates</u>			
2010	1.024%-2.909%	0.2656%-4.79%	0.6869%
2009	0.894%-3.064%	0.295%-4.79%	0.8463%
<u>Periods</u>			
2010	2002/4/11-2020/2/26	2000/7/6-2017/9/21	2007/12/26-2012/12/26
2009	2001/2/27-2020/2/26	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 0.525% to 1.723% in 2010 and 0.27% to 1.532% in 2009.

16. LONG-TERM CAPITAL LEASE OBLIGATIONS

	December 31	
	2010	2009
Capital lease obligations	\$ 3,292,956,470	\$ 4,900,351,184
Less: Current portion	<u>1,060,207,601</u>	<u>1,256,854,186</u>
	<u>\$ 2,232,748,869</u>	<u>\$ 3,643,496,998</u>

As of December 31, 2010, the Company was leasing aircraft and related parts from certain foreign companies under capital lease agreements expiring on various dates until February 2014.

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

Period	Amount
2011	\$ 1,060,207,601
2012	1,140,702,377
2013	842,657,885
2014	249,388,607

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 a defined contribution pension cost of \$123,139,000 in 2010 and \$124,688,000 in 2009.

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 \$ 987,154,000 in 2010 and \$984,085,000 in 2009.

Other defined benefit pension plan is summarized as follows:

a. Net pension cost

	2010	2009
Service cost	\$ 303,312,345	\$ 311,071,587
Interest cost	209,868,179	240,257,795
Projected return on plan assets	(47,224,192)	(58,564,542)
Amortization of net transition obligation	307,507,000	307,511,000
Amortization of prior service cost	59,135,597	59,135,597
Amortization of pension gains or losses	<u>154,554,898</u>	<u>124,673,125</u>
	<u>\$ 987,153,827</u>	<u>\$ 984,084,562</u>

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

	December 31	
	2010	2009
Benefit obligation:		
Vested benefit obligation	\$ (6,036,996,281)	\$ (5,170,463,913)
Non-vested benefit obligation	(3,046,712,685)	(2,489,525,229)
Accumulated benefit obligation	(9,083,708,966)	(7,659,989,142)
Additional benefits based on future salaries	(1,174,030,951)	(1,246,308,881)
Projected benefit obligation	(10,257,739,917)	(8,906,298,023)
Fair value of plan assets	2,436,797,815	2,143,340,771
Funded status	(7,820,942,102)	(6,762,957,252)
Unrecognized net transition obligation	-	307,507,000
Unrecognized prior service cost	177,406,786	236,542,383
Unrecognized net actuarial loss	3,713,782,427	2,745,288,577
Additional liability	(2,717,158,262)	(2,043,029,079)
 Accrued pension cost	 \$ (6,646,911,151)	 \$ (5,516,648,371)
 Vested benefits	 \$ 10,212,886,418	 \$ 9,221,735,765

	December 31	
	2010	2009
c. Actuarial assumptions		
Discount rate used in determining present values	2.25%	2.50%
Future salary increase rate	1.50%	1.50%
Expected rate of return on plan assets	2.25%	2.50%
d. Contributions to the fund	\$ 504,007,891	\$ 544,707,075
e. Payments from the fund	\$ 245,579,890	\$ 629,482,767

18. STOCKHOLDERS' EQUITY

On June 29, 2010 and May 18, 2009, the Company's stockholders resolved to offset the accumulated deficit in 2009 and 2008, respectively. The Company offset the accumulated deficit against the capital surplus of \$628,088,000 in 2009; and against unappropriated earnings of beginning of 2008 \$1,016,102,000, special reserve of \$5,677,933,000 capital surplus of \$10,755,829,000, and capital reduction of \$14,901,757,000 in 2008.

The above appropriations were the same as those proposed by the Board of Directors.

The second issue of unsecured domestic convertible bonds with the aggregate face value of 1,429,500,000 had been converted into the Company's 234,344,000 common shares in the year ended December 31, 2009. Under the related regulations, the Company can issue the shares first and then apply to the authorities for approval of the related capital increase.

To meet the Company's financial demand for its operation as well as debt repayment, the board resolved in June 2009 to have a private placement of 602,911,000 common shares at NT\$9.62 per share and in May 2009 to publicly issued 600,000,000 common shares at NT\$10.80 per share, with both the privately placed and publicly shares having a NT\$10.00 par value and the record dates of September 28, 2009 and September 29, 2009, respectively, for the common share issuances. The Company completed the related registration of capital increase on October 19, 2009.

Under the Company Law, of the publicly issued common shares, 10% should be reserved for subscription by the Company's employees. In July 2009, 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.

Other 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 2009</u>		
Options granted	60,000	\$ 10.8
Options exercised	(18,064)	10.8
Options expired	<u>(41,936)</u>	10.8
	<u>-----</u>	
Weighted-average fair value of options granted		<u>\$ 2.46813</u>

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

Grant-date share price	NT\$13.7 (Note)
Exercise price	NT\$10.8
Expected volatility	19.19%
Expected life	52 days
Expected dividend yield	-
Risk-free interest rate	0.5%

Note: Adjusted for the effect of capital reduction on the grant-date share price.

The compensation cost of employee stock options issued for the capital increase in September 2009 was recognized at \$148,088,000, consisting of the capital surplus - issue of stock in excess of par value of \$44,585,000 and capital surplus - expired employee stock option of \$103,503,000.

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

Capital surplus is summarized as follows:

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Issue of stock in excess of par value	\$ 391,866,400	\$ 524,584,729
Long-term investment	955,395	1,062,054
Employee stock options expired	<u>-</u>	<u>103,502,928</u>
	<u>\$ 392,821,795</u>	<u>\$ 629,149,711</u>

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 less than 30% of the total dividends) or stock dividend 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.

For 2010, the bonus to employees was estimated \$61,038,000. The bonus to employees represented 3% of net income (net of the bonus) net of the accumulated deficit, legal reserve, and special reserve. However, there was a net loss in 2009; thus, no bonus to employees was estimated. Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are retroactively adjusted for in the year of the proposal. 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.

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.

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) shall 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.

Under the Company Law, legal reserve shall be appropriated until it has reached the Company's paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Company's paid-in capital, up to 50% thereof may be transferred to paid-in capital.

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, 2010</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	2,889	-	2,889
<u>Year ended December 31, 2009</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	4,166	1,277 (Note)	2,889

Note: The decrease in shares was due to a capital reduction.

The Company's shares held by its subsidiaries as of December 31, 2010 and 2009 were as follows:

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>December 31, 2010</u>			
Mandarin Airlines	2,075	\$ 53,525,402	\$ 53,525,402
Hwa Hsia	814	<u>21,005,122</u>	<u>21,005,122</u>
		<u>\$ 74,530,524</u>	<u>\$ 74,530,524</u>
<u>December 31, 2009</u>			
Mandarin Airlines	2,075	\$ 23,547,028	\$ 23,547,028
Hwa Hsia	814	<u>9,240,625</u>	<u>9,240,625</u>
		<u>\$ 32,787,653</u>	<u>\$ 32,787,653</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 expense (benefit) at the statutory income tax rate (17% in 2010 and 25% of in 2009, respectively) and income tax expense was as follows:

	2010	2009
Income tax expense (benefit) on income (loss) before income tax at statutory rate	\$ 1,975,418,927	\$ (984,866,671)
Add (deduct) tax effects of:		
Permanent differences	63,714,501	382,590,256
Temporary differences	(409,096,939)	(3,268,534,912)
Loss carryforwards	-	3,870,811,327
Loss carryforwards used	(1,535,442,872)	-
Overseas income tax expense	<u>-</u>	<u>74,727,246</u>
Income tax expense - current	<u>\$ 94,593,617</u>	<u>\$ 74,727,246</u>

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

	2010	2009
Income tax expense - current	\$ 94,593,617	\$ 74,727,246
Investment income tax credits used	(26,707,194)	-
Net changes in deferred income tax expense (benefit):		
Allowance for loss on inventories	(2,014,611)	(1,078,586)
Equity in net gain or loss of foreign equity-method investees	1,922,972	14,797,056
Depreciation difference between accounting and tax on properties	(1,479,662)	(1,740,779)
Allowance for loss on idle properties	(27,824,770)	(24,427,308)
Accrued expense for frequent-flyer program	6,386,000	3,319,729
Unrealized lawsuit loss	125,032,981	(367,917,814)
Provision for pension cost	(77,630,460)	(81,990,202)
Unrealized foreign exchange gain or loss	(85,223,332)	106,843,433
Valuation gain or loss on financial instruments	464,298,547	3,614,048,526
Difference between accounting and tax on interest	5,629,274	6,680,857
Carryforwards of unused tax losses	1,538,854,513	(3,869,190,164)
Investment income tax credits	593,238,965	1,684,696,645
Effect of tax law changes on deferred income tax	1,336,738,578	2,140,477,650
Adjustment in valuation allowance due to changes in tax laws	(300,383,915)	(807,301,332)
Other valuation allowance	(2,588,135,742)	(2,612,067,192)
Adjustment of prior years' tax	<u>(59,278,409)</u>	<u>(14,432,159)</u>
Income tax expense (benefit)	<u>\$ 998,017,352</u>	<u>\$ (134,554,394)</u>

On January 6, 2009, the Legislative Yuan passed the amendment of Article 39 of the Income Tax Law, which extends the operating loss carryforward period from 5 years to 10 years.

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010. In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010. The Company recalculated its deferred tax assets and liabilities in accordance with the 2010 amendment and recorded the resulting difference as a deferred income tax benefit or expense.

- c. Deferred income tax assets (liabilities) as of December 31, 2010 and 2009 consisted of the following:

	December 31	
	2010	2009
Current		
Allowance for loss on inventories	\$ 11,233,835	\$ 10,846,146
Accrued expenses for frequent-flyer program	18,348,317	29,099,196
Unrealized lawsuits loss	26,813,880	367,917,814
Unrealized foreign exchange loss	94,479,190	10,889,245
Valuation loss on financial instruments	-	546,233,585
Investment income tax credits	<u>840,497,327</u>	<u>633,849,771</u>
Deferred income tax assets	991,372,549	1,598,835,757
Less: Valuation allowance	<u>(840,497,327)</u>	<u>(884,825,104)</u>
Deferred income tax assets, net	150,875,222	714,010,653
Unrealized gain on financial instruments	<u>(1,639,180)</u>	<u>(15,015,246)</u>
Deferred income tax assets, net	<u>\$ 149,236,042</u>	<u>\$ 698,995,407</u>
Noncurrent		
Equity in net loss of foreign equity-method investees	\$ 97,005,044	\$ 116,385,901
Allowance for loss on idle properties	162,760,021	158,747,354
Provision for pension cost	667,840,220	694,364,423
Difference between accounting and tax on interest	87,212,372	109,225,466
Valuation loss on financial instruments	160,883,281	-
Cumulative translation adjustments	690,247,230	32,551,270
Unrealized loss on financial instruments	15,114,817	85,246,217
Carryforwards of unused tax losses	4,661,141,782	7,294,113,288
Investment income tax credits	<u>449,480,151</u>	<u>1,249,366,672</u>
Deferred income tax assets	6,991,684,918	9,740,000,591
Less: Valuation allowance	<u>(218,917,937)</u>	<u>(3,100,756,117)</u>
Deferred income tax assets, net	6,772,766,981	6,639,244,474
Depreciation difference between accounting and tax on properties	<u>(147,488,415)</u>	<u>(175,256,561)</u>
Deferred income tax assets, net	<u>\$ 6,625,278,566</u>	<u>\$ 6,463,987,913</u>

The above deferred income taxes were computed at a tax rate of 17% and 20% as of December 31, 2010 and 2009, respectively.

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

	December 31	
	2010	2009
Balance of ICA	<u>\$ 265,654,010</u>	<u>\$ 216,251,434</u>

The expecting creditable ratio for distribution of earnings of 2010 was 4.51%.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2010 earnings may be adjusted, depending on the ICA balance on the date of distribution.

The Company had no unappropriated retained earnings generated since January 1, 1998 as of December 31, 2009, and therefore had no expected creditable tax ratios.

- e. Unused investment income tax credits as of December 31, 2010 were as follows:

Regulatory Basis of Tax Credits	Source of the Tax Credit	Total Amount of the Tax Credits	Remaining Tax Credits	Expiry Year
Article 6 of the Statute for Upgrading Industries	R&D expenses, personnel training expenses and purchases of eligible equipment	\$ 840,426,652	\$ 840,426,652	2011
		243,143,796	243,143,796	2012
		165,794,201	165,794,201	2013
		40,542,154	40,542,154	2014
Article 50 of the Statute for Development of Tourism	Expenses for sponsoring to government in attending international tourism organizations and travel fairs	70,675	70,675	2011

- f. Unused tax loss carryforwards as of December 31, 2010 were as follows:

Expiry Year	Amount
2018	\$ 8,080,215,088
2019	19,338,265,982

- g. The income tax returns of the Company through 2008 had been examined by the tax authorities. The Company disagreed with the tax authorities' assessment of its 2007 tax return and had applied for a reexamination. Nevertheless, the Company has provided for the income tax assessed by the tax authorities for conservatism.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2010		Total
	Included in Operating Costs	Included in Operating Expenses	
Personnel			
Salaries	\$ 10,635,037,738	\$ 2,757,187,051	\$ 13,392,224,789
Labor and health insurance	505,843,486	388,377,390	894,220,876
Pension cost	752,994,393	357,298,190	1,110,292,583
Others	2,163,493,935	231,134,190	2,394,628,125
Depreciation	9,472,337,479	382,161,639	9,854,499,118
Amortization	4,031,188	195,723,714	199,754,902

	2009		
	Included in Operating Costs	Included in Operating Expenses	Total
Personnel			
Salaries	\$ 8,111,433,867	\$ 2,319,516,901	\$ 10,430,950,768
Labor and health insurance	444,179,074	378,076,620	822,255,694
Pension cost	706,095,277	402,677,357	1,108,772,634
Others	2,036,422,982	230,191,745	2,266,614,727
Depreciation	9,439,997,756	368,399,877	9,808,397,633
Amortization	6,986,901	170,728,615	177,715,516

22. EARNINGS 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 Per Share (NT\$)	
	Pretax	After Tax		Pretax	After Tax
<u>2010</u>					
Basic EPS					
Net income on common stock	\$ 11,620,111	\$ 10,622,094	4,591,971	<u>\$ 2.53</u>	<u>\$ 2.31</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	1,384		
Third issue of unsecured domestic convertible bonds	-	-	<u>44,683</u>		
Diluted EPS	<u>\$ 11,620,111</u>	<u>\$ 10,622,094</u>	<u>4,638,038</u>	<u>\$ 2.51</u>	<u>\$ 2.29</u>
<u>2009</u>					
Basic and diluted EPS					
Net loss on common stock	<u>\$ (3,939,466)</u>	<u>\$ (3,804,912)</u>	<u>3,657,860</u>	<u>\$ (1.08)</u>	<u>\$ (1.04)</u>

23. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

	December 31			
	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 35,654,998,501	\$ 35,654,998,501	\$ 31,883,814,020	\$ 31,883,814,020
Financial assets at fair value through profit or loss	674,021,543	674,021,543	674,177,340	674,177,340
Available-for-sale financial assets	117,314,587	117,314,587	337,256,174	337,256,174
Derivative financial assets for hedging	210,357	210,357	6,454,072	6,454,072
Financial assets carried at cost	371,366,902	-	371,366,902	-

(Continued)

	December 31			
	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	\$ 19,741,116,935	\$ 19,741,116,935	\$ 24,972,660,253	\$ 24,972,660,253
Financial liabilities at fair value through profit or loss	-	-	2,737,749,356	2,737,749,356
Derivative financial liabilities for hedging	119,578,956	119,578,956	498,414,060	498,414,060
Bonds issued	26,250,000,000	28,014,183,080	21,465,600,000	23,336,480,327
Loans and debts	84,205,096,805	84,430,090,884	98,470,802,298	98,779,538,808
				(Concluded)

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

- 1) The carrying amounts of cash and cash equivalents, receivables, receivables - related parties, other receivables, other financial assets - noncurrent, accounts deposit, restricted assets - noncurrent, short-term loans, commercial paper, accounts payable, accounts payable to related parties, accrued expenses, current other liabilities and other liabilities - others, approximate their fair values because of the short maturities of these instruments.
- 2) For financial assets at fair value through profit or loss, available-for-sale financial assets, and derivative financial assets for hedging, fair value is best determined at quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. If quoted market prices are not available, fair values are based on estimates using indirect data and appropriate valuation methodologies. Fair values of derivatives are determined using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) If the Company does not have significant influence over the investees and these investees' shares do not have a quoted market price in an active market, their fair value, which cannot be reliably measured, are measured at cost.
- 4) Fair value of bonds issued is based on their quoted market price.
- 5) Some long-term debts and capital lease obligations are floating rate financial liabilities, so their carrying value is their fair value. 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 0.78% to 2.167% in 2010 and 1.87% to 2.915% in 2009 for long-term debts the Company can acquire in the market.

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 semi-financial and nonfinancial instruments.

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

	Quoted Market Prices		Fair Value Based on Estimates	
	December 31		December 31	
	2010	2009	2010	2009
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 300,031,543	\$ 300,132,515	\$ 373,990,000	\$ 374,044,825
Available-for-sale financial assets	117,314,587	337,256,174	-	-
Derivative financial assets for hedging	-	-	210,357	6,454,072
				(Continued)

	Quoted Market Prices		Fair Value Based on Estimates	
	December 31		December 31	
	2010	2009	2010	2009
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	\$ -	\$ -	\$ -	\$ 2,737,749,356
Derivative financial liabilities for hedging	-	-	119,578,956	498,414,060
Bonds issued	8,300,832,000	8,561,643,950	19,713,351,080	14,774,836,377
Loans and debts	-	-	84,430,090,884	98,779,538,808
				(Concluded)

- d. As of December 31, 2010 and 2009, loans, bonds issued, and capital lease obligations at fixed rate which were exposed to fair value interest rate risk, amounted to \$26,044,628,000 and \$30,388,552,000, respectively, and those at floating rate, which were exposed to cash flow interest rate risk, amounted to \$90,053,050,000 and \$101,196,961,000, respectively.
- e. The adjustments of stockholders' equity credited and debited directly from the available-for-sale financial assets amounted to \$(29,074,000) for 2010 and \$52,239,000 for 2009, respectively. As of December 31, 2010, the gain recognized and deducted from the adjustments of stockholders' equity was \$ 118,139,000.

24. RISK MANAGEMENT AND HEDGING STRATEGIES

a. Risk management strategy

The Company's 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 management 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 help of financial risk management experts to effect risk management.

The Company enters into forward contracts, currency option contracts and foreign exchange swap contracts to hedge against risks on changes in foreign-currency assets, liabilities and commitments and in the related exchange rates; interest rate swap contracts, to hedge against risks on changes in net liability interest rates; cross-currency swap contracts, to hedge against risks on interest rate and exchange rate changes; and fuel hedging contracts, to hedge against 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 enters into derivative instruments just described above to evade major market risks. Partial derivative instruments are classified as financial assets or liabilities held for trading and measured at fair value for not meeting the criteria for hedge accounting, even if they can meet the financial hedge strategy.

The following table summarizes the aggregate contractual (notional) amounts, credit risk and fair value of the derivative financial instruments of the Company and its subsidiaries, Mandarin Airlines and Dynasty Holidays, as of December 31, 2010 and 2009.

	December 31					
	2010			2009		
	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
<u>Hedge:</u>						
<u>The Company</u>						
Forward exchange	\$ 364,431,487	\$ -	\$ (18,144,360)	\$ 387,096,774	\$ 4,727,739	\$ 4,727,739
Interest rate swaps	7,729,000,000	-	(100,658,695)	22,301,806,452	-	(498,171,694)
Currency options						
- Call	87,463,557	210,357	210,357	129,032,258	1,726,333	1,726,333
- Put	87,463,557	-	(775,901)	129,032,258	-	(242,366)
<u>Trade:</u>						
<u>The Company</u>						
Fuel swaps	-	-	-	2,731,167,924 (Note)	-	(2,731,167,924)
Foreign exchange swaps	-	-	-	645,161,290	-	(6,581,432)
<u>Mandarin Airlines</u>						
Fuel swaps	-	-	-	54,075,594 (Note)	-	(54,075,594)

Note: According to Taiwan Stock Exchange regulation for the public company of monthly declaration about trading of derivatives financial instruments, the contractual amounts are shown by 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 calculation of the fair value of each derivative contract is based on quotes from financial institutions, except that for fuel swap contracts, which is based on amounts estimated by an external appraisal institution, in accordance with the Statement of Financial Accounting Standards and Statements of Valuation Standards.

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 aviation fuel purchases by the Company may result in future cash flow fluctuations and risks due to changes in market interest, exchange rates and fuel prices. To hedge these risks, the Company uses interest rate swaps, cross-currency 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, 2010			
		Nominal Amount	Fair Value		
<u>The Company</u>					
Floating-interest long-term debts	Interest rate swaps	\$ 7,729,000,000	\$ (100,658,695)	2006 to 2013	2006 to 2013
Fuel cost in U.S. dollars	Currency options				
	- Call	87,463,557	210,357	2010 to 2011	2010 to 2011
	- Put	87,463,557	(775,901)	2010 to 2011	2010 to 2011
Lease cost in U.S. dollars	Forward exchange	364,431,487	(18,144,360)	2010 to 2011	2010 to 2011
			<u>\$ (119,368,599)</u>		

Hedged Items	Designated as Hedging Instruments	Financial Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period
		December 31, 2009			
		Nominal Amount	Fair Value		
<u>The Company</u>					
Floating-interest long-term debts	Interest rate swaps	\$ 22,301,806,452	\$ (498,171,694)	2006 to 2013	2006 to 2013
Fuel cost in U.S. dollars	Currency options				
	- Call	129,032,258	1,726,333	2010	2010
	- Put	129,032,258	(242,366)	2010	2010
Lease cost in U.S. dollars	Forward exchange	387,096,774	4,727,739	2008 to 2010	2008 to 2010
			<u>\$ (491,959,988)</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	
	2010	2009
Amount recognized in equity during the year	\$ (58,197,522)	\$(133,040,386)
Amount removed from equity and included in profit or loss for the year	304,891,857	605,278,654

25. RELATED-PARTY TRANSACTIONS

a. The Company's related parties

Related Party	Relationship with the Company
Taiwan Air Cargo Terminal	Subsidiary
Cal Park	Subsidiary
Cal-Dynasty International	Subsidiary
Mandarin Airlines	Subsidiary
Taoyuan International Airport Services	Subsidiary
China Pacific Catering Services	Subsidiary

(Continued)

Related Party	Relationship with the Company
China Aircraft Service	Equity-method investee
Cal-Asia Investment	Subsidiary
Abacus Distribution Systems (Taiwan)	Subsidiary
Taiwan Airport Services	Subsidiary
Kaohsiung Catering Services	Equity-method investee
Science Park Logistics	Equity-method investee
Asian Compressor Technology Services	Equity-method investee
China Pacific Laundry Services	Subsidiary
Hwa Hsia	Subsidiary
Cal Hotel	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 (39.10%)

(Concluded)

b. Significant transactions with related parties:

	2010		2009	
	Amount	%	Amount	%
1) Revenues				
Mandarin Airlines	\$ 1,972,718,644	1.43	\$ 1,377,502,825	1.40
Yangtze River Express Airlines	619,348,992	0.45	944,588,140	0.96
Global Sky Express	157,295,701	0.11	133,983,419	0.14
China Aviation Development Foundation	34,287,952	0.03	27,096,085	0.03
Taiwan Air Cargo Terminal	20,072,126	0.01	16,960,142	0.02
Others	<u>55,005,001</u>	<u>0.04</u>	<u>50,428,594</u>	<u>0.05</u>
	<u>\$ 2,858,728,416</u>	<u>2.07</u>	<u>\$ 2,550,559,205</u>	<u>2.60</u>
2) Costs				
Taoyuan International Airport Services	\$ 1,008,725,080	0.89	\$ 873,689,884	0.96
China Pacific Catering Services	991,442,983	0.87	868,779,845	0.95
Taiwan Air Cargo Terminal	360,212,338	0.32	261,513,901	0.29
Taiwan Airport Services	250,887,926	0.22	241,091,990	0.27
Hwa Hsia	247,056,399	0.22	239,018,166	0.26
Mandarin Airlines	244,758,891	0.22	439,444,603	0.48
China Aircraft Services	203,183,035	0.18	212,835,643	0.23
Cal-Park	147,929,995	0.13	-	
Kaohsiung Catering Services	97,224,893	0.09	77,378,809	0.09
China Pacific Laundry Services	71,088,462	0.06	64,142,329	0.07
Cal Hotel	70,498,832	0.06	2,075,200	-
Dynasty Holidays	69,352,891	0.06	100,734,038	0.11
Yangtze River Express Airlines Co., Ltd.	53,161,125	0.05	2,227,904	-
China Aviation Development Foundation	48,185,184	0.04	25,800,977	0.03
Cal-Dynasty International	31,174,603	0.03	44,006,623	0.05
Science Park Logistics	30,130,081	0.02	18,695,346	0.02
Cal Asia Investment	3,012,159	-	2,145,464	-
Others	<u>32,889,617</u>	<u>0.03</u>	<u>15,415,176</u>	<u>0.02</u>
	<u>\$ 3,960,914,494</u>	<u>3.49</u>	<u>\$ 3,488,995,898</u>	<u>3.83</u>

	2010		2009	
	Amount	%	Amount	%
3) Notes and accounts receivable - related parties				
Mandarin Airlines	\$ 406,515,442	81.59	\$ 389,258,603	80.95
Yangtze River Express Airlines	53,499,398	10.74	53,580,231	11.14
Yestrip	15,428,430	3.10	12,128,516	2.52
Global Sky Express	7,493,854	1.50	6,445,640	1.34
China Aviation Development Foundation	6,673,705	1.34	5,968,494	1.24
Taiwan Air Cargo Terminal	6,364,218	1.28	11,475,651	2.39
Others	<u>2,237,269</u>	<u>0.45</u>	<u>2,032,382</u>	<u>1.66</u>
	<u>\$ 498,212,316</u>	<u>100.00</u>	<u>\$ 480,889,517</u>	<u>100.00</u>
4) Accounts payable to related parties				
Mandarin Airlines	\$ 316,913,382	29.62	\$ 390,754,967	35.90
China Pacific Catering Services	242,601,525	22.68	228,827,495	21.02
Taoyuan International Airport Services	226,554,733	21.18	233,206,293	21.43
Yangtze River Express Airlines	62,397,359	5.83	40,326,903	3.71
Taiwan Airport Services	60,565,555	5.66	39,588,874	3.64
Taiwan Air Cargo Terminal	36,731,367	3.43	48,564,746	4.46
Hwa Hsia	35,402,794	3.31	50,338,272	4.63
China Aircraft Services	31,387,429	2.93	17,906,273	1.65
Kaohsiung Catering Services	16,095,343	1.51	14,512,476	1.33
China Pacific Laundry Services	12,949,726	1.21	10,580,875	0.97
Others	<u>28,258,102</u>	<u>2.64</u>	<u>13,766,134</u>	<u>1.26</u>
	<u>\$ 1,069,857,315</u>	<u>100.00</u>	<u>\$ 1,088,373,308</u>	<u>100.00</u>

5) Lease of properties

In December 2008, the Company rented out planes to Mandarin Airlines under an aviation leasing contract. The rent received is based on this contract. As of December 31, 2010 and 2009, the rentals received amounted to \$741,187,000 and \$1,085,288,000, respectively.

The Company rented planes from Mandarin Airlines under an operating lease agreement. The Company paid the rental by flight hours, except for the rentals of the 737-800 aircraft, which were at a fixed US\$282,000 monthly. However, the 737-800 contract was terminated in February 2009. The Company paid hourly flight rentals of about \$219,647,000 in 2010 and \$437,425,000 in 2009, 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, 2010 and 2009, the Company had paid usage rentals of about \$48,185,000 and \$25,801,000, respectively.

From August 2007 to October 2009, the Company rented out a plane to Yangtze River Express Airlines Co., Ltd. ("Yangtze") to develop further the Company's international cargo services. The rent received was a fixed US\$970,000 monthly. As of December 31, 2009, the rentals received amounted to \$322,723,000.

The Company signed a building lease agreement of Operation Centre of aviation undertaking of Taoyuan International Airport of Taiwan with Cal Park at a fixed rental of \$14,793,000 monthly. For starting in March 2010, the Company paid rentals of \$147,930,000.

6) Endorsements and guarantees

	December 31			
	2010		2009	
	Authorized Amount	Occupied Amount	Authorized Amount	Occupied Amount
<u>The Company</u>				
Cal Park	\$ 3,400,000,000	\$ 3,180,000,000	\$ 3,400,000,000	\$ 2,450,000,000
Freighter Prince Ltd.	340,116,200	340,116,200	395,252,251	395,252,251
Freighter Princess Ltd.	114,271,986	114,271,986	806,451,613	287,509,928
Freighter Queen Ltd.	318,319,748	318,319,748	139,914,875	139,914,875
Cal Hotel	180,000,000	167,000,000	180,000,000	70,000,000
Mandarin Airlines	-	-	300,000,000	-
<u>Cal Asia</u>				
Taikoo Spirit Aerospace Systems (Jinjiang) Composite	15,897,959	-	-	-

As of December 31, 2010, U.S. Treasury Bill \$772,708,000 had been pledged as collateral for financing lease transactions of Freighter Princess Ltd., Freighter Prince Ltd. and Freighter Queen Ltd. and was included in restricted assets - noncurrent.

7) Bonds issued - related parties

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

Related Parties	December 31, 2010	
	Units	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, 2010, interest expense was \$12,476,000. The interest payable was \$2,454,000 for the year ended December 31, 2010.

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

c. Compensation of directors, supervisors and management personnel

	December 31	
	2010	2009
Salaries	\$ 35,876,618	\$ 36,808,465
Incentive and special compensation	<u>10,259,138</u>	<u>6,764,633</u>
	<u>\$ 46,135,756</u>	<u>\$ 43,573,098</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	
	2010	2009
Pledged certificates of deposit (for bank loans)	\$ 233,236,152	\$ 258,064,516
U.S. Treasury Bill (for financing lease transaction of subsidiary)	772,707,934	535,167,126
Properties - land and flight equipment (net)	<u>108,913,293,581</u>	<u>131,864,283,630</u>
	<u>\$ 109,919,237,667</u>	<u>\$ 132,657,515,272</u>

27. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2010, the Company had commitments and contingent liabilities as follow:

- a. The Company leased certain flight equipment and hangar under various operating lease agreements expiring on various dates until January 2024. Lease deposits aggregated \$10,882,275,000.

Minimum rentals for future years are summarized as follows:

Year	Amount
2011	\$ 4,924,036,491
2012	4,947,160,412
2013	4,869,400,129
2014	4,285,674,556
2015	3,331,058,151

Rentals from 2016 and on will aggregate \$11,360,202,000. The present value of these rentals, discounted using the discount interest rate (1.08%) for one-year time deposits, is \$10,390,757,000.

- b. 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, 2010, the Company had paid about US\$119,197,000, which was included in the "prepayments for equipment" in the properties section of the balance sheets.
- c. As of December 31, 2010, the Company had paid about US\$18,534,000 for constructing engine test cell equipment, which was included in "construction in progress" in the properties section of the balance sheets, and the unpaid payment is about US\$642,000.
- d. To balance the trade deficit between Taiwan and United States, the Executive Yuan ordered the Civil Aeronautics Operation Fund under the Ministry of Transportation and Communications to buy 10 long-haul aircraft from the United States, with 7 of these planes rented out to the Company through a financing lease with the Civil Aeronautics Administration (CAA) and 3 planes originally leased, also from the CAA, but were later acquired by the Company. But the CAA repudiated the terms of the original contracts and claimed additional imputed interests on both the rentals and prepayment for planes. The total amount claimed by CAA was about \$1,100,000,000. After deliberation by the Taipei District Court and then the Taiwan High Court (THC), the THC ruled on September 29, 2009 that the Company should pay 99.96% of the legal fees incurred for this case and pay CAA \$1,111,891,000 plus overdue payment (imputed on the additional rental of \$897,773,000 from May 21,

1997 to the payment date, with an annual rate of 6.125%). The Company refused to accept the THC's sentence and filed an appeal with the supreme court in October 2009. On January 7, 2010, the supreme court rejected the appeal; thus, the Company lost the lawsuit and can't appeal. The supreme court also ruled that the Company should pay 99.96% of the legal fees and also pay CAA plus overdue payment, were totally amounted to \$1,839,589,000 (included in nonoperating expenses and losses - others for the year ended December 31, 2009). The payment to CAA plus overdue payment was estimated to \$1,906,251,000 and paid in July 2010.

- e. The Department of Justice (DOJ) of the United States (U.S.) investigated whether airlines jointly decided to raise fuel surcharges for air cargo services in the U.S. in violation of the Antitrust Law. In early 2006, the aviation industry suffered the higher fuel cost. In the meanwhile, IATA terminated the fuel surcharge pricing mechanism. Therefore, each Airlines obliged to set up the reasonable fuel surcharge rate by the previous IATA pricing mechanism and the rate of other airlines. The Company had been cooperating with the DOJ in its investigation and got trust from DOJ. As of September, 2010, the Company agreed to a plea agreement with DOJ. Under the agreement, the Company will pay US\$40 million in six installments over five years. The Company recognized the fine as liabilities (included in other liabilities and other liabilities - others) and will be paid in payment schedule.

28. OTHERS

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

(Unit: Foreign Currencies/New Taiwan Dollars)

	2010			2009		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 135,094,696	29.1545	\$ 3,938,620,880	\$ 39,516,656	32.2581	\$ 1,274,730,848
EUR	18,095,814	38.4615	695,992,857	3,950,673	46.2963	182,901,537
HKD	351,346,381	3.7481	1,316,890,482	161,183,519	4.1597	670,480,527
JPY	3,578,595,109	0.3479	1,245,161,833	583,406,162	0.3568	208,158,619
RMB	1,389,090,663	4.3764	6,079,171,392	66,248,100	4.7237	312,933,870
Foreign operating entity						
USD	1,237,432,031	29.1545	36,076,735,586	893,813,756	32.2581	28,832,701,802
Investments accounted for using equity method						
USD	46,667,378	29.1545	1,360,564,956	46,427,916	32.2581	1,497,674,710
HKD	96,017,771	3.7481	359,886,699	93,092,919	4.1597	387,241,760
JPY	127,587,425	0.3479	44,393,676	121,547,387	0.3568	43,367,962
<u>Financial liabilities</u>						
Monetary items						
USD	151,456,611	29.1545	4,415,644,622	97,712,677	32.2581	3,152,021,825
EUR	10,308,421	38.4615	396,477,719	7,448,722	46.2963	344,848,221
HKD	63,865,143	3.7481	239,374,600	38,116,453	4.1597	158,554,297
JPY	5,865,642,709	0.3479	2,040,933,441	6,185,751,529	0.3568	2,207,068,730
RMB	263,504,944	4.3764	1,153,194,505	154,724,311	4.7237	730,865,898

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

a. Industry

The Company mainly engages in air transportation services for passengers and cargo.

b. Geographic area

Geographic area information in 2010 and 2009 is summarized as follows:

	In Thousands of New Taiwan Dollars							
	2010							
	America	Northeast Asia	Southeast Asia	Europe	Australia	Mainland China	Domestic	Total
Revenues	<u>\$ 51,783,703</u>	<u>\$ 13,948,765</u>	<u>\$ 31,670,676</u>	<u>\$ 19,748,221</u>	<u>\$ 2,384,786</u>	<u>\$ 14,987,204</u>	<u>\$ 3,617,105</u>	<u>\$138,140,460</u>
Segment operating income (loss)	<u>\$ 4,766,890</u>	<u>\$ 2,563,731</u>	<u>\$ 1,594,610</u>	<u>\$ (4,908)</u>	<u>\$ (11,258)</u>	<u>\$ 4,922,260</u>	<u>\$ 933,730</u>	\$ 14,765,055
Interest income								109,043
Other investment income								905,588
General income								187,712
Interest expense								969,807
Investment income recognized under the equity method								(2,655,929)
General expense								<u>(2,661,165)</u>
Pretax income								<u>\$ 11,620,111</u>
Identifiable assets	<u>\$ 415,259</u>	<u>\$ 12,506</u>	<u>\$ 150,363</u>	<u>\$ 12,186</u>	<u>\$ 1,003</u>	<u>\$ 12,189</u>	<u>\$ 136,225,193</u>	\$ 136,828,699
Long-term investments								9,537,742
General assets								<u>56,742,909</u>
Total assets								<u>\$203,109,350</u>

2009

	America	Northeast Asia	Southeast Asia	Europe	Australia	Mainland China	Domestic	Total
Revenues	<u>\$ 35,620,370</u>	<u>\$ 12,548,293</u>	<u>\$ 26,353,521</u>	<u>\$ 16,027,311</u>	<u>\$ 2,146,379</u>	<u>\$ 6,734,212</u>	<u>\$ 3,348,993</u>	<u>\$102,779,079</u>
Segment operating income (loss)	<u>\$ (1,626,865)</u>	<u>\$ 271,893</u>	<u>\$ (2,096,536)</u>	<u>\$ (1,169,529)</u>	<u>\$ (241,703)</u>	<u>\$ 2,253,032</u>	<u>\$ 913,983</u>	\$ (1,695,725)
Interest income								50,516
Other investment income								281,713
General income								287,019
Interest expense								3,548,771
Investment loss recognized under the equity method								(3,429,016)
General expense								<u>(2,982,744)</u>
Pretax loss								<u>\$ (3,939,466)</u>
Identifiable assets	<u>\$ 143,132</u>	<u>\$ 13,786</u>	<u>\$ 131,505</u>	<u>\$ 5,929</u>	<u>\$ 1,020</u>	<u>\$ 8,685</u>	<u>\$ 149,952,323</u>	\$150,256,380
Long-term investments								9,195,399
General assets								<u>52,212,296</u>
Total assets								<u>\$211,664,075</u>

c. Major customers

The primary customers are the public; therefore, there is no customer with sales that are at least 10% of the Company's total sales.

d. Export sales revenue

The Company mainly provides international air transport services; thus, the Company has no export sales revenues to disclose.

CHINA AIRLINES, LTD. AND INVESTEEES

ENDORSEMENT/GUARANTEE PROVIDED

YEAR ENDED DECEMBER 31, 2010

(In New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship						
0	China Airlines	Cal Park Freighter Princess Ltd. Freighter Prince Ltd. Freighter Queen Ltd. Cal Hotel Mandarin Airlines	100% subsidiary 100% subsidiary 100% subsidiary 100% subsidiary 100% subsidiary 93.99% subsidiary	\$ 9,732,539,831 9,732,539,831 9,732,539,831 9,732,539,831 9,732,539,831 9,732,539,831	\$ 3,400,000,000 801,282,052 395,252,251 352,205,399 180,000,000 300,000,000	\$ 3,400,000,000 114,271,986 340,116,200 318,319,748 180,000,000 -	\$ 114,271,986 340,116,200 318,319,748 - -	6.99 0.23 0.70 0.65 0.37 -	\$ 24,331,349,579 24,331,349,579 24,331,349,579 24,331,349,579 24,331,349,579 24,331,349,579
1	Cal Asia	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	Investments accounted for by the cost method	9,732,539,831	17,533,762	15,897,959	-	0.03	24,331,349,579

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.

TABLE 2

CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2010

(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, 2010			Note	
				Shares/Units	Carrying Value	Percentage of Ownership		Market Value or Net Asset Value
China Airlines	<u>Stock</u> Taiwan Air Cargo Terminal	Subsidiary	Investments accounted for by the equity method	\$ 135,000,000	\$ 1,649,298,276	54.00	\$ 1,649,298,276	-
	Cal Park	Subsidiary	Investments accounted for by the equity method	150,000,000	1,457,413,760	100.00	1,457,413,760	-
	Cal-Dynasty International	Subsidiary	Investments accounted for by the equity method	2,614,500	1,009,378,367	100.00	1,009,378,367	-
	Mandarin Airlines	Subsidiary	Investments accounted for by the equity method	188,154,025	1,004,699,155	93.99	1,205,731,330	Note 1
	Taoyuan International Airport Services	Subsidiary	Investments accounted for by the equity method	34,300,000	671,375,416	49.00	671,375,416	-
	China Pacific Catering Services	Subsidiary	Investments accounted for by the equity method	43,911,000	637,608,109	51.00	637,608,109	-
	China Aircraft Service	Equity-method investees	Investments accounted for by the equity method	28,400,000	359,886,699	20.00	313,129,537	Note 2
	Cal-Asia Investment	Subsidiary	Investments accounted for by the equity method	45,476,200	351,186,589	100.00	351,186,589	-
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments accounted for by the equity method	13,021,042	395,687,814	93.93	395,687,814	-
	Taiwan Airport Services	Subsidiary	Investments accounted for by the equity method	20,626,644	296,924,254	47.35	296,924,254	-
	Kaohsiung Catering Services	Equity-method investees	Investments accounted for by the equity method	14,329,759	230,693,413	35.78	232,113,750	Note 2
	Asian Compressor Technology Services	Equity-method investees	Investments accounted for by the equity method	7,732,200	184,112,301	24.50	184,112,301	-
	Science Park Logistics	Equity-method investees	Investments accounted for by the equity method	13,293,000	174,871,708	28.48	167,785,169	Note 2
	China Pacific Laundry Services	Subsidiary	Investments accounted for by the equity method	13,750,000	126,459,123	55.00	126,459,123	-
	Hwa Hsia	Subsidiary	Investments accounted for by the equity method	50,000	102,263,416	100.00	123,268,540	-
	Cal Hotel Co., Ltd.	Subsidiary	Investments accounted for by the equity method	26,500,000	48,305,061	100.00	48,305,061	Note 1
	Dynasty Holidays	Subsidiary	Investments accounted for by the equity method	408	44,393,676	51.00	44,393,676	-
	Yestrip	Subsidiary	Investments accounted for by the equity method	1,600,000	27,333,357	100.00	27,333,357	-
	Global Sky Express	Subsidiary	Investments accounted for by the equity method	250,000	7,377,510	25.00	7,377,510	-
	Freighter Princess Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	35,088	100.00	35,088	Note 5
	Freighter Prince Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	34,602	100.00	34,602	Note 5
	Freighter Queen Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	32,895	100.00	32,895	Note 5
	France Telecom	-	Available-for-sale - current	195,587	117,314,587	-	117,314,587	-
	Abacus International Holdings Ltd. - unlisted common stock	-	Financial assets at cost - noncurrent	1,359,368	297,946,451	13.59	231,521,300	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	64,435,532	Note 6
	Chung Hua Express Co.	-	Financial assets at cost - noncurrent	1,100,000	11,000,000	11.00	14,795,873	Note 5
	Regal International Advertising	-	Financial assets at cost - noncurrent	592,500	5,925,000	6.58	1,026,372	Note 5
	Far Eastern Air Transport	-	Financial assets at cost - noncurrent	34,753,954	-	5.73	-	-
	<u>Convertible bonds</u> China Life Insurance Co., Ltd.	-	Financial assets at fair value through profit or loss - noncurrent	2,500	373,990,000	-	373,990,000	-
	<u>Beneficiary certificates</u> Union Bond Fund	-	Financial assets at fair value through profit or loss - current	11,853,116.18	150,016,594	-	150,016,594	-
	Fubon Chi-Hsiang Fund	-	Financial assets at fair value through profit or loss - current	9,965,916.60	150,014,949	-	150,014,949	-
	<u>Beneficiary certificates</u> PCA Well Pool Bond Fund	-	Financial assets at fair value through profit or loss - current	4,529,576.60	59,000,000	-	59,000,000	-
Union Bond Fund	-	Financial assets at fair value through profit or loss - current	5,530,842.35	70,000,000	-	70,000,000	-	
Jih Sun Bond Fund	-	Financial assets at fair value through profit or loss - current	3,529,004.89	50,000,000	-	50,000,000	-	

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2010			Note		
				Shares/Units	Carrying Value	Percentage of Ownership		Market Value or Net Asset Value	
Tao Yuan International Airport Services	Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	5,756,764.20	\$ 69,000,000	-	\$ 69,000,000	-	
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	8,372,069.17	100,321,667	-	100,321,667	-	
	Fuh Hwa Global Short-Term Income Fund	-	Financial assets at fair value through profit or loss - current	6,592,951.20	70,096,916	-	70,096,916	-	
	Fuh Hwa Strategic High Income Fund of Funds	-	Financial assets at fair value through profit or loss - current	6,261,180.70	70,250,447	-	70,250,447	-	
	Cathay Global Conservative Fund of Fund	-	Financial assets at fair value through profit or loss - current	4,186,074.70	49,064,563	-	49,064,563	-	
	Fuh-Hwa Global Bond Fund	-	Financial assets at fair value through profit or loss - current	6,273,909.70	83,003,825	-	83,003,825	-	
	FSITC Global High Yield Bond Fund	-	Financial assets at fair value through profit or loss - current	3,585,435.10	42,971,799	-	42,971,799	-	
	Manulife Asia Pacific Bond Fund	-	Financial assets at fair value through profit or loss - current	1,934,497.90	20,062,871	-	20,062,871	-	
	Cathay Global Money Bond Fund	-	Financial assets at fair value through profit or loss - current	2,052,334.50	19,449,153	-	19,449,153	-	
	Cathay High Income Fund of Funds	-	Financial assets at fair value through profit or loss - current	8,897,095.20	91,949,699	-	91,949,699	-	
	Capital Multi-Income Allocation Fund	-	Financial assets at fair value through profit or loss - current	858,369.10	10,351,931	-	10,351,931	-	
	Fuh Hwa Emerging Market Active Allocation Fund of Funds	-	Financial assets at fair value through profit or loss - current	6,000,000.00	59,940,000	-	59,940,000	-	
	ING EMD & High Yield Bond Portfolio Fund	-	Financial assets at fair value through profit or loss - current	2,000,000.00	19,766,200	-	19,766,200	-	
	PCA Global High Yield Bond Fund	-	Financial assets at fair value through profit or loss - current	2,000,000.00	20,050,400	-	20,050,400	-	
	Capital Strategic Income Fund	-	Financial assets at fair value through profit or loss - current	3,000,000.00	29,910,000	-	29,910,000	-	
	China Pacific Catering Services	Taiwan Whi Lin Industry Tao Yao Taiwan Air Cargo Terminal	Equity-method investee Subsidiary Controlled by China Airlines	Investments accounted for by the equity method Investments accounted for by the equity method Financial assets carried at cost - noncurrent	4,275,000 1,000,000 6,250,000	49,937,101 11,246,362 62,500,000	24.39 100.00 2.50	49,937,101 11,246,362 76,356,400	Note 5 Note 5 -
		Bond First Issue of Private Unsecured Bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	300	300,000,000	-	300,000,000	-
Beneficiary certificates JF (Taiwan) Taiwan Bond Fund HSBC NTD Bond Fund II FSITC Bond Fund		- - -	Available-for-sale financial asset - current Available-for-sale financial asset - current Available-for-sale financial asset - current	5,253,640.90 6,679,630.60 386,855.04	83,114,700 97,193,969 66,146,022	- - -	83,114,700 97,193,969 66,146,022	- - -	
Mandarin Airlines	Bond First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	40	40,000,000	-	40,000,000	-	
	Stock China Airlines France Telecom	Parent company -	Available-for-sale financial asset - current Available-for-sale financial asset - current	2,074,628 8,274	53,525,402 4,962,809	- -	53,525,402 4,962,809	- -	
	Bond First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	300	300,000,000	-	300,000,000	-	

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2010			Note		
				Shares/Units	Carrying Value	Percentage of Ownership		Market Value or Net Asset Value	
Cal-Asia Investment	Stock Xiamen International Airport Air Cargo Terminal	Equity-method investee	Investments accounted for by the equity method	-	\$ 182,399,796	14.00	\$ 180,542,853	Notes 2 and 4	
	Xiamen International Airport Air Cargo Storage	Equity-method investee	Investments accounted for by the equity method	-	70,354,286	14.00	24,649,899	Notes 2 and 4	
	Eastern United International Logistics	Equity-method investee	Investments accounted for by the equity method	1,050,000	17,250,612	35.00	21,240,377	-	
	Yangtze River Express Airlines	Equity-method investee	Investments accounted for by the equity method	-	-	25.00	(822,422,221)	-	
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	32,396,501	8.00	8,784,261	Note 6	
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	18,542,274	5.45	16,252,728	Note 6	
	Abacus Distribution Systems (Taiwan)	Beneficiary certificates TLG B.B. Bond Fund	-	Financial assets at fair value through profit or loss - current	274,456.35	3,218,138	-	3,218,138	-
		TLG Solomon Bond Fund	-	Financial assets at fair value through profit or loss - current	827,294.09	10,013,899	-	10,013,899	-
		FSJTC Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	1,572,167.50	23,026,286	-	23,026,286	-
		PCA Well Pool Bond Fund	-	Financial assets at fair value through profit or loss - current	1,308,151.60	17,039,329	-	17,039,329	-
		IBT 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	1,940,453.79	25,114,465	-	25,114,465	-
		IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	1,476,077.50	20,074,031	-	20,074,031	-
		Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	329,439.40	5,000,000	-	5,000,000	-
		Yuanta Wan Tai Bond Fund	-	Financial assets at fair value through profit or loss - current	965,910.30	14,020,188	-	14,020,188	-
Bond First issue of private unsecured bonds in 2010 - China Airlines		Parent company	Bond investments with no active market - noncurrent	60	60,000,000	-	60,000,000	-	
Taiwan Airport Services		Stock Taiwan Airport Service (Samoa)	Subsidiary	Investments accounted for by the equity method	-	272,541,491	100.00	272,541,491	Note 4
	Titan V.C. Corp.	-	Financial assets carried at cost - noncurrent	4,056,500	28,148,500	5.30	35,539,070	Note 5	
	Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	76,356,400	-	
	TransAsia Airways	-	Financial assets carried at cost - noncurrent	2,265,182	22,487,967	0.50	24,187,160	Note 7	
	Beneficiary certificates IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	295,966.90	4,025,031	-	4,025,031	-	
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	123,426.20	1,711,280	-	1,711,280	-	
	IBT 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	3,095,351.81	40,061,900	-	40,061,900	-	
	Prudential Financial Global Small & Mid cap Fund	-	Financial assets at fair value through profit or loss - current	84,320.00	3,018,656	-	3,018,656	-	
	Prudential Financial High-Tech Fund	-	Financial assets at fair value through profit or loss - current	118,970.00	2,218,791	-	2,218,791	-	
	Prudential Financial Taiwan Enterprise Fund	-	Financial assets at fair value through profit or loss - current	55,300.00	1,395,772	-	1,395,772	-	
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	65,091.20	1,006,525	-	1,006,525	-	
	Hwa Hsia	Stock Hwa Shin Building Safeguard	Subsidiary	Investments accounted for by the equity method	1,000,000	15,076,716	100.00	15,076,716	Note 5
		China Airlines	Parent company	Available-for-sale financial asset - current	814,152	21,005,122	-	21,005,122	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2010			Note	
				Shares/Units	Carrying Value	Percentage of Ownership		Market Value or Net Asset Value
Yestrip	<u>Beneficiary certificates</u> IBT 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	1,125,378.09	\$ 14,565,318	-	\$ 14,565,318	-
	IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	1,404,287.30	19,097,746	-	19,097,746	-
	Polaris Global Active Allocation Fund of Bond Fund	-	Financial assets at fair value through profit or loss - current	450,000.00	4,657,500	-	4,657,500	-
	Hua Nan Investment Grade Fund of Bond Funds	-	Financial assets at fair value through profit or loss - current	249,870.10	2,463,544	-	2,463,544	-
	JPM (Taiwan) Global Fund of Bond Funds	-	Financial assets at fair value through profit or loss - current	450,000.00	4,508,640	-	4,508,640	-
Taiwan Airport Service (Samoa)	<u>Bond</u> First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	10	10,000,000	-	10,000,000	-
	<u>Beneficiary certificates</u> Franklin Templeton First Taiwan First Fund	-	Financial assets at fair value through profit or loss - current	19,391.73	4,027,241	-	4,027,241	-
	<u>Stock</u> Xiamen International Airport Air Cargo Terminal Xiamen International Airport Air Cargo Storage	Equity-method investee Equity-method investee	Investments accounted for by the equity method Investments accounted for by the equity method	- -	181,239,359 69,868,746	14.00 14.00	180,542,853 24,649,899	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 \$231,521,300 which included common stock and preferred stock as of and for the year ended December 31, 2010.

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

Note 5: The net assets value was calculated using the investee's unaudited financial statements as of and for the year ended December 31, 2010 because the investee's audited financial statement as of and for the year ended December 31, 2010 was not acquired.

Note 6: The net assets value was calculated using the investee's unaudited financial statements as of and for the six months ended June 30, 2010 because the investee's audited financial statement as of and for the year ended December 31, 2010 was not acquired.

Note 7: The net assets value was calculated using the investee's audited financial statements as of and for the six months ended June 30, 2010 because the investee's audited financial statement as of and for the year ended December 31, 2010 was not acquired.

(Concluded)

TABLE 3

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, 2010
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Issuer/Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Gain (Loss) on Disposal	Shares/Units
China Airlines	Beneficiary certificates Union Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	\$	159,945,072.24	\$ 2,020,016,594	148,091,956.06	\$ 1,870,883,912	883,912	\$ 150,016,594
	Fubon Chi-Hsiang Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	46,547,592.40	700,014,949	36,581,675.80	550,194,570	194,570	150,014,949
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	176,894,912.39	2,500,000,000	176,894,912.39	2,500,714,157	714,157	-
	Taishin Lucky Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	173,800,580.80	1,850,000,000	173,800,580.80	1,850,586,094	586,094	-
	Mega Diamond Bond Fund	Financial assets at fair value through profit or loss - current	-	200,000,000	-	-	65,263,803.05	780,000,000	82,037,825.45	980,803,266	805,266	-
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	57,108,260.70	790,000,000	57,108,260.70	790,262,589	262,589	-
	ING Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	38,425,742.29	600,000,000	38,425,742.29	600,080,701	80,701	-
	Yuanta Wan Tai Bond Fund	Financial assets at fair value through profit or loss - current	-	100,000,000	-	-	6,911,041.10	-	6,911,041.10	100,014,513	14,513	-
	TLG Solomon Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	41,421,760.77	500,000,000	41,421,760.77	500,128,409	128,409	-
	IBT 1699 Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	65,806,671.72	850,000,000	65,806,671.72	850,239,593	239,593	-
	IBT Ta Chong Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	92,066,309.10	1,250,000,000	92,066,309.10	1,250,356,068	356,068	-
	SinoPac Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	18,727,512.80	250,000,000	18,727,512.80	250,028,473	28,473	-
	TIIM Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	89,952,001.80	1,300,000,000	89,952,001.80	1,300,343,587	343,587	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	59,411,601.20	900,000,000	59,411,601.20	900,186,823	186,823	-
	FSITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	13,665,122.50	200,000,000	13,665,122.50	200,051,927	51,927	-
	FSITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	2,049,019.85	350,000,000	2,049,019.85	350,109,472	109,472	-
	Hua Nan Phoenix Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,839,442.80	200,000,000	12,839,442.80	200,017,976	17,976	-
	Hua Nan Kirin Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	52,258,290.60	600,000,000	52,258,290.60	600,083,596	83,596	-
	Paradigm Pion Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	63,337,858.47	700,000,000	63,337,858.47	700,150,208	150,208	-
	Shin Kong Chi-Shin Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	40,474,193.58	600,000,000	40,474,193.58	600,102,514	102,514	-
	Capital Income Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	16,189,822.40	250,000,000	16,189,822.40	250,082,568	82,568	-
	The RSIT Enhanced Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	43,658,262.21	500,000,000	43,658,262.21	500,086,415	86,415	-
	Allianz Global Investors Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	33,363,222.72	400,000,000	33,363,222.72	400,030,027	30,027	-
JF (Taiwan) Taiwan Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	25,331,527.90	400,000,000	25,331,527.90	400,058,265	58,265	-	
Polaris De-Li Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	25,620,746.10	400,000,000	25,620,746.10	400,075,574	75,574	-	
Polaris De-Bao Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	82,644,786.90	950,000,000	82,644,786.90	950,220,062	220,062	-	
KGI Victory Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	13,498,070.20	150,000,000	13,498,070.20	150,023,847	23,847	-	
Taiwan Air Cargo Terminal	Beneficiary certificates Fuh Hwa Global Fixed Income Fund of Funds	Financial assets at fair value through profit or loss	-	-	-	3,064,105.10	9,850,973.90	127,000,000	6,641,169.30	86,800,083	4,234,154	83,003,825
	Cathay Bond Fund	Financial assets at fair value through profit or loss	-	-	-	10,865,737.30	5,756,764.20	69,000,000	10,865,737.30	130,200,186	790,743	69,000,000
	Union Bond Fund	Financial assets at fair value through profit or loss	-	-	-	7,997,528.72	5,530,842.35	70,000,000	7,997,528.72	101,181,862	656,125	70,000,000
	PCA Well Pool Bond Fund	Financial assets at fair value through profit or loss	-	-	-	8,435,968.40	4,529,576.60	59,000,000	8,435,968.40	109,791,867	497,148	59,000,000
	Fuh-Hwa Yuli Bond Fund	Financial assets at fair value through profit or loss	-	-	-	9,507,551.90	-	-	9,507,551.90	122,804,701	568,378	-
	Upame James Bond Fund	Financial assets at fair value through profit or loss	-	-	-	6,418,661.64	-	-	6,418,661.64	102,675,848	268,027	-

(Continued)

Company Name	Marketable Securities Type and Issuer/Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units	Amount	Shares/Units	Amount (Note 2)	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
Taoyuan International Airport Services	FSITC Taiwan Bond Fund	Financial assets at fair value through profit or loss	-	-	14,473,671.60	\$ 211,325,737	-	\$ -	14,473,671.60	\$ 211,636,226	\$ 210,868,369	\$ 767,857	-	\$ -
	FSITC Bond Fund	Financial assets at fair value through profit or loss	-	-	627,321.10	106,918,726	-	-	627,321.10	107,085,767	106,671,562	414,205	-	-
Mandarin Airlines	Bond First issue of private unsecured bonds in 2010 - China Airlines	Financial assets at fair value through profit or loss - noncurrent	China Airlines	Parent company	-	-	300	300,000,000	-	-	-	-	300	300,000,000
	Bond First issue of private unsecured bonds in 2010 - China Airlines	Financial assets at fair value through profit or loss - noncurrent	China Airlines	Parent company	-	-	300	300,000,000	-	-	-	-	300	300,000,000

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

(Concluded)

CHINA AIRLINES, LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 DECEMBER 31, 2010

(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	\$ 406,515,442	4.96	\$ -	-	\$ 50,029,133	\$ -
Mandarin Airlines	China Airlines	Parent company	316,913,382	0.69	-	-	284,747,369	-
Taoyuan International Airport Services	China Airlines	Parent company	226,554,733	4.39	-	-	226,239,132	-
China Pacific Catering Services	China Airlines	Parent company	242,601,525	4.21	-	-	133,827,371	-

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2010
(In New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Shares	Balance as of December 31, 2010		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2010	December 31, 2009		Percentage of Ownership	Carrying Value			
China Airlines, Ltd.	Taiwan Air Cargo Terminal Cal Park	Taoyuan, Taiwan	Air cargo and storage	\$ 1,350,000,000	\$ 1,350,000,000	135,000,000	\$ 1,649,298,276	\$ 47,657,772	\$ 25,735,197	-	
	Cal-Dynasty International Mandarin Airlines	Taoyuan, Taiwan Los Angeles, U.S.A. Taipei, Taiwan	Real estate lease and international trade A holding company, real estate and hotel services Air transportation and maintenance of aircraft	1,500,000,000 US\$ 26,145,000 2,042,368,252	1,500,000,000 US\$ 26,145,000 2,042,368,252	150,000,000 2,614,500 188,154,025	1,457,413,760 1,009,378,367 1,004,699,155	(18,582,264) (10,178,667) 505,221,735	(18,582,264) (10,178,667) 507,732,425	- Note 2 Note 1	
	Taoyuan International Airport Services China Pacific Catering Services China Aircraft Service Cal-Asia Investment	Taoyuan, Taiwan Taoyuan, Taiwan Hong Kong International Airport Territory of the British Virgin Islands	Airport services In-flight catering Airport services General investment	147,000,000 439,110,000 HK\$ 58,000,000 US\$ 45,476,200	147,000,000 438,600,000 HK\$ 58,000,000 US\$ 45,476,200	34,300,000 43,911,000 28,400,000 45,476,200	671,375,416 637,608,109 359,886,699 351,186,589	35,842,465 216,077,752 73,828,912 30,302,159	17,562,808 110,254,668 14,765,782 30,302,159	- - - -	
	Abacus Distribution System (Taiwan) Taiwan Airport Services Kaohsiung Catering Services Asian Compressor Technology Services	Taipei, Taiwan Taipei, Taiwan Kaohsiung, Taiwan Taoyuan, Taiwan	Sale and maintenance of hardware and software Airport services In-flight catering Research, manufacture and maintenance of engines	52,200,000 12,289,100 140,240,221 77,322,000	52,200,000 12,289,100 115,642,930 77,322,000	13,021,042 20,626,644 14,329,759 7,732,200	395,687,814 296,924,254 230,693,413 184,112,301	139,211,510 27,913,308 155,573,939 276,995,470	130,768,167 13,217,582 49,476,560 67,863,890	- - - -	
	Science Park Logistics China Pacific Laundry Services	Tainan, Taiwan Taoyuan, Taiwan	Storage and customs of services Cleaning and leasing of the towel of airlines, hotels, restaurants, and health clubs	150,654,000 137,500,000	150,654,000 137,500,000	13,293,000 13,750,000	174,871,708 126,459,123	54,452,406 24,737,391	15,510,768 13,605,565	- -	
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	102,263,416	25,381,454	25,381,454	Note 1	
	Cal Hotel Co., Ltd. Dynasty Holidays Yestrip	Taoyuan, Taiwan Tokyo, Japan Taipei, Taiwan	Hotel business Travel business Travel business	265,000,000 JPY 20,400,000 36,264,643	15,000,000 JPY 20,400,000 36,264,643	26,500,000 408 1,600,000	48,305,061 44,393,676 27,333,357	(102,182,091) 11,480,823 6,709,095	(102,182,091) 5,855,220 6,709,095	- - -	
	Global Sky Express Freighter Princess Ltd. Freighter Prince Ltd. Freighter Queen Ltd.	Taipei, Taiwan Cayman Islands Cayman Islands	Forwarding and storage of air cargo Aircraft lease Aircraft lease	2,500,000 US\$ 1,000 US\$ 1,000 US\$ 1,000	2,500,000 US\$ 1,000 US\$ 1,000 US\$ 1,000	250,000 1,000 1,000 1,000	7,377,510 35,088 34,602 32,895	7,158,507 - - -	1,789,626 - - -	- - - -	
	Taiwan International Airport Services Tao Yao	Taichung, Taiwan Taoyuan, Taiwan	Other machine manufacturing Manpower placement and machine installation	49,477,500 10,000,000	49,477,500 10,000,000	4,275,000 1,000,000	49,737,101 11,246,362	10,063,850 132,155	2,556,903 134,303	- -	
	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	-	182,399,796	128,991,710	18,058,825	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	-	70,354,286	62,760,970	8,786,540	Note 4	
Taiwan Airport Services	Eastern United International Logistics Yangtze River Express Airlines	Hong Kong Shanghai, China	Forwarding and storage of air cargo Forwarding and storage of air cargo	HK\$ 3,329,268 US\$ 38,796,173	HK\$ 1,500,000 US\$ 38,796,173	1,050,000	17,250,612	13,793,211 (293,553,543)	5,374,190	- Notes 3 and 4	
	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,876,976	US\$ 5,876,976	-	272,541,491	26,845,364	26,845,364	Note 4	
Hwa Hsia	Hwa Shin Building Safeguard	Taoyuan, Taiwan	Building security and maintenance services	10,000,000	10,000,000	1,000,000	15,076,716	3,440,778	3,440,778	-	
	Xiamen International Airport Air Cargo Terminal Xiamen International Airport Air Cargo Storage	Xiamen International Airport Xiamen International Airport	Forwarding and storage of air cargo Forwarding and storage of air cargo	US\$ 3,950,226 US\$ 1,926,750	US\$ 3,950,226 US\$ 1,926,750	- -	181,239,359 69,868,746	128,991,710 62,760,970	18,058,825 8,786,540	Note 4 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: According to SFAS No. 5, the book value of investment was zero and the Company has no intention to hold afterwards. The Company has not recognize the investment income.

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

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2010

(In New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2010	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2010	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of December 31, 2010	Accumulated Inward Remittance of Earnings as of December 31, 2010
					Outflow	Inflow					
Xiamen International Air Cargo Terminal	Forwarding and storage of air cargo	\$ 982,407,002 (RMB 224,480,000)	Indirect	\$ 120,053,819 (US\$ 4,117,846)	\$ -	\$ -	\$ 120,053,819 (US\$ 4,117,846)	14.00%	\$ 18,058,825 (US\$ 568,853)	\$ 182,399,796 (US\$ 6,256,313)	\$ 32,419,825 (US\$1,112,000) (Note 3)
Xiamen International Airport Air Cargo Storage	Forwarding and storage of air cargo	61,269,147 (RMB 14,000,000)	Indirect	56,776,706 (US\$ 1,947,441)	-	-	56,776,706 (US\$ 1,947,441)	14.00%	8,786,540 (US\$ 276,776)	70,354,286 (US\$ 2,413,152)	
Taikoo (Xiamen) Landing Gear Services	Maintenance services of landing gear	404,956,268 (US\$ 13,890,000)	Indirect	32,396,501 (US\$ 1,111,200)	-	-	32,396,501 (US\$ 1,111,200)	8.00%	-	32,396,501 (US\$ 1,111,200)	
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	361,844,726 (RMB 82,681,520)	Indirect	18,542,274 (US\$ 636,000)	-	-	18,542,274 (US\$ 636,000)	5.45%	-	18,542,274 (US\$ 636,000)	
Yangtze River Express Airlines	Forwarding and storage of air cargo	2,188,183,807 (RMB 500,000,000)	Indirect	1,131,083,761 (US\$ 38,796,173)	-	-	1,131,083,761 (US\$ 38,796,173)	25.00%	-	-	

Accumulated Investment in Mainland China as of December 31, 2010	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,358,853,061 (US\$46,608,660)	\$1,365,415,151 (Note 4)	\$29,197,619,494 (Note 5)

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

Note 2: The accrual basis is based on the financial statements audited by CPAs of China Airlines, Ltd. in ROC.

Note 3: Inward remittance of earnings of investees for the year ended December 31, 2010 is US\$1,112,000.

Note 4: The amount is the US\$45,576,073 added NT\$36,666,667.

Note 5: The limits based on the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China Adjudgment Rule," is larger amount of the Company's net asset value or 60% of the consolidated net asset value.

Note 6: The amounts of assets and gain or loss in RMB and U.S. dollars are translated at the year-end rates and the average rate of IATA, respectively.