

China Airlines, Ltd.

**Financial Statements for the
Six Months Ended June 30, 2011 and 2010 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of China Airlines, Ltd. as of June 30, 2011 and 2010 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of June 30, 2011 and 2010 and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of China Airlines, Ltd. and its subsidiaries as of and for the six months ended June 30, 2011 and 2010 on which we have issued unqualified opinions in our reports dated August 9, 2011.

August 9, 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
JUNE 30, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011		2010	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 8,701,922	4	\$ 10,729,335	5
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 24)	2,901,938	2	1,100,370	1
Available-for-sale financial assets - current (Notes 2, 6 and 24)	119,017	-	110,432	-
Derivative financial assets for hedging - current (Notes 2, 24 and 25)	93,117	-	14,686	-
Receivables:				
Notes and accounts, net (Notes 2, 3 and 7)	10,123,716	5	13,376,253	6
Notes and accounts - related parties (Note 26)	430,307	-	515,542	-
Other receivables (Note 8)	832,193	-	970,602	1
Inventories, net (Notes 2 and 9)	8,244,519	4	5,884,598	3
Deferred income tax assets - current (Notes 2 and 21)	107,857	-	397,012	-
Other current assets	1,166,721	1	485,695	-
Total current assets	32,721,307	16	33,584,525	16
LONG-TERM INVESTMENTS				
Financial assets at fair value through profit or loss - non-current (Notes 2, 5 and 24)	373,970	-	374,044	-
Financial assets carried at cost - non-current (Notes 2, 10 and 24)	371,367	-	371,367	-
Investments accounted for using equity method (Notes 2 and 11)	8,879,579	5	8,532,507	4
Other financial assets - non-current	13,031	-	12,868	-
Total long-term investments	9,637,947	5	9,290,786	4
PROPERTIES (Notes 2, 12 and 27)				
Cost				
Land	1,688,283	1	2,106,788	1
Buildings	7,218,970	4	7,765,882	4
Machinery and equipment	4,339,264	2	3,643,685	2
Flight equipment	191,157,326	95	194,687,922	90
Furniture	673,633	-	691,121	-
Leased flight and other equipment	13,899,138	7	14,720,344	7
Leasehold improvements	979,401	1	1,022,456	-
Revaluation increment	41,298	-	50,335	-
Total cost and revaluation increment	219,997,313	110	224,688,533	104
Accumulated depreciation	87,172,218	44	78,675,242	36
	132,825,095	66	146,013,291	68
Construction in progress and prepayments for equipment (Note 28)	5,206,367	3	5,071,615	2
Net properties	138,031,462	69	151,084,906	70
INTANGIBLE ASSETS				
Computer software, net (Note 2)	364,072	-	330,366	-
Deferred pension cost (Note 2)	177,407	-	544,049	-
Total intangible assets	541,479	-	874,415	-
OTHER ASSETS				
Refundable deposits (Note 28)	11,354,005	6	12,695,893	6
Deferred income tax assets - non-current (Notes 2 and 21)	6,776,012	3	6,289,445	3
Restricted assets - non-current (Notes 26 and 27)	657,925	-	1,128,319	1
Other assets (Note 2)	832,268	1	991,134	-
Net other assets	19,620,210	10	21,104,791	10
TOTAL	<u>\$ 200,552,405</u>	<u>100</u>	<u>\$ 215,939,423</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans (Notes 13 and 27)	\$ -	-	\$ -	-
Short-term bills payable (Note 14)	299,979	-	2,549,056	1
Financial liabilities at fair value through profit or loss - current (Notes 2, 5 and 24)	-	-	353,285	-
Derivative financial liabilities for hedging - current (Notes 2, 24 and 25)	-	-	200,690	-
Accounts payable	462,200	-	289,858	-
Accounts payable to related parties (Note 26)	1,359,249	1	1,164,777	1
Accrued expenses (Notes 2 and 26)	10,623,552	5	13,134,788	6
Advance ticket sales (Note 2)	9,160,400	5	9,320,551	4
Bonds issued - current portion (Notes 2, 15, 24 and 26)	14,500,000	7	3,865,600	2
Loans and debts - current portion (Notes 16, 24 and 27)	17,788,544	9	17,717,132	8
Capital lease obligations - current portion (Notes 2 and 17)	1,093,342	-	1,127,291	1
Other current liabilities	3,738,937	2	1,544,911	1
Total current liabilities	59,035,903	29	51,467,939	24
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Derivative financial liabilities for hedging - non-current (Notes 2, 24 and 25)	30,393	-	75,447	-
Bonds issued - non-current (Notes 2, 15, 24 and 26)	17,750,000	9	26,250,000	12
Loans and debts - non-current (Notes 16, 24 and 27)	62,203,115	31	74,978,100	35
Capital lease obligations - non-current (Notes 2 and 17)	1,663,134	1	3,057,827	1
Total long-term liabilities	81,646,642	41	104,361,374	48
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 18)	6,704,664	3	5,734,787	3
Deferred profits on sale-leaseback (Note 2)	5,807,219	3	6,461,151	3
Others	1,040,443	1	399,906	-
Total other liabilities	13,552,326	7	12,595,844	6
Total liabilities	154,234,871	77	168,425,157	78
STOCKHOLDERS' EQUITY				
Capital stock, NTS 10.00 par value; authorized - 5,200,000 thousand shares; issued and outstanding - 4,631,622 thousand shares in 2011 and 4,572,249 thousand shares in 2010	46,316,224	23	45,722,490	21
Capital surplus	392,822	-	1,062	-
Retained earnings	799,630	-	-	-
Legal reserve	5,162,071	3	-	-
Special reserve	(479,545)	-	2,867,350	1
Unappropriated earnings (Deficit)	5,482,156	3	2,867,350	1
Total retained earnings	(3,330,510)	(2)	(157,251)	-
Other equity	(2,621,974)	(1)	(1,570,023)	(1)
Cumulative translation adjustments	74,072	-	(143,279)	-
Net loss not recognized as pension cost	41,298	-	830,471	1
Unrealized valuation gain or loss on financial instruments	(36,554)	-	(36,554)	-
Unrealized revaluation increment	(5,873,668)	(3)	(1,076,636)	-
Company shares held by subsidiaries reclassified into treasury stock	46,317,534	23	47,514,266	22
Total stockholders' equity	46,317,534	23	47,514,266	22
TOTAL	<u>\$ 200,552,405</u>	<u>100</u>	<u>\$ 215,939,423</u>	<u>100</u>

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

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
REVENUES (Notes 2 and 26)				
Passenger	\$ 38,302,933	60	\$ 35,541,148	53
Cargo	23,290,851	36	28,402,936	43
Others	<u>2,429,989</u>	<u>4</u>	<u>2,774,059</u>	<u>4</u>
Total revenues	<u>64,023,773</u>	<u>100</u>	<u>66,718,143</u>	<u>100</u>
COSTS (Notes 22 and 26)				
Flight operations	39,870,509	62	35,075,752	52
Terminal and landing fees	9,111,298	14	9,236,466	14
Passenger services	3,851,702	6	3,978,210	6
Aircraft maintenance	6,123,326	10	4,702,203	7
Others	<u>1,167,620</u>	<u>2</u>	<u>1,783,792</u>	<u>3</u>
Total costs	<u>60,124,455</u>	<u>94</u>	<u>54,776,423</u>	<u>82</u>
GROSS PROFIT	<u>3,899,318</u>	<u>6</u>	<u>11,941,720</u>	<u>18</u>
OPERATING EXPENSES (Note 22)				
Marketing and selling	2,990,005	5	3,332,840	5
General and administrative	<u>1,210,887</u>	<u>2</u>	<u>1,771,682</u>	<u>3</u>
Total operating expenses	<u>4,200,892</u>	<u>7</u>	<u>5,104,522</u>	<u>8</u>
OPERATING PROFIT (LOSS)	<u>(301,574)</u>	<u>(1)</u>	<u>6,837,198</u>	<u>10</u>
NONOPERATING INCOME AND GAINS				
Interest income	77,882	-	43,955	-
Investment income recognized under the equity method (Notes 2 and 11)	308,263	1	487,679	1
Dividend income (Note 2)	91,772	-	171,460	-
Gain on disposal of properties (Note 2)	198,207	-	955	-
Gain on sale of available-for-sale financial assets (Notes 2, 6, and 24)	-	-	118,139	-
Valuation gain on financial instruments, net (Notes 2 and 5)	3,909	-	289,714	-
Foreign exchange gain, net	39,912	-	-	-
Others	<u>284,313</u>	<u>1</u>	<u>294,779</u>	<u>1</u>
Total nonoperating income and gains	<u>1,004,258</u>	<u>2</u>	<u>1,406,681</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 26)	1,118,449	2	1,415,290	2

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CHINA AIRLINES, LTD.

STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
Foreign exchange loss, net (Note 2)	-	-	47,330	-
Others	<u>358,628</u>	-	<u>92,639</u>	-
Total nonoperating expenses and losses	<u>1,477,077</u>	<u>2</u>	<u>1,555,259</u>	<u>2</u>
PRETAX INCOME (LOSS)	(774,393)	(1)	6,688,620	10
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 21)	<u>(112,898)</u>	-	<u>415,340</u>	<u>1</u>
NET INCOME (LOSS)	<u>\$ (661,495)</u>	<u>(1)</u>	<u>\$ 6,273,280</u>	<u>9</u>
	2011		2010	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS (LOSS) PER SHARE (New Taiwan dollars; Note 23)				
Basic	<u>\$ (0.17)</u>	<u>\$ (0.14)</u>	<u>\$ 1.46</u>	<u>\$ 1.37</u>
Diluted	<u>\$ (0.17)</u>	<u>\$ (0.14)</u>	<u>\$ 1.44</u>	<u>\$ 1.35</u>

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

(Concluded)

CHINA AIRLINES, LTD.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2011 AND 2010**
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued and Outstanding		Retained Earnings (Notes 2 and 18)			Capital Surplus (Notes 2 and 19)	Unrealized Valuation Gain or Loss on Financial Instruments (Note 2)		Unrealized Revaluation Increment (Notes 2 and 12)	Company Shares Held by Subsidiaries Reclassified into Treasury Stock (Notes 2, 19 and 20)	Total Stockholders' Equity
	Shares (In Thousands)	Amount	Legal Reserve	Special Reserve	Unappropriated Earnings (Deficit)		Total	Net Loss Not Recognized as Pension Cost (Note 2)			
BALANCE, JANUARY 1, 2011	4,631,622	\$ 46,316,224	\$ -	\$ -	\$ 7,996,300	\$ 7,996,300	\$ (3,370,031)	\$ (64,422)	\$ 50,335	\$ (36,554)	\$ 48,662,700
Appropriations of 2010 earnings	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	799,630	-	(799,630)	-	-	-	-	-	-
Special reserve	-	-	-	5,162,071	(5,162,071)	-	-	-	-	-	-
Cash dividends - \$0.4 per share	-	-	-	-	(1,852,649)	(1,852,649)	-	-	-	-	(1,852,649)
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	(776)	-	-	-	(776)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	40,297	-	-	-	40,297
Net loss in the six months ended June 30, 2011	-	-	-	-	(661,495)	(661,495)	-	-	-	-	(661,495)
Unrealized valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	1,412	-	-	1,412
Unrealized gain on cash flow hedge	-	-	-	-	-	-	-	137,242	-	-	137,242
Revaluation increment reclassified as other revenue	-	-	-	-	-	-	-	-	(9,037)	-	(9,037)
Unrealized loss on financial instruments of equity-method investees	-	-	-	-	-	-	-	(160)	-	-	(160)
BALANCE, JUNE 30, 2011	4,631,622	\$ 46,316,224	\$ 799,630	\$ 5,162,071	\$ (479,545)	\$ 5,482,156	\$ (3,330,510)	\$ 74,072	\$ 41,298	\$ (36,554)	\$ 46,317,534
BALANCE, JANUARY 1, 2010	4,572,249	\$ 45,722,490	\$ -	\$ -	\$ (4,034,018)	\$ (4,034,018)	\$ (130,206)	\$ (162,526)	\$ 830,471	\$ (36,554)	\$ 41,267,999
Deficit offset against capital surplus	-	-	-	-	628,088	628,088	-	-	-	-	-
Capital surplus	-	-	(628,088)	-	-	-	-	-	-	-	-
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	(110,527)	-	-	-	(110,527)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	83,482	-	-	-	83,482
Net income in the six months ended June 30, 2010	-	-	-	-	6,273,280	6,273,280	-	-	-	-	6,273,280
Unrealized valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	(152,925)	-	-	(152,925)
Unrealized gain on cash flow hedge	-	-	-	-	-	-	-	173,976	-	-	173,976
Unrealized loss on financial instruments of equity-method investees	-	-	-	-	-	-	-	(1,804)	-	-	(1,804)
Net loss not recognized as pension cost of equity-method investees	-	-	-	-	-	-	(19,215)	-	-	-	(19,215)
BALANCE, JUNE 30, 2010	4,572,249	\$ 45,722,490	\$ 1,062	\$ -	\$ 2,867,350	\$ 2,867,350	\$ (157,251)	\$ (143,279)	\$ 830,471	\$ (36,554)	\$ 47,514,266

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (661,495)	\$ 6,273,280
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income taxes	(145,848)	435,491
Depreciation and amortization	5,122,872	5,009,201
Allowance for doubtful accounts	(9,757)	1,000
Gain on sale of available-for-sale financial assets	-	(118,139)
Valuation gain on financial instruments	(3,909)	(289,714)
Investment gain recognized under the equity method	(308,263)	(487,679)
Cash dividends received from equity-method investees	267,118	147,920
Loss on inventories, properties and idle properties	217,418	190,449
Gain on disposal of properties	(198,207)	(955)
Gain on disposal of idle properties, net	(31,445)	(9,577)
Amortization of deferred profit on sale-leaseback	(322,338)	(327,587)
Amortization of deferred credits	(33,207)	(33,207)
Net changes in operating assets and liabilities:		
Financial assets and liabilities held for trading	(2,597,977)	(2,894,987)
Notes and accounts receivable	1,322,499	(1,378,248)
Notes and accounts receivable - related parties	67,905	(34,652)
Other receivables	(73,960)	(179,899)
Inventories	(1,583,416)	(483,552)
Other current assets	(806,890)	(253,800)
Accounts payable	154,113	(439,881)
Accounts payable to related parties	289,392	76,404
Accrued expenses	(1,479,499)	1,821,665
Advance ticket sales	510,581	1,010,661
Other current liabilities	(112,713)	160,425
Accrued pension cost	57,753	218,139
Net cash provided by (used in) operating activities	<u>(359,273)</u>	<u>8,412,758</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale financial assets	-	181,914
Increase in investments accounted for by the equity method	(200,000)	-
Return of capital on equity - method investments	-	10,000
Additions to properties	(1,372,037)	(1,146,768)
Proceeds of disposal of properties	214,306	1,093
Increase in computer software	(17,084)	(1,892)
Proceeds of disposal of idle properties	44,359	14,065
Increase in refundable deposits	(68,007)	(209,617)
Increase in deferred charges	(23,791)	(34,776)
Decrease (increase) in restricted assets - noncurrent	<u>348,019</u>	<u>(335,088)</u>
Net cash used in investing activities	<u>(1,074,235)</u>	<u>(1,521,069)</u>

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CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(1,100,000)	(3,900,000)
Decrease in short-term bills payable	(949,646)	(99,704)
Proceeds of long-term debts	3,584,948	3,216,262
Repayments of long-term debts and capital lease obligations	(8,230,996)	(9,532,909)
Issuance of bonds	6,000,000	8,650,000
Increase (decrease) in deposits-in	<u>2,595</u>	<u>(16,011)</u>
Net cash used in financing activities	<u>(693,099)</u>	<u>(1,682,362)</u>
EFFECTS OF EXCHANGE RATE CHANGES	<u>31,549</u>	<u>(7,345)</u>
NET INCREASE (DECREASE) IN CASH	(2,095,058)	5,201,982
CASH, BEGINNING OF PERIOD	<u>10,796,980</u>	<u>5,527,353</u>
CASH, END OF PERIOD	<u>\$ 8,701,922</u>	<u>\$ 10,729,335</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 1,162,570	\$ 1,365,556
Less: Capitalized interest	<u>36,649</u>	<u>38,665</u>
Interest paid (excluding capitalized interest)	<u>\$ 1,125,921</u>	<u>\$ 1,326,891</u>
Income tax paid	<u>\$ 33,969</u>	<u>\$ 36,865</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term loans and debts	<u>\$ 17,788,544</u>	<u>\$ 17,717,132</u>
Current portion of capital lease obligations	<u>\$ 1,093,342</u>	<u>\$ 1,127,291</u>
Current portion of bonds issued	<u>\$ 14,500,000</u>	<u>\$ 3,865,600</u>

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

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (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. As of June 30, 2011 and 2010, China Aviation Development Foundation held 39.10% and 39.61% of the Company’s shares, respectively. As of June 30, 2011 and 2010, National Development Fund, Executive Yuan held 11.22% and 11.37% of the Company’s shares. The Company had 10,474 and 10,074 employees as of June 30, 2011 and 2010, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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.

Significant accounting policies are summarized as follows:

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, nonmonetary 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 nonmonetary financial asset with the changes in fair value recognized as an adjustment to stockholders’ equity, exchange differences are recognized as an adjustment to stockholders’ equity. For a nonmonetary financial asset at fair value through profit or loss, exchange differences are recognized in the income statement. Nonmonetary financial assets and liabilities denominated in foreign currency and 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.

Accounting Estimates

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

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

Commercial paper acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value because of the short-term nature of these instruments.

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.

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

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

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issuance. When fair value is remeasured, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using transaction date accounting.

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

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss on 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.

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 nonfinancial asset or a nonfinancial liability, it removes the associated gains and losses that were recognized directly in equity and includes them in the initial cost or 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.

Financial Assets Carried at Cost

Equity investments, such as non-publicly traded stocks, with fair value that cannot be reliably measured, are carried at original cost. Cash dividends are recognized as investment income on ex-dividend dates but are accounted for as reductions of the original investment costs if these dividends are declared on the investees' earnings attributable to periods before the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares. If there is objective evidence that a financial asset is impaired, a loss is recognized. However, the recording of a subsequent recovery of fair value is not allowed.

Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable before January 1, 2011. The Company assesses the probability of collections of accounts receivable by an aging analysis of the outstanding receivables and by examining the economic environment as well as the collaterals provided by customers.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Company adopted the third time revised of Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." One of the main revisions is that the impairment of receivables originated by the Company is subject to the provisions of SFAS No. 34. The Company should evaluate accounts receivable for individual and collective impairment at the end of each reporting period. When there is objective evidence of a decrease in the estimated future cash flow of accounts receivable decreases as a result of one or more events that occurred after the initial recognition of the accounts receivable, the accounts receivable are deemed to be impaired.

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

Impairment of Assets

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

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sale. These parts, materials and supplies are valued at the weighted-average cost less allowance for obsolescence. Items for in-flight sale are stated at the lower 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.

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.

Intangible Assets

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

Deferred Charges

Deferred charges mainly consist of (a) expenses for training pilots in operating new types of aircraft, (b) issue costs of corporate bonds and (c) costs incurred for syndicated loans. They are 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 to reach a certain award level, which entitles them to choose from among various awards (including an upgrade to a higher class or free tickets). A liability is accrued and charged to operating expense. The amount accrued is based on the estimated incremental cost that will be incurred upon the provision of transport services.

Convertible Bonds

The net carrying amount of the bonds which was issued before June 30, 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.

Revenue Recognition

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

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

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

Operating Segments

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

4. CASH AND CASH EQUIVALENTS

	June 30	
	2011	2010
Cash on hand	\$ 768,661	\$ 1,835,833
Revolving fund	196,840,252	120,021,753
Cash in banks	3,285,359,236	5,412,604,117
Certificates of deposit	3,716,898,252	4,505,580,518
Cash equivalents	<u>1,502,055,856</u>	<u>689,292,931</u>
	<u>\$ 8,701,922,257</u>	<u>\$ 10,729,335,152</u>

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

Financial instruments classified as held for trading were as follows:

	June 30	
	2011	2010
<u>Financial assets held for trading</u>		
Current		
Beneficiary certificates	<u>\$ 2,901,938,167</u>	<u>\$ 1,100,370,035</u>
<u>Financial liabilities held for trading</u>		
Current		
Fuel option contracts	<u>\$ -</u>	<u>\$ 353,284,687</u>

The gains on beneficial certificates in the six months ended June 30, 2011 and 2010 were \$3,929,000 and \$2,454,000, respectively. There was no gain or loss on derivative instruments held for trading in the six months ended June 30, 2011. The gain on derivative instruments held for trading in the six months ended June 30, 2010 was \$287,260,000.

Financial instruments designated as at FVTPL were as follows:

	June 30	
	2011	2010
<u>Financial assets designated as at FVTPL</u>		
Noncurrent		
Convertible bonds		
China Life Insurance Co., Ltd.	<u>\$ 373,970,000</u>	<u>\$ 374,044,385</u>

On financial assets designated as at FVTPL for the six months ended June 30, 2011 and 2010, there were losses of \$20,000 and \$1,000, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30			
	2011		2010	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Current</u>				
Foreign marketable equity securities				
France Telecom	<u>\$ 119,016,645</u>	-	<u>\$ 110,432,332</u>	-

In April 2010, the Company disposed of its entire holding in Trade-Van Information Service. The gain on the disposal of available-for-sale financial assets was \$118,139,000.

7. NOTES AND ACCOUNTS RECEIVABLE, NET

	June 30	
	2011	2010
Notes receivable	\$ 371,177,744	\$ 384,215,387
Accounts receivable	<u>9,807,442,016</u>	<u>13,039,323,894</u>
	10,178,619,760	13,423,539,281
Less: Allowance for doubtful accounts	<u>54,903,519</u>	<u>47,286,103</u>
	<u>\$ 10,123,716,241</u>	<u>\$ 13,376,253,178</u>

8. OTHER RECEIVABLES

	June 30	
	2011	2010
Accrued revenue	\$ 606,222,695	\$ 597,598,578
Tax refunds	223,005,789	369,595,003
Others	<u>2,964,348</u>	<u>3,408,425</u>
	<u>\$ 832,192,832</u>	<u>\$ 970,602,006</u>

9. INVENTORIES, NET

	June 30	
	2011	2010
Aircraft spare parts	\$ 7,266,783,364	\$ 5,368,330,249
Items for in-flight sale	347,429,587	319,914,832
Work-in-process - maintenance services	<u>630,306,470</u>	<u>196,353,217</u>
	<u>\$ 8,244,519,421</u>	<u>\$ 5,884,598,298</u>

As of June 30, 2011 and 2010, the allowances for inventory devaluation were \$66,081,000 and \$54,231,000, respectively.

10. FINANCIAL ASSETS CARRIED AT COST

	June 30			
	2011		2010	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted common stocks				
Abacus International Holdings Ltd.	\$ 297,946,451	13.59	\$ 297,946,451	13.59
Jardine Air Terminal Services	56,022,929	15.00	56,022,929	15.00
Chung Hwa Express Co.	11,000,000	11.00	11,000,000	11.00
Regal International Advertising	5,925,000	6.58	5,925,000	6.58
Far Eastern Air Transport	-	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>	

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	June 30			
	2011		2010	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Investees on which the Company exercises significant influence</u>				
Taiwan Air Cargo Terminal	\$ 1,641,333,336	54.00	\$ 1,658,599,569	54.00
Cal Park	1,460,643,347	100.00	1,464,007,227	100.00
Mandarin Airlines	1,054,383,268	93.99	759,065,569	93.99
Cal-Dynasty International	1,004,888,696	100.00	1,112,292,990	100.00
Taoyuan International Airport Services	677,627,027	49.00	667,561,351	49.00
China Pacific Catering Services	585,343,892	51.00	613,930,900	51.03
Cal-Asia Investment	369,693,014	100.00	369,016,206	100.00
China Aircraft Services	364,675,642	20.00	389,510,702	20.00
Abacus Distribution Systems (Taiwan)	344,250,807	93.93	333,200,687	93.93
Taiwan Airport Services	305,706,575	47.35	294,658,419	47.35
Cal Hotel	223,946,791	100.00	89,740,528	100.00
Kaohsiung Catering Services	206,856,674	35.78	179,823,466	31.76
Science Park Logistics	172,070,950	28.48	165,920,828	28.48
Asian Compressor Technology Services	170,262,230	24.50	148,881,571	24.50
China Pacific Laundry Services	135,775,401	55.00	119,343,523	55.00
Hwa Hsia	94,696,499	100.00	95,297,791	100.00
Dynasty Holidays	36,615,340	51.00	40,907,303	51.00
Yestrip	24,219,121	100.00	24,059,162	100.00
Global Sky Express	6,488,012	25.00	6,587,044	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>\$ 8,879,579,207</u>		<u>\$ 8,532,507,421</u>	

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

	Six Months Ended June 30	
	2011	2010
Taiwan Air Cargo Terminal	\$ (7,964,940)	\$ 35,036,490
Cal Park	3,229,587	(11,988,797)
Mandarin Airlines	49,616,467	262,372,453
Cal-Dynasty International	1,381,825	(11,181,917)
Taoyuan International Airport Services	23,401,611	25,289,082
China Pacific Catering Services	46,901,088	66,997,532
Cal-Asia Investment	14,416,941	16,876,422
China Aircraft Services	7,117,001	6,902,182
Abacus Distribution Systems (Taiwan)	66,403,423	68,281,040
Taiwan Airport Services	19,522,470	150,738
Cal Hotel	(24,358,270)	(60,746,624)
Kaohsiung Catering Services	26,503,191	23,263,791
Science Park Logistics	10,492,242	6,559,888
Asian Compressor Technology Services	47,227,430	32,633,160
China Pacific Laundry Services	9,316,278	5,208,312
Hwa Hsia	15,276,392	16,369,774
Dynasty Holidays	(3,878,981)	1,221,039
Yestrip	2,923,949	3,434,900
Global Sky Express	<u>735,502</u>	<u>999,160</u>
	<u>\$ 308,263,206</u>	<u>\$ 487,678,625</u>

The equity-method investees' financial statements, which had been used to determine the carrying amount of the Company's investments, had been audited, except those of China Aircraft Services Ltd. The Company believes that had this investee's financial statements been audited, any resulting adjustment would have had no material effect on the Company's financial statements. The subsidiaries, Freighter Queen Ltd., Freighter Prince Ltd. and Freighter Princess Ltd., were established in March 2001, September 2001 and January 2002, respectively, for the Leasing of the Company's aircraft. In its balance sheets, the Company recognized the fixed assets and liabilities related to the leased aircraft as a leasing transaction.

The difference between the cost of the investment and the investee's net assets is from goodwill and related-party transaction of depreciable assets between the Company and its subsidiary. The information on goodwill for the six months ended June 30, 2011 and 2010 is as follows:

	Goodwill	Transaction Between Company and Subsidiary
<u>Six months ended June 30, 2011</u>		
Beginning	\$ 52,423,365	\$(150,646,025)
Decrease	<u>-</u>	<u>16,434,112</u>
Ending	<u>\$ 52,423,365</u>	<u>\$(134,211,913)</u>
<u>Six months ended June 30, 2010</u>		
Beginning	\$ 53,843,702	\$(183,514,249)
Decrease	<u>-</u>	<u>16,434,112</u>
Ending	<u>\$ 53,843,702</u>	<u>\$(167,080,137)</u>

In April 2011, the Company invested \$200,000,000 in Cal Hotel to meet this investee's operating needs.

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

12. PROPERTIES

	June 30	
	2011	2010
Revaluation increment - cost		
Building	<u>\$ 41,297,645</u>	<u>\$ 50,335,009</u>
Accumulated depreciation		
Building	\$ 2,645,499,497	\$ 3,380,943,247
Machinery and equipment	3,171,647,655	3,060,239,481
Flight equipment	74,273,297,542	65,578,436,022
Furniture	386,359,643	390,682,640
Leased flight and other equipment	5,900,121,696	5,445,710,799
Leasehold improvements	<u>795,291,642</u>	<u>819,230,303</u>
	<u>\$ 87,172,217,675</u>	<u>\$ 78,675,242,492</u>

Interests capitalized in the six months ended June 30, 2011 and 2010 amounted to \$36,649,000 and \$38,665,000, respectively. These interests were calculated at rates ranging from 1.91%-1.95% and from 1.60%-2.22% in the six months ended June 30, 2011 and 2010, 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 headquarters 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.

13. SHORT-TERM LOANS

	June 30	
	2011	2010
Bank loans, interest of 0.79% in the six months ended June 30, 2010	<u>\$ -</u>	<u>\$ 200,000,000</u>

14. SHORT-TERM BILLS PAYABLE

	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Aggregate face value - discounted interest of 0.858% and 0.638% in the six months ended June 30, 2011 and 2010, respectively	\$ 300,000,000	\$ 2,550,000,000
Less: Unamortized discount	<u>20,690</u>	<u>943,720</u>
	<u>\$ 299,979,310</u>	<u>\$ 2,549,056,280</u>

Commercial paper in the six months ended June 30, 2011 had matured on various dates before July 2011.

15. BONDS ISSUED

	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Five-year secured domestic bonds - issued at par in July 2006; repayable in July 2009, July 2010 and July 2011; 2.21% interest p.a., payable annually.	\$ 2,600,000,000	\$ 4,550,000,000
November 2007; repayable in November 2010, November 2011 and November 2012; indicator rate plus 0.4% interest p.a., payable quarterly.	2,100,000,000	3,000,000,000
January 2010; repayable in January 2013, January 2014 and January 2015; indicator rate plus 1.5% interest p.a., payable quarterly.	1,300,000,000	1,300,000,000
February 2010; repayable in February 2013, February 2014 and February 2015; indicator rate plus 1.5% interest p.a., payable quarterly.	2,300,000,000	2,300,000,000
May 2011; repayable in May 2014, May 2015 and May 2016; 1.35% interest p.a., payable annually.	6,000,000,000	-
Three-year private unsecured bonds-issued at par in April 2009; repayable in April 2012; 3.4% interest p.a., payable semiannually.	8,800,000,000	8,800,000,000
June 2009; repayable in June 2012; 3.4% interest p.a., payable semiannually.	2,200,000,000	2,200,000,000
May 2010; repayable in May 2010; 2.8% interest p.a., payable semiannually.	5,050,000,000	5,050,000,000
Five-year private unsecured bonds-issued at par in April 2009; repayable in April 2014; 3.6% interest p.a., payable semiannually.	1,100,000,000	1,100,000,000
June 2009; repayable in June 2014; 3.6% interest p.a., payable semiannually.	800,000,000	800,000,000
Unsecured domestic convertible bonds Third issue	<u>-</u>	<u>1,015,600,000</u>
	32,250,000,000	30,115,600,000
Less: Current portion	<u>14,500,000,000</u>	<u>3,865,600,000</u>
	<u>\$ 17,750,000,000</u>	<u>\$ 26,250,000,000</u>

On May 5, 12 and 19 of 2010, the Company made a first issue of 2010 private unsecured bonds with aggregate face value of \$5,050,000,000. The investors included these affiliates: Taoyuan International Airport Services, Mandarin Airlines, Abacus Distribution Systems (Taiwan), China Pacific Catering Services and Hwa Hsia.

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 matured 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 in August 2010 the remaining bonds with an aggregate face value of \$30,000,000.

16. LONG-TERM LOANS

	June 30	
	2011	2010
Bank loans	\$ 74,576,710,637	\$ 88,324,776,840
Commercial paper, net of unamortized discounts of \$15,052,012 and \$9,544,744 in the six months ended June 30, 2011 and 2010, respectively	<u>5,414,947,988</u>	<u>4,370,455,256</u>
	79,991,658,625	92,695,232,096
Less: Current portion	<u>17,788,543,821</u>	<u>17,717,132,128</u>
	<u>\$ 62,203,114,804</u>	<u>\$ 74,978,099,968</u>

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

	Currency		
	New Taiwan Dollars	U.S. Dollars	Japanese Yen
<u>Amounts</u>			
Original currency			
2011	\$ 44,964,128,109	\$ 998,459,665	\$ 1,860,000,000
2010	47,460,410,873	1,236,534,280	3,100,000,000
Translated in New Taiwan dollars			
2011	44,964,128,109	28,940,859,884	671,722,644
2010	47,460,410,873	39,759,944,719	1,104,421,248

(Continued)

	Currency		
	New Taiwan Dollars	U.S. Dollars	Japanese Yen
<u>Interest rates</u>			
2011	1.147%-2.525%	0.2408%-4.77%	0.6953%
2010	0.915%-2.895%	0.2949%-4.77%	0.745%
<u>Periods</u>			
2011	2002/4/11-2020/2/26	2000/7/6-2017/9/21	2007/12/26-2012/12/26
2010	2001/2/27-2020/2/26	2000/7/6-2017/9/21	2007/12/26-2012/12/26 (Concluded)

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until March 2017, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 1.313% to 2.09% and 0.5% to 1.648% in the six months ended June 30, 2011 and 2010, respectively.

17. LONG-TERM CAPITAL LEASE OBLIGATIONS

	June 30	
	2011	2010
Capital lease obligations	\$ 2,756,476,121	\$ 4,185,118,402
Less: Current portion	<u>1,093,341,738</u>	<u>1,127,291,193</u>
	<u>\$ 1,663,134,383</u>	<u>\$ 3,057,827,209</u>

As of June 30, 2011 the Company was leasing aircraft and related parts from certain foreign companies under capital lease agreements expiring on various dates until February 2014.

Future lease payments on flight equipment are summarized as follows:

Period	Amount
July to December 2011	\$ 536,670,723
2012	1,134,089,610
2013	837,772,912
January to February 2014	247,942,876

18. PENSION PLAN

Based on the defined contribution pension plan under the Labor Pension Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts under the custody of the Bureau of Labor Insurance is at 6% of salaries and wages. The Company recognized defined contribution pension costs of \$57,024,000 and \$65,066,000 for the six months ended June 30, 2011 and 2010, respectively.

The pension plan under the Labor Standards Law is a defined benefit pension plan. Benefits are based on the service years accumulated and the average basic salaries and wages of the six months before retirement. The Company makes monthly contributions to a pension fund at 7% of salaries and wages. The fund is administered by a pension fund committee and deposited in the committee's name in the Bank of Taiwan. The Company recognized pension costs of \$373,141,000 and \$493,835,000 for the six months ended June 30, 2011 and 2010, respectively.

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

a. Pension fund movements

	Six Months Ended June 30	
	2011	2010
Balance, beginning of period	\$ 2,436,797,815	\$ 2,143,340,771
Contributions	278,138,540	258,536,925
Income from pension fund investments	7,341,556	19,721,825
Payment	<u>(121,079,997)</u>	<u>(127,110,212)</u>
Balance, end of period	<u>\$ 2,601,197,914</u>	<u>\$ 2,294,489,309</u>

b. Accrued pension cost movements

	June 30	
	2011	2010
Balance, beginning of period	\$ 6,646,911,151	\$ 5,516,648,371
Pension cost recognized	373,140,861	493,835,020
Contributions	(278,138,540)	(258,536,925)
Payment	<u>(37,249,706)</u>	<u>(17,159,321)</u>
Balance, end of period	<u>\$ 6,704,663,766</u>	<u>\$ 5,734,787,145</u>

19. STOCKHOLDERS' EQUITY

The appropriations of earnings for 2010 had been approved in the stockholders' meetings on June 24, 2011. The appropriations and dividends per share were as follows:

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

On June 29, 2010, the Company's stockholders resolved to offset the accumulated deficit in 2009. The Company offset the accumulated deficit against the capital surplus of \$628,088,000 in 2009.

The Company's profit sharing in cash to employees of \$61,038,000 for 2010 was approved in the stockholders' meeting held on June 24, 2011. The resolved amount of profit sharing to employees was consistent with the approved under a resolution passed at the Board of Directors' meeting held on April 29, 2011, and the same amount was charged against the earnings of 2010. No bonus to employees was estimated for 2009 because of a deficit that year.

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from shares 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 once a year within 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:

	June 30	
	2011	2010
Issue of stock in excess of par value	\$ 391,866,400	\$ -
Long-term investment	<u>955,395</u>	<u>1,062,054</u>
	<u>\$ 392,821,795</u>	<u>\$ 1,062,054</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 be 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.

There was a net loss for the six months ended June 30, 2011; thus, no bonus to employees was estimated. For the six months ended June 30, 2010, the bonus to employees was estimated at \$49,352,000. The bonus to employees represented 3% of net income (net of the bonus) net of the accumulated deficit, legal reserve, and special reserve. 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 be recorded 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) should be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

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

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.

20. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition (Reduction) During the Period	Number of Shares, End of Period
<u>Six months ended June 30, 2011</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	2,889	-	2,889
<u>Six months ended June 30, 2010</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	2,889	-	2,889

The Company's shares held by its subsidiaries as of June 30, 2011 and 2010 were as follows:

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>June 30, 2011</u>			
Mandarin Airlines	2,075	\$ 40,455,246	\$ 40,455,246
Hwa Hsia	814	<u>15,875,964</u>	<u>15,875,964</u>
		<u>\$ 56,331,210</u>	<u>\$ 56,331,210</u>
<u>June 30, 2010</u>			
Mandarin Airlines	2,075	\$ 34,231,362	\$ 34,231,362
Hwa Hsia	814	<u>13,433,508</u>	<u>13,433,508</u>
		<u>\$ 47,664,870</u>	<u>\$ 47,664,870</u>

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

21. INCOME TAX

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

	Six Months Ended June 30	
	2011	2010
Income tax expense (benefit) on income (loss) before income tax at statutory rate	\$ (131,646,648)	\$ 1,137,065,483
Add (deduct) tax effects of:		
Permanent differences	(45,937,867)	(96,665,255)
Temporary differences	(155,210,572)	(358,316,981)
Loss carryforwards	332,795,087	-
Loss carryforwards used	-	(635,687,566)
Overseas income tax expense	<u>32,609,405</u>	<u>-</u>
Income tax expense - current	<u>\$ 32,609,405</u>	<u>\$ 46,395,681</u>

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

	Six Months Ended June 30	
	2011	2010
Income tax expense - current	\$ 32,609,405	\$ 46,395,681
Investment tax credits used	-	(7,268,497)
Net changes in deferred income tax expense (benefit)		
Equity in net loss of foreign equity-method investees	2,311,749	2,349,013
Depreciation difference between accounting and tax on properties	(733,750)	(733,750)
Allowance for loss on idle properties	(12,146,334)	(26,737,496)
Accrued expense for the frequent-flyer program	2,698,592	7,408,981
Unrealized litigation loss	-	(3,867,281)
Valuation loss on financial instruments	-	404,240,150
Provision for pension cost	(9,730,196)	(37,083,591)
Unrealized foreign exchange gain or loss	170,107,530	9,949,452
Difference between accounting and tax on interest	2,790,729	2,791,503
Carryforward of unused tax losses	(332,795,087)	638,371,977
Investment income tax credits	110,381,208	(27,602,309)
Effect of tax law changes on deferred income tax	-	1,336,738,578
Adjustment in valuation allowance due to changes in tax laws	-	(300,383,915)
Other adjustment in valuation allowance	(78,732,095)	(1,569,949,504)
Adjustment of prior years' tax	<u>340,683</u>	<u>(59,278,617)</u>
Income tax expense (benefit)	<u>\$ (112,897,566)</u>	<u>\$ 415,340,375</u>

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 amended Article and recorded the resulting difference as a deferred income tax benefit or expense.

c. Deferred income tax assets (liabilities) as of June 30, 2011 and 2010 consisted of the following:

	June 30	
	2011	2010
Current		
Allowance for loss on inventories	\$ 11,233,835	\$ 9,219,224
Accrued expenses for frequent-flyer program	15,649,725	17,325,336
Unrealized litigation loss	64,353,312	316,597,423
Unrealized foreign exchange loss	-	9,661,818
Valuation gain or loss on financial instruments	-	60,058,397
Investment income tax credit	<u>948,568,961</u>	<u>626,581,274</u>
Deferred income tax assets	1,039,805,833	1,039,443,472
Less: Valuation allowance	<u>(836,583,966)</u>	<u>(626,581,274)</u>
Deferred income tax assets, net	203,221,867	412,862,198
Unrealized foreign exchange loss	(75,628,340)	-
Unrealized loss on financial instruments	<u>(19,736,901)</u>	<u>(15,850,097)</u>
Net deferred income tax assets	<u>\$ 107,856,626</u>	<u>\$ 397,012,101</u>
Noncurrent		
Equity in net loss of foreign equity-method investees	\$ 94,693,294	\$ 96,579,003
Allowance for loss on idle properties	174,906,355	161,672,747
Provision for pension cost	677,570,416	627,293,351
Difference between accounting and tax on interest	84,421,643	90,050,143
Unrealized litigation loss	123,343,849	-
Cumulative translation adjustments	682,152,608	32,208,141
Valuation gain or loss on financial instruments	4,813,378	35,034,153
Carry forward of unused tax losses	4,993,936,869	5,561,624,318
Investment income tax credit	<u>231,027,309</u>	<u>1,284,237,478</u>
Deferred income tax assets	7,066,865,721	7,888,699,334
Less: Valuation allowance	<u>(144,099,023)</u>	<u>(1,451,020,228)</u>
Deferred income tax assets, net	6,922,766,698	6,437,679,106
Depreciation difference between accounting and tax on properties	<u>(146,754,665)</u>	<u>(148,234,327)</u>
Net deferred income tax assets	<u>\$ 6,776,012,033</u>	<u>\$ 6,289,444,779</u>

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

	June 30	
	2011	2010
Balance of ICA	<u>\$ 321,302,010</u>	<u>\$ 208,150,392</u>

The actual creditable ratio for the distribution of the earnings of 2010 was 4.08%. As of June 30, 2009, the Company had no unappropriated retained earnings generated since January 1, 1998; thus, had no expected creditable tax ratios.

e. Unused investment income tax credits as of June 30, 2011 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	\$ 840,426,652	\$ 840,426,652	2011
	purchases of eligible equipment	108,071,634	108,071,634	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	24,690,954	24,690,954	2015
		70,675	70,675	2011

f. Unused tax loss carryforwards as of June 30, 2011 were as follows:

Expiry Year	Amount
2018	\$ 8,080,215,088
2019	19,338,265,982
2021	1,957,618,158

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 related to tax credits and had applied for a reexamination. Nevertheless, the Company has provided for the income tax assessed by the tax authorities for conservatism.

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2011		
	Included in Operating Costs	Included in Operating Expenses	Total
Personnel			
Salaries	\$ 4,354,069,929	\$ 1,086,619,014	\$ 5,440,688,943
Labor and health insurance	268,685,593	222,952,282	491,637,875
Pension cost	305,439,105	124,726,145	430,165,250
Others	854,937,055	206,048,932	1,060,985,987
Depreciation	4,856,161,597	186,336,618	5,042,498,215
Amortization	1,209,234	79,164,918	80,374,152
	Six Months Ended June 30, 2010		
	Included in Operating Costs	Included in Operating Expenses	Total
Personnel			
Salaries	\$ 4,881,442,060	\$ 1,798,444,222	\$ 6,679,886,282
Labor and health insurance	244,520,182	195,554,416	440,074,598
Pension cost	364,682,681	194,218,431	558,901,112
Others	1,047,305,620	159,831,954	1,207,137,574
Depreciation	4,701,160,781	189,835,020	4,890,995,801
Amortization	1,960,715	116,244,135	118,204,850

23. EARNINGS (LOSS) PER SHARE

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

	Amounts (Thousands) (As Numerator)		Shares (Thousands) (As Denominator)	Earnings (Loss) Per Share (NT\$)	
	Pretax	After Tax		Pretax	After Tax
<u>Six months ended June 30, 2011</u>					
Basic and Diluted loss per share					
Net loss on common stock	\$ (774,393)	\$ (661,495)	4,628,733	\$ (0.17)	\$ (0.14)
<u>Six months ended June 30, 2010</u>					
Basic earnings per share					
Net income on common stock	\$ 6,688,620	\$ 6,273,280	4,569,360	\$ 1.46	\$ 1.37
Effect of dilutive potential common stock					
Third issue of unsecured domestic convertible bonds	-	-	61,181		
Diluted earnings per share	\$ 6,688,620	\$ 6,273,280	4,630,541	\$ 1.44	\$ 1.35

24. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

	June 30			
	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 32,113,099,548	\$ 32,113,099,548	\$ 39,428,811,480	\$ 39,428,811,480
Financial assets at fair value through profit or loss	3,275,908,167	3,275,908,167	1,474,414,420	1,474,414,420
Available-for-sale financial assets	119,016,645	119,016,645	110,432,332	110,432,332
Derivative financial assets for hedging	93,116,849	93,116,849	14,686,499	14,686,499
Financial assets carried at cost	371,366,902	-	371,366,902	-
<u>Financial liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	16,071,591,595	16,071,591,595	21,705,620,224	21,705,620,224
Financial liabilities at fair value through profit or loss	-	-	353,284,687	353,284,687
Derivative financial liabilities for hedging	40,092,795	40,092,795	276,137,116	276,137,116
Bonds issued	32,250,000,000	33,487,941,624	30,115,600,000	32,009,081,685
Loans and debts	79,991,658,625	80,176,001,241	92,695,232,096	92,992,629,614

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 quoted market prices in an active market, their fair value, which cannot be reliably measured, are measured at cost.
- 4) The 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 values are their fair values. The fair values of long-term debts and private bonds with fixed interest rates are estimated the present value of expected cash flows discounted at rates of 0.7335% to 2.049% and 0.99% to 2.094% as of June 30, 2011 and 2010, respectively, for long-term loans 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 some financial and nonfinancial instruments.

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

	Quoted Market Prices		Fair Value Based on Estimates	
	June 30	June 30	June 30	June 30
	2011	2010	2011	2010
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 2,901,938,167	\$ 1,100,370,035	\$ 373,970,000	\$ 374,044,385
Available-for-sale financial assets	119,016,645	110,432,332	-	-
Derivative financial assets for hedging	-	-	93,116,849	14,686,499
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	-	353,284,687
Derivative financial liabilities for hedging	-	-	40,092,795	276,137,116
Bonds issued	14,292,903,800	12,192,855,500	19,195,037,824	19,816,226,185
Loans and debts	-	-	80,176,001,241	92,992,629,614

- d. As of June 30, 2011 and 2010, loans, bonds issued and capital lease obligations at fixed rate that were exposed to fair value interest rate risk amounted to \$27,541,030,000 and \$30,116,561,000, respectively, and those at floating rate that were exposed to cash flow interest rate risks amounted to were \$87,757,084,000 and \$99,628,445,000, respectively.
- e. For the six months ended June 30, 2011 and 2010, the adjustments of stockholders' equity credited and debited directly from the available-for-sale financial assets amounted to \$1,412,000 and \$271,064,000, respectively. As of June 30, 2010, the gain recognized and deducted from the adjustments of stockholders' equity amounted to \$118,139,000.

25. RISK MANAGEMENT AND HEDGING STRATEGIES

a. Risk management strategy

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

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

The Company enters into derivative instruments just described above to avoid major market risks. However, some 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 subsidiary, Mandarin Airlines, as of June 30, 2011 and 2010.

	June 30					
	2011			2010		
	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
<u>Hedge</u>						
<u>The Company</u>						
Forward exchange	\$ 724,637,681	\$ 3,014,200	\$ 900,292	\$ 578,778,135	\$ 13,480,669	\$ 13,480,669
Interest rate swaps	2,068,000,000	-	(33,021,171)	19,340,803,859	-	(272,302,412)
Currency options						
- Call	405,797,101	1,855,335	1,855,335	257,234,727	236,846	(1,090,317)
- Put	405,797,101	-	(4,957,716)	257,234,727	968,984	(1,538,557)
Fuel swap	88,247,314	88,247,314	88,247,314	-	-	-
	(Note)					
<u>Trade</u>						
<u>The Company</u>						
Fuel swap	-	-	-	353,284,687	-	(353,284,687)
				(Note)		
<u>Mandarin Airlines</u>						
Fuel swap	-	-	-	9,181,622	-	(9,181,622)
				(Note)		

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

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 and exchange rates. To hedge against these risks, the Company use interest rate swaps, cross-currency swaps, forward exchange contracts and option contracts. The cash flow hedge information is summarized as follows:

Hedged Items	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period	
	Financial Instruments Designated as Hedging Instruments	June 30, 2011			
		Nominal Amount			Fair Value
<u>The Company</u>					
Floating-interest long-term debts	Interest rate swaps	\$ 2,068,000,000	\$ (33,021,171)	2007 to 2013	2007 to 2013
Fuel cost in U.S. dollars	Currency options				
	- Call	405,797,101	1,855,335	2011	2011
	- Put	405,797,101	(4,957,716)	2011	2011
Lease payment in U.S. dollars	Forward exchange contracts	144,927,536	(749,310)	2011	2011
Fuel cost in U.S. dollars	Forward exchange contracts	579,710,145	1,649,602	2011	2011
Fuel cost in U.S. dollars	Fuel swap	88,247,314	<u>88,247,314</u>	2011	2011
			<u>\$ 53,024,054</u>		

Hedged Items	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period	
	Financial Instruments Designated as Hedging Instruments	June 30, 2010			
		Nominal Amount			Fair Value
<u>The Company</u>					
Floating-interest long-term debts	Interest rate swaps	\$ 19,340,803,859	\$ (272,302,412)	2006 to 2013	2006 to 2013
Fuel cost in U.S. dollars	Currency options				
	- Call	257,234,727	(1,090,317)	2010	2010
	- Put	257,234,727	(1,538,557)	2010	2010

(Continued)

Hedged Items	Financial Instruments Designated as Hedging Instruments	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period
		June 30, 2010			
		Nominal Amount	Fair Value		
Lease cost in U.S. dollars	Forward exchange contracts	\$ 96,463,022	\$ 1,980,483	2007 to 2010	2007 to 2010
Repayment and interest of loans and debts in U.S. dollars	Forward exchange contracts	482,315,113	11,500,186	2007 to 2010	2007 to 2010
			<u>\$ (261,450,617)</u>		(Concluded)

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

Adjustment Items	Six Months Ended June 30	
	2011	2010
Amount recognized in equity during the period	\$ 77,437,287	\$ (34,318,299)
Amount removed from equity and included in profit or loss for the period	59,804,731	208,295,272

26. 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
Abacus Distribution Systems (Taiwan)	Subsidiary
China Aircraft Services	Equity-method investee
Cal-Asia Investment	Subsidiary
Taiwan Airport Services	Subsidiary
Kaohsiung Catering Services	Equity-method investee
Asian Compressor Technology Services	Equity-method investee
Science Park Logistics	Equity-method investee
China Pacific Laundry Services	Subsidiary
Hwa Hsia	Subsidiary
Dynasty Holidays	Subsidiary
Cal Hotel	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%)

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

	Six Months Ended June 30			
	2011		2010	
	Amount	%	Amount	%
1) Revenues				
Mandarin Airlines	\$ 969,085,803	1.51	\$ 935,644,486	1.40
Yangtze River Express Airlines	215,181,268	0.34	331,551,822	0.50
Global Sky Express	88,008,884	0.14	75,444,706	0.12
China Aviation Development Foundation	23,375,329	0.04	14,987,099	0.02
Taiwan Air Cargo Terminal	7,257,449	0.01	9,696,825	0.01
Others	<u>29,116,681</u>	<u>0.04</u>	<u>25,258,983</u>	<u>0.04</u>
	<u>\$ 1,332,025,414</u>	<u>2.08</u>	<u>\$ 1,392,583,921</u>	<u>2.09</u>
2) Costs				
China Pacific Catering Services	\$ 488,520,569	0.81	\$ 484,119,160	0.88
Taoyuan International Airport Services	473,908,745	0.79	509,498,751	0.93
Taiwan Airport Services	174,583,970	0.29	111,714,520	0.20
Taiwan Air Cargo Terminal	138,619,510	0.23	183,690,969	0.34
Mandarin Airlines	126,200,374	0.21	123,460,709	0.23
Hwa Hsia	124,947,290	0.21	121,308,311	0.22
Cal Park	106,509,598	0.18	59,171,998	0.11
China Aircraft Services	93,103,965	0.15	100,552,503	0.18
Kaohsiung Catering Services	56,627,083	0.09	45,832,872	0.08
Cal Hotel	41,339,497	0.07	23,901,845	0.04
China Aviation Development Foundation	37,239,140	0.06	20,771,743	0.04
China Pacific Laundry Services	36,845,190	0.06	33,559,769	0.06
Dynasty Holidays	24,551,309	0.04	41,100,309	0.08
Asia Compressor Technology Services	23,223,654	0.04	5,122,015	-
Yangtze River Express Airlines.	23,720,261	0.04	24,027,312	0.04
Cal-Dynasty International	17,777,778	0.03	19,233,227	0.04
Others	<u>15,876,750</u>	<u>0.03</u>	<u>20,974,978</u>	<u>0.05</u>
	<u>\$ 2,003,594,683</u>	<u>3.33</u>	<u>\$ 1,928,040,991</u>	<u>3.52</u>
3) Notes and accounts receivables - related parties				
Mandarin Airlines	\$ 309,785,667	71.99	\$ 432,641,823	83.92
Yangtze River Express Airlines	89,900,988	20.89	48,226,992	9.35
Yestrip	11,178,667	2.60	11,943,173	2.32
Global Sky Express	8,335,921	1.94	8,752,219	1.70
Taiwan Air Cargo Terminal	1,555,249	0.36	6,436,034	1.25
China Aviation Development Foundation	6,936,729	1.61	5,451,680	1.06
Others	<u>2,613,967</u>	<u>0.61</u>	<u>2,089,964</u>	<u>0.40</u>
	<u>\$ 430,307,188</u>	<u>100.00</u>	<u>\$ 515,541,885</u>	<u>100.00</u>
4) Accounts payable to related parties				
Mandarin Airlines	\$ 374,908,020	27.58	\$ 368,710,205	31.65
China Pacific Catering Services	330,676,756	24.33	256,704,306	22.04
Taoyuan International Airport Services	222,837,502	16.39	275,560,686	23.66
Yangtze River Express Airlines	141,128,819	10.38	47,390,815	4.07
Taiwan Airport Services	61,326,096	4.51	37,254,509	3.20
Hwa Hsia	51,148,109	3.76	43,804,292	3.76
Cal Park	55,917,540	4.11	-	-
China Aircraft Services	31,790,536	2.34	34,641,840	2.97
Taiwan Air Cargo Terminal	29,418,317	2.16	42,747,295	3.67
Kaohsiung Catering Services	21,220,952	1.56	15,832,655	1.36
China Pacific Laundry Services	13,342,322	0.98	11,849,001	1.02

(Continued)

	Six Months Ended June 30			
	2011		2010	
	Amount	%	Amount	%
China Aviation Development Foundation	\$ 9,857,238	0.73	\$ 7,274,185	0.63
Cal Hotel	5,897,225	0.43	15,428,368	1.32
Others	<u>9,779,620</u>	<u>0.74</u>	<u>7,579,190</u>	<u>0.65</u>
	<u>\$ 1,359,249,052</u>	<u>100.00</u>	<u>\$ 1,164,777,347</u>	<u>100.00</u>

(Concluded)

5) Lease of property and equipment

In December 2008, the Company rented out planes to Mandarin Airlines under an operating leasing contract. The rent is received monthly based on this contract. As of June 30, 2011 and 2010, the rentals received amounted to \$508,914,000 and \$267,993,000, respectively.

The Company rented planes from Mandarin Airlines under an operating lease agreement. The Company paid the rental by flight hours. In the six months ended June 30, 2011 and 2010, the Company paid hourly flight rentals of about \$86,989,000 and \$131,004,000, 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. For the six months ended June 30, 2011 and 2010, the Company had paid usage rentals of about \$37,239,000 and \$20,772,000, respectively.

In March 2010, the Company signed the building leased 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. In the six months ended June 30, 2010, the Company paid rentals of \$59,172,000. From January 2011, the fixed rental had been adjusted to \$17,752,000 monthly. In the six months ended June 30, 2011, the Company paid rentals of \$106,510,000.

6) Endorsements and guarantees

	June 30			
	2011		2010	
	Authorized Amount	Occupied Amount	Authorized Amount	Occupied Amount
<u>The Company</u>				
Cal Park	\$ 3,400,000,000	\$ 3,320,000,000	\$ 3,400,000,000	\$ 2,780,000,000
Freighter Princess Ltd.	28,236,509	28,236,509	126,029,872	126,029,872
Freighter Prince Ltd.	338,144,512	338,144,512	393,981,341	393,981,341
Freighter Queen Ltd.	284,293,927	284,293,927	351,072,903	351,072,903
Cal Hotel	180,000,000	153,349,500	180,000,000	167,000,000
Mandarin Airlines	-	-	300,000,000	-
<u>Cal Asia</u>				
Taikoo Spirit Aerospace Systems (Jinjiang) Composite	15,805,797	15,430,406	17,533,762	-

As of June 30, 2011, U.S. Treasury Bills amounting to US\$650,675,000 had been pledged as collateral for financing lease transaction of Freighter Princess Ltd., Freighter Queen Ltd. and Freighter Princess Ltd. and were included in restricted assets - noncurrent.

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

7) Bonds payable-related parties

Related parties invested the first issue of private unsecured bonds in the six months ended June 30, 2011 (Note 15) are summarized as follows:

Related Parties	June 30	
	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 June 30, 2011 and 2010, interests payable were \$2,454,000 and \$2,627,000, respectively. In the six months ended June 30, 2011 and 2010, interest expenses were \$9,804,000 and \$2,627,000, respectively.

27. PLEDGED ASSETS

As of June 30, 2011, the following assets had been pledged or mortgaged as collateral for bank loans, business transactions and financing lease transaction of subsidiary:

	June 30	
	2011	2010
Restricted assets - noncurrent		
Pledged certificates of deposit	\$ 7,250,000	\$ 257,234,727
U.S. Treasury Bills	650,674,948	871,084,116
Properties - land and flight equipment (net)	<u>105,273,351,463</u>	<u>122,775,249,804</u>
	<u>\$ 105,931,276,411</u>	<u>\$ 123,903,568,647</u>

28. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2011, the Company has commitments and contingent liabilities as follows:

- a. In 2009, the Securities and Futures Investors Protection Center (SFIPC) filed a civil lawsuit against Far East Air Transport Ltd. (FEAT) and its executives, directors and supervisors (natural persons) because of allegedly false financial statement for period starting from the second quarter of 2005 to the third quarter of 2007; the filing was based on Article 20 and Article 20 - 1 of the Securities and Exchange Act; Article 23 of the Company Act; and Articles 28, 184 and 185 of the Civil Code. In this lawsuit the SFIPC imposed joint and several liability on FEAT'S executives, directors, and supervisors for them to give a total compensation of \$297,061,000 to the investors of FEAT. Later, in January 2010, SFIPC included in its lawsuit the directors and supervisors who are legal persons of FEAT (including the Company) as joint defendants. There are 36 joint defendants in this lawsuit till now. Since the case is still under review by the Taipei District Court, the outcome of the review will not material impact on the financial and sales operations of the Company.

- b. The Company leased certain flight equipment, hangar and headquarters building under various operating lease agreements expiring on various dates until January 2024. Lease deposits aggregated \$10,879,624,000.

Future lease payments are summarized as follows:

Period/Year	Amount
July to December in 2011	\$ 2,885,276,421
2012	5,806,591,046
2013	5,041,640,070
2014	4,387,221,880
2015	3,346,176,160
2016	1,390,811,712

Rentals from 2017 and on will aggregate \$8,414,724,000. The present value of these rentals, discounted using at the 1.26% interest rate for one-year time deposits, is \$7,854,731,000.

- c. In January 2008, the Company entered into a contract to buy from Airbus fourteen A350-900 aircraft, with the option to buy six more A350-900 aircraft, with aggregate purchase prices of US\$3,933,235,000 and US\$1,802,645,000, respectively. As of June 30, 2011, the Company had paid about US\$119,197,000, which was included in “prepayments for equipment” in the properties section of the balance sheets.

29. OTHERS

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

(Unit: Foreign Currencies/New Taiwan Dollars)

	June 30					
	2011			2010		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 149,207,890	28.9855	\$ 4,324,865,296	\$ 143,261,829	32.1543	\$ 4,606,483,828
EUR	20,897,007	41.4938	867,096,229	30,765,328	39.5257	1,216,021,125
HKD	266,339,018	3.7216	991,207,289	488,432,407	4.1339	2,019,130,727
JPY	3,146,221,119	0.3611	1,136,100,446	1,856,879,562	0.3563	661,606,188
RMB	964,206,857	4.4823	4,321,864,395	1,205,145,426	4.7259	5,695,396,769
Foreign operating entity						
USD	1,277,233,085	28.9855	37,021,239,585	909,473,584	32.1543	29,243,486,462
Investments accounted for using the equity method						
USD	47,423,069	28.9855	1,374,581,710	46,068,716	32.1543	1,481,309,196
HKD	97,988,345	3.7216	364,675,642	94,222,639	4.1339	389,510,702
JPY	101,387,876	0.3611	36,615,340	114,822,709	0.3563	40,907,303
<u>Financial liabilities</u>						
Monetary items						
USD	187,332,484	28.9855	5,429,925,715	187,464,207	32.1543	6,027,780,351
EUR	8,821,402	41.4938	366,033,285	9,901,365	39.5257	391,358,383
HKD	58,743,489	3.7216	218,619,769	55,483,334	4.1339	229,362,554
JPY	5,983,534,353	0.3611	2,160,654,255	7,682,936,488	0.3563	2,737,430,271
RMB	209,275,750	4.4823	938,036,694	208,174,446	4.7259	983,811,614

30. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
- 1) Financing provided: None
 - 2) Endorsement/guarantee provided: Table 1 (attached)
 - 3) Marketable securities held: Table 2 (attached)
 - 4) Marketable securities acquired 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 25)
- b. Investment in Mainland China: Table 7 (attached)

31. OPERATING SEGMENTS

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

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
SIX MONTHS ENDED JUNE 30, 2011

(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	100% subsidiary 100% subsidiary 100% subsidiary 100% subsidiary 100% subsidiary	\$ 9,263,506,692 9,263,506,692 9,263,506,692 9,263,506,692 9,263,506,692	\$ 3,400,000,000 114,942,002 348,238,378 292,780,313 180,000,000	\$ 3,400,000,000 28,236,509 338,144,512 284,293,927 180,000,000	\$ - 28,236,509 338,144,512 284,293,927 -	7.34 0.06 0.73 0.61 0.39	\$ 23,158,766,730 23,158,766,730 23,158,766,730 23,158,766,730 23,158,766,730
1	Cal Asia	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	Investments accounted for by the cost method	9,263,506,692	16,277,612	15,805,797	-	0.03	23,158,766,730

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

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

CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES HELD

JUNE 30, 2011

(In New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2011			Note
				Shares/Units	Carrying Value	Percentage of Ownership	
China Airlines	<u>Stock</u> Taiwan Air Cargo Terminal	Subsidiary	Investments accounted for by the equity method	135,000,000	\$ 1,641,333,336	54.00	\$ 1,641,333,336
	Cal Park	Subsidiary	Investments accounted for by the equity method	150,000,000	1,460,643,347	100.00	1,460,643,347
	Mandarin Airlines	Subsidiary	Investments accounted for by the equity method	188,154,025	1,054,383,268	93.99	1,226,696,530
	Taoyuan International Airport Services	Subsidiary	Investments accounted for by the equity method	2,614,500	1,004,888,696	100.00	1,004,888,696
	China Pacific Catering Services	Subsidiary	Investments accounted for by the equity method	34,300,000	667,627,027	49.00	667,627,027
	Cal-Asia Investment	Subsidiary	Investments accounted for by the equity method	43,911,000	585,343,892	51.00	585,343,892
	China Aircraft Service	Equity-method investees	Investments accounted for by the equity method	45,476,200	369,693,014	100.00	369,693,014
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments accounted for by the equity method	28,400,000	364,675,642	20.00	317,918,479
	Taiwan Airport Services	Subsidiary	Investments accounted for by the equity method	13,021,042	344,250,807	93.93	344,250,807
	Cal Hotel	Subsidiary	Investments accounted for by the equity method	20,626,644	305,706,575	47.35	305,706,575
	Kaohsiung Catering Services	Equity-method investees	Investments accounted for by the equity method	46,500,000	223,946,791	100.00	223,946,791
	Science Park Logistics	Equity-method investees	Investments accounted for by the equity method	14,329,759	206,856,674	35.78	208,277,010
	Asian Compressor Technology Services	Equity-method investees	Investments accounted for by the equity method	13,293,000	172,070,950	28.48	164,984,411
	China Pacific Laundry Services	Subsidiary	Investments accounted for by the equity method	7,732,200	170,262,230	24.50	170,262,230
	Hwa Hsia	Subsidiary	Investments accounted for by the equity method	13,750,000	135,775,401	55.00	135,775,401
	Dynasty Holidays	Subsidiary	Investments accounted for by the equity method	50,000	94,696,499	100.00	110,572,465
	Yestrip	Subsidiary	Investments accounted for by the equity method	408	36,615,340	51.00	36,615,340
	Global Sky Express	Subsidiary	Investments accounted for by the equity method	1,600,000	24,219,121	100.00	24,219,121
	Freighter Princess Ltd.	Subsidiary	Investments accounted for by the equity method	250,000	6,488,012	25.00	6,488,012
	Freighter Prince Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	35,088	100.00	35,088
	Freighter Queen Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	34,602	100.00	34,602
	France Telecom	Subsidiary	Investments accounted for by the equity method	1,000	32,895	100.00	32,895
	Abacus International Holdings Ltd. - unlisted common stock	-	Available-for-sale - current	195,587	119,016,645	-	119,016,645
	Abacus International Holdings Ltd. - unlisted preferred stock	-	Financial assets at cost - noncurrent	1,359,368	297,946,451	13.59	230,179,148
	Jardine Air Terminal Services	-	Financial assets at cost - noncurrent	135,937	472,522	-	-
	Chung Hua Express Co.	-	Financial assets at cost - noncurrent	12,000,000	56,022,929	15.00	62,332,899
	Regal International Advertising	-	Financial assets at cost - noncurrent	1,100,000	11,000,000	11.00	13,862,481
	Far Eastern Air Transport	-	Financial assets at cost - noncurrent	592,500	5,925,000	6.58	676,686
	Convertible bonds	-	Financial assets at cost - noncurrent	34,753,954	-	5.73	-
	China Life Insurance Co., Ltd.	-	Financial assets at fair value through profit or loss - noncurrent	2,500	373,970,000	-	373,970,000
	<u>Beneficial certificates</u> Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	91,596,865.18	1,101,012,639	-	1,101,012,639
	TIIM Money Market Fund	-	Financial assets at fair value through profit or loss - current	41,332,950.98	600,332,180	-	600,332,180
	Taishin Ta Chong Money Market Fund	-	Financial assets at fair value through profit or loss - current	29,354,997.40	400,408,036	-	400,408,036
Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	30,821,152.56	400,095,546	-	400,095,546	
Taishin Lucky Money Market Fund	-	Financial assets at fair value through profit or loss - current	37,402,752.80	400,089,766	-	400,089,766	

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2011			Note		
				Shares/Units	Carrying Value	Percentage of Ownership		Market Value or Net Asset Value	
Taiwan Air Cargo Terminal	<u>Beneficial certificates</u> PCA Well Pool Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,529,576.60	\$ 59,158,988	-	\$ 59,158,988	-	
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,530,842.35	70,197,451	-	70,197,451	-	
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,529,004.89	50,140,807	-	50,140,807	-	
	Cathay Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,756,764.20	69,161,765	-	69,161,765	-	
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,370,651.68	100,616,908	-	100,616,908	-	
	Fuh Hwa Global Short-Term Income Fund	-	Financial assets at fair value through profit or loss - current	6,592,951.20	70,969,164	-	70,969,164	-	
	Fuh Hwa Strategic High Income Fund of Funds	-	Financial assets at fair value through profit or loss - current	6,261,180.70	71,753,131	-	71,753,131	-	
	Cathay Global Conservative Fund of Fund	-	Financial assets at fair value through profit or loss - current	2,516,082.00	29,500,810	-	29,500,810	-	
	Fuh-Hwa Global Bond Fund	-	Financial assets at fair value through profit or loss - current	6,273,909.70	81,560,826	-	81,560,826	-	
	FSITC Global High Yield Bond Fund	-	Financial assets at fair value through profit or loss - current	3,585,435.10	43,803,619	-	43,803,619	-	
	Manulife Asia Pacific Bond Fund	-	Financial assets at fair value through profit or loss - current	1,934,497.90	20,452,866	-	20,452,866	-	
	Cathay Global Money Bond Fund	-	Financial assets at fair value through profit or loss - current	2,052,334.50	19,448,537	-	19,448,537	-	
	Cathay High Income Fund of Funds	-	Financial assets at fair value through profit or loss - current	8,897,095.20	92,866,100	-	92,866,100	-	
	Capital Multi-Income Allocation Fund	-	Financial assets at fair value through profit or loss - current	858,369.10	10,506,438	-	10,506,438	-	
	ING EMD & High Yield Bond Portfolio - Accumulate	-	Financial assets at fair value through profit or loss - current	2,000,000.00	19,447,600	-	19,447,600	-	
	PCA Global High Yield Bond Fund	-	Financial assets at fair value through profit or loss - current	2,000,000.00	20,494,200	-	20,494,200	-	
	Capital Strategic Income Fund	-	Financial assets at fair value through profit or loss - current	3,000,000.00	30,540,000	-	30,540,000	-	
	Fuh Hwa Emerging Market High Yield Bond Funds	-	Financial assets at fair value through profit or loss - current	3,888,741.10	38,968,297	-	38,968,297	-	
	Taoyuan International Airport Services	<u>Stock</u> 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	50,279,983 11,166,467 62,500,000	24.29 100.00 2.50	50,279,983 11,166,467 75,987,650	Note 5 Note 5 -
		<u>Bond</u> 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	-
<u>Beneficial certificates</u> HSBC NTD Money Market Fund II		-	Available-for-sale financial asset - current	4,964,512.70	72,381,106	-	72,381,106	-	
China Pacific Catering Services	<u>Bond</u> First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	40	40,000,000	-	40,000,000	-	
	<u>Stock</u> China Airlines France Telecom	Parent company -	Available-for-sale financial asset - current Available-for-sale financial asset - current	2,074,628 8,274	40,455,246 5,034,780	- -	40,455,246 5,034,780	- -	
Mandarin Airlines	<u>Bond</u> 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	June 30, 2011			Note	
				Shares/Units	Carrying Value	Percentage of Ownership		Market Value or Net Asset Value
Yestrip	<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	-
Taiwan Airport Service (Samoa)	<u>Beneficial certificates</u> Franklin Templeton First Taiwan First Fund	-	Financial assets at fair value through profit or loss - current	19,391.73	3,840,349	-	3,840,349	-
	<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	- -	192,865,826 75,041,188	14.00 14.00	193,121,348 30,232,887	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 \$230,179,148 which included common stock and preferred stock as of June 30, 2011.

Note 4: The Company has not issue stocks.

Note 5: The net asset value was calculated using the investee's unaudited financial statements as of and for the six months ended June 30, 2011 because the investee's audited financial statement as of and for the six months ended June 30, 2011 was not acquired.

Note 6: The net asset value was calculated using the investee's audited financial statements as of and for the year ended December 31, 2010 because the investee's audited financial statement as of and for the six months ended June 30, 2011 was not acquired.

Note 7: The net asset 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 six months ended June 30, 2011 was not acquired.

Note 8: The net asset value was calculated using the investee's unaudited financial statements as of and for the three months ended March 31, 2011 because the investee's audited financial statement as of and for the six months ended June 30, 2011 was not acquired.

(Concluded)

CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2011
(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	Shares/Units	Amount		
China Airlines	Beneficial certificates	Financial assets at fair value through profit or loss - current	-	-	-	\$	149,944,511.37	\$ 1,801,012,639	58,347,646.19	\$ 700,487,609	\$ 487,609	91,596,865.18	\$ 1,101,012,639	
	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	96,504,959.66	1,400,332,180	55,172,008.68	800,222,696	222,696	41,332,950.98	600,332,180	
	TIIM Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	84,429,680.80	1,150,408,036	55,074,683.40	750,259,968	259,968	29,354,997.40	400,408,036	
	Taishin Ta Chong Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	115,719,413.68	1,500,095,546	84,898,261.12	1,100,449,150	449,150	30,821,152.56	400,095,546	
	Taishin 1699 Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	93,628,512.00	1,000,089,766	56,225,759.20	600,232,395	232,395	37,402,752.80	400,089,766	
	Taishin Lucky Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	39,485,865.37	500,000,000	51,338,981.55	650,150,062	150,062	-	-	
	Union Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	150,000,000	400,000,000	400,000,000	2,338,702.74	400,105,243	105,243	-	-	
	FSITC Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	30,497,445.58	350,000,000	30,497,445.58	350,072,823	72,823	-	-	
	The RSIT Enhanced Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	13,283,652.50	200,000,000	23,249,569.10	350,058,792	58,792	-	-	
	Fubon Chi-Hsiang Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	150,000,000	300,000,000	20,445,856.00	300,114,497	300,000,000	114,497	-	-	
	FSITC Taiwan Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	28,201,902.21	400,000,000	28,201,902.21	400,093,032	93,032	-	-	
	Jih Sun Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,784,045.51	200,000,000	12,784,045.51	200,048,579	48,579	-	-	
	ING Taiwan Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	14,396,775.10	200,000,000	14,396,775.10	200,044,630	44,630	-	-	
	Fuh-Hwa Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	17,362,467.60	200,000,000	17,362,467.60	200,024,308	24,308	-	-	
	Polaris De-Li Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	13,172,106.70	200,000,000	13,172,106.70	200,017,123	17,123	-	-	
	Prudential Financial Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	8,992,401.42	100,000,000	8,992,401.42	100,008,992	8,992	-	-	
	KGI Victory Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	6,860,357.40	100,000,000	6,860,357.40	100,007,546	7,546	-	-	
	JF (Taiwan) Trist Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	-	-	-	-	-	-	-	-

CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2011
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details			Abnormal Transaction			Note/Account Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 138,619,510	0.23	30 days	\$	-	-	\$ (29,418,317)	(1.59)
	Cal Park	Subsidiary	Purchase	106,509,598	0.18	2 months	-	-	-	(55,917,540)	(3.03)
	Mandarin Airlines	Subsidiary	Sale	(969,085,803)	(1.51)	2 months	-	-	-	309,785,667	2.94
	Taoyuan International Airport Services	Subsidiary	Purchase	126,200,374	0.21	2 months	-	-	-	(374,908,020)	(20.30)
	China Pacific Catering Services	Subsidiary	Purchase	473,908,745	0.79	40 days	-	-	-	(222,837,502)	(12.06)
	China Aircraft Services	Equity-method investee	Purchase	488,520,569	0.81	60 days	-	-	-	(356,276,756)	(19.29)
	Taiwan Airport Services	Subsidiary	Purchase	93,103,965	0.15	30 days	-	-	-	(31,790,536)	(1.72)
	Hwa Hsia	Subsidiary	Purchase	174,583,970	0.29	40 days	-	-	-	(61,326,096)	(3.32)
	Yangtze River Express Airlines	Subsidiary	Purchase	124,947,290	0.21	2 months	-	-	-	(51,148,109)	(2.77)
			Subsidiary's equity-method investee	Sale	(215,181,268)	(0.34)	2 months	-	-	-	89,900,988
Taiwan Air Cargo Terminal	China Airlines	Parent company	Sale	(138,619,510)	(19.66)	30 days	-	-	-	29,418,317	38.31
Cal Park	China Airlines	Parent company	Sale	(106,509,598)	72.16	2 months	-	-	-	55,917,540	71.98
Mandarin Airlines	China Airlines	Parent company	Purchase	969,085,803	32.79	2 months	-	-	-	(309,785,667)	(75.37)
			Sale	(126,200,374)	(3.71)	2 months	-	-	-	374,908,020	70.23
Taoyuan International Airport Services	China Airlines	Parent company	Sale	(473,908,745)	(42.67)	30 days	-	-	-	222,837,502	61.97
China Pacific Catering Services	China Airlines	Parent company	Sale	(488,520,569)	(59.35)	60 days	-	-	-	330,676,756	76.37
China Aircraft Services Limited	China Airlines	Investor using equity method	Sale	(93,103,965)	(17.44)	30 days	-	-	-	31,790,536	14.62
Taiwan Airport Services	China Airlines	Parent company	Sale	(174,583,970)	(40.74)	45 days	-	-	-	61,326,096	45.90
Hwa Hsia	China Airlines	Parent company	Sale	(124,947,290)	(82.77)	2 months	-	-	-	51,148,109	90.71
Yangtze River Express Airlines	China Airlines	Parent company of stockholder using equity-method	Purchase	215,181,268	4.24	2 months	-	-	-	(89,900,988)	(6.06)

CHINA AIRLINES, LTD. AND INVESTEEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2011

(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	\$ 309,785,667	5.41	\$ -	-	\$ 152,506,759	\$ -
Mandarin Airlines	China Airlines	Parent company	374,908,020	0.73	-	-	357,327,196	-
Taoyuan International Airport Services	China Airlines	Parent company	222,837,502	4.22	-	-	95,964,693	-
China Pacific Catering Services	China Airlines	Parent company	330,676,756	3.41	-	-	70,550,322	-

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2011
(In New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2011		Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2011	June 30, 2010	Shares	Percentage of Ownership			
China Airlines, Ltd.	Taiwan Air Cargo Terminal Cai Park	Taoyuan, Taiwan	Air cargo and storage	\$ 1,350,000,000	\$ 1,350,000,000	135,000,000	54.00	\$ (14,749,889)	\$ (7,964,940)	-
	Cal-Dynasty International Mandarin Airlines	Taoyuan, Taiwan Los Angeles, U.S.A.	Real estate lease and international trade	1,500,000,000	1,500,000,000	150,000,000	100.00	3,229,587	3,229,587	-
	Taoyuan International Airport Services China Pacific Catering Services China Aircraft Service Cal-Asia Investment	Taipei, Taiwan Taoyuan, Taiwan Hong Kong International Airport Territory of the British Virgin Islands	A holding company, real estate and hotel services Air transportation and maintenance of aircraft Airport services In-flight catering Airport services General investment	US\$ 26,145,000 2,042,368,252 147,000,000 439,110,000 HK\$ 58,000,000 US\$ 45,476,200	US\$ 26,145,000 2,042,368,252 147,000,000 439,110,000 HK\$ 58,000,000 US\$ 45,476,200	2,614,500 188,154,025 34,300,000 43,911,000 28,400,000 45,476,200	93.99 49.00 51.00 20.00 100.00	1,381,825 49,616,467 23,401,611 46,901,088 7,117,001 14,416,941	1,381,825 49,616,467 23,401,611 46,901,088 7,117,001 14,416,941	Note 2 Note 1
	Abacus Distribution System (Taiwan) Taiwan Airport Services Kaohsiung Catering Services Science Park Logistics Asian Compressor Technology Services China Pacific Laundry Services	Taipei, Taiwan Taipei, Taiwan Kaohsiung, Taiwan Tainan, Taiwan Taoyuan, Taiwan Taoyuan, Taiwan	Sale and maintenance of hardware and software Airport services In-flight catering Storage and customs of services Research, manufacture and maintenance of engines Cleaning and leasing of the towel of airlines, hotels, restaurants, and health clubs	52,200,000 12,289,100 140,240,221 150,654,000 77,322,000 137,500,000	52,200,000 12,289,100 140,240,221 150,654,000 77,322,000 137,500,000	13,021,042 20,626,644 14,329,757 13,293,000 7,732,200 13,750,000	93.93 47.35 35.78 28.48 24.50 55.00	70,690,910 41,228,173 74,073,318 36,834,270 192,765,021 16,938,687	66,403,423 19,522,470 26,503,191 10,492,242 47,227,430 9,316,278	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00	15,276,392	15,276,392	Note 1
	Cal Hotel Co., Ltd. Dynasty Holidays Yestrip Global Sky Express Freighter Prince Ltd. Freighter Prince Ltd. Freighter Queen Ltd.	Taoyuan, Taiwan Tokyo, Japan Taipei, Taiwan Cayman Islands Cayman Islands Cayman Islands	Hotel business Travel business Travel business Forwarding and storage of air cargo Aircraft lease Aircraft lease Aircraft lease	465,000,000 JPY 20,400,000 26,264,643 2,500,000 US\$ 1,000 US\$ 1,000 US\$ 1,000	265,000,000 JPY 20,400,000 36,264,643 2,500,000 US\$ 1,000 US\$ 1,000 US\$ 1,000	46,500,000 408 1,600,000 250,000 1,000 1,000 1,000	100.00 51.00 100.00 25.00 100.00 100.00 100.00	(24,358,270) (7,605,844) 2,923,949 2,942,006 -	(24,358,270) (3,878,981) 2,923,949 735,502	-
	Taiwan Whi Lin Industry 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	24.29 100.00	4,943,884 38,937	342,882 40,009	-
	Xiamen International Airport Air Cargo Terminal Xiamen International Airport Air Cargo Storage Eastern United International Logistics Yangtze River Express Airlines	Xiamen International Airport Xiamen International Airport Hong Kong Shanghai, China	Forwarding and storage of air cargo Forwarding and storage of air cargo Forwarding and storage of air cargo Forwarding and storage of air cargo	US\$ 4,117,846 US\$ 1,947,441 HK\$ 3,329,268 US\$ 38,796,173	US\$ 4,117,846 US\$ 1,947,441 HK\$ 3,329,268 US\$ 38,796,173	- - 1,050,000 -	14.00 14.00 35.00 25.00	58,746,542 35,682,101 5,076,427 (858,581,474)	8,152,427 4,951,696 1,772,485 -	Note 4 Note 4 Notes 3 and 4
	Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	US\$ 5,876,976	US\$ 5,876,976	-	100.00	13,220,059	13,220,059	Note 4
	Hwa Hsia	Hwa Shin Building Safeguard	Taoyuan, Taiwan	\$ 10,000,000	\$ 10,000,000	1,000,000	100.00	2,466,521	2,466,521	-
	Taiwan Airport Service (Samoa)	Xiamen International Airport Air Cargo Terminal Xiamen International Airport Air Cargo Storage	Xiamen International Airport Xiamen International Airport	US\$ 3,950,226 US\$ 1,926,750	US\$ 3,950,226 US\$ 1,926,750	- -	14.00 14.00	58,746,542 35,682,101	8,224,543 4,995,516	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 recognized the investment income.

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

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENT IN MAINLAND CHINA
SIX MONTHS ENDED JUNE 30, 2011

(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, 2011	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2011	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of June 30, 2011	Accumulated Inward Remittance of Earnings as of June 30, 2011
					Outflow	Inflow					
Xiamen International Air Cargo Terminal	Forwarding and storage of air cargo	\$ 1,007,619,901 (RMB 224,800,000)	Indirect	\$ 119,357,855 (RMB 4,117,846)	\$ -	\$ -	\$ 119,357,855 (RMB 4,117,846)	14.00%	\$ 8,152,427 (US\$ 278,812)	\$ 194,967,536 (US\$ 6,726,380)	\$ 32,231,884 (US\$ 1,112,000) (Note 3)
Xiamen International Airport Air Cargo Storage	Forwarding and storage of air cargo	62,752,129 (RMB 14,000,000)	Indirect	56,447,565 (RMB 1,947,441)	-	-	56,447,565 (RMB 1,947,441)	14.00%	4,951,696 (US\$ 169,348)	75,672,348 (US\$ 2,610,696)	
Taikoo (Xiamen) Landing Gear Services	Maintenance services of landing gear	402,608,696 (US\$ 13,890,000)	Indirect	32,208,697 (US\$ 1,111,200)	-	-	32,208,697 (US\$ 1,111,200)	8.00%	-	32,208,697 (US\$ 1,111,200)	
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	370,602,958 (RMB 82,681,520)	Indirect	18,434,783 (RMB 636,000)	-	-	18,434,783 (RMB 636,000)	5.45%	-	18,434,783 (US\$ 636,000)	
Yangtze River Express Airlines	Forwarding and storage of air cargo	2,241,147,468 (RMB 500,000,000)	Indirect	1,124,526,754 (RMB 38,796,173)	-	-	1,124,526,754 (RMB 38,796,173)	25.00%	-	-	

Accumulated Investment in Mainland China as of June 30, 2011	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,350,975,654 (US\$46,608,660)	\$1,357,712,261 (Note 4)	\$27,790,520,075 (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 six months ended June 30, 2011 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.