

**China Airlines, Ltd.**

**Financial Statements for the  
Years Ended December 31, 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 December 31, 2011 and 2010 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of China Airlines, Ltd. and its subsidiaries as of and for the years ended December 31, 2011 and 2010 on which we have issued an unqualified opinion in our report dated March 23, 2012.

March 23, 2012

### Notice to Readers

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

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

**CHINA AIRLINES, LTD.**

**BALANCE SHEETS**  
**DECEMBER 31, 2011 AND 2010**  
(In Thousands of New Taiwan Dollars)

| ASSETS   | 2011                  |            | 2010                  |            | LIABILITIES AND STOCKHOLDERS' EQUITY   | 2011                  |            | 2010                  |            |
|--|-----------------------|------------|-----------------------|------------|--|-----------------------|------------|-----------------------|------------|
|  | Amount                | %          | Amount                | %          |  | Amount                | %          | Amount                | %          |
| <b>CURRENT ASSETS</b>  |                       |            |                       |            | <b>CURRENT LIABILITIES</b>   |                       |            |                       |            |
| Cash and cash equivalents (Notes 2 and 4)  | \$ 8,947,397          | 4          | \$ 10,796,980         | 6          | Short-term loans (Notes 13 and 27)   | \$ -                  | -          | \$ 1,100,000          | 1          |
| Financial assets at fair value through profit or loss - current (Notes 2, 5 and 24)    | 3,278,739             | 2          | 300,032               | -          | Commercial paper (Note 14)   | -                     | -          | 1,249,625             | 1          |
| Available-for-sale financial assets - current (Notes 2, 6 and 24)                      | 96,131                | -          | 117,315               | -          | Derivative financial liabilities for hedging - current (Notes 2, 24 and 25)  | 47,076                | -          | 68,745                | -          |
| Derivative financial assets for hedging - current (Notes 2, 24 and 25)                 | 108,668               | -          | 210                   | -          | Accounts payable   | 536,479               | -          | 308,087               | -          |
| Receivables:   |                       |            |                       |            | Accounts payable to related parties (Note 26)  | 965,595               | 1          | 1,069,857             | 1          |
| Notes and accounts, net (Notes 2, 3 and 7)   | 9,723,620             | 5          | 11,436,458            | 6          | Accrued expenses (Notes 2 and 26)  | 12,253,634            | 6          | 12,355,106            | 6          |
| Notes and accounts - related parties (Note 26)   | 282,809               | -          | 498,212               | -          | Advance ticket sales (Note 2)  | 8,771,281             | 4          | 8,649,819             | 4          |
| Other receivables (Note 8)   | 510,901               | -          | 618,392               | -          | Bonds payable - current portion (Notes 2, 15, 24 and 26)   | 12,200,000            | 6          | 3,500,000             | 2          |
| Inventories, net (Notes 2 and 9)   | 8,587,292             | 4          | 6,666,268             | 3          | Loans and debts - current portion (Notes 16, 24 and 27)  | 18,047,762            | 9          | 17,253,668            | 8          |
| Deferred income tax assets - current (Notes 2 and 21)                                  | 152,994               | -          | 149,236               | -          | Capital lease obligations - current portion (Notes 2 and 17)   | 1,185,639             | 1          | 1,060,208             | -          |
| Other current assets   | 1,233,952             | 1          | 359,831               | -          | Other current liabilities  | 1,774,466             | 1          | 1,791,031             | 1          |
| Total current assets   | 32,922,503            | 16         | 30,942,934            | 15         | Total current liabilities  | 55,781,932            | 28         | 48,406,146            | 24         |
| <b>LONG-TERM INVESTMENTS</b>   |                       |            |                       |            | <b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION</b>   |                       |            |                       |            |
| Financial assets at fair value through profit or loss - noncurrent (Notes 2, 5 and 24) | 374,085               | -          | 373,990               | -          | Derivative financial liabilities for hedging - noncurrent (Notes 2, 24 and 25)   | 25,325                | -          | 50,834                | -          |
| Financial assets carried at cost - noncurrent (Notes 2, 10 and 24)                     | 371,367               | -          | 371,367               | -          | Bonds payable - noncurrent (Notes 2, 15, 24 and 26)  | 16,550,000            | 8          | 22,750,000            | 11         |
| Investments accounted for by the equity method (Notes 2 and 11)                        | 9,255,182             | 5          | 8,779,371             | 5          | Loans and debts - noncurrent (Notes 16, 24 and 27)   | 69,385,610            | 34         | 66,951,428            | 33         |
| Other financial assets - noncurrent  | 12,980                | -          | 13,014                | -          | Capital lease obligations - noncurrent (Notes 2 and 17)  | 1,135,067             | 1          | 2,232,749             | 1          |
| Total long-term investments  | 10,013,614            | 5          | 9,537,742             | 5          | Total long-term liabilities  | 87,096,002            | 43         | 91,985,011            | 45         |
| <b>PROPERTIES (Notes 2, 12 and 27)</b>   |                       |            |                       |            | <b>OTHER LIABILITIES</b>   |                       |            |                       |            |
| Cost   |                       |            |                       |            | Accrued pension costs (Notes 2 and 18)   | 6,378,717             | 3          | 6,646,911             | 3          |
| Land   | 1,688,283             | 1          | 1,527,773             | 1          | Deferred profits on sale-leaseback (Note 2)  | 5,312,853             | 3          | 6,129,557             | 3          |
| Buildings  | 7,260,091             | 4          | 8,108,762             | 4          | Others   | 1,061,014             | -          | 1,279,025             | 1          |
| Machinery and equipment  | 4,159,896             | 2          | 3,702,290             | 2          | Total other liabilities  | 12,752,584            | 6          | 14,055,493            | 7          |
| Flight equipment   | 198,271,143           | 98         | 191,215,677           | 94         | Total liabilities  | 155,630,518           | 77         | 154,446,650           | 76         |
| Furniture  | 693,434               | -          | 742,006               | -          | <b>STOCKHOLDERS' EQUITY</b>  |                       |            |                       |            |
| Leased flight and other equipment  | 14,291,735            | 7          | 13,901,146            | 7          | Capital stock, NT\$10.00 par value; authorized - 5,200,000 thousand shares; issued and outstanding - 4,631,622 thousand shares | 46,316,224            | 23         | 46,316,224            | 23         |
| Leasehold improvements   | 996,380               | -          | 1,083,146             | -          | Capital surplus  | 422,101               | -          | 392,822               | -          |
| Revaluation increment  | 41,298                | -          | 50,335                | -          | Retained earnings  |                       |            |                       |            |
| Total cost and revaluation increment   | 227,402,260           | 112        | 220,331,135           | 108        | Legal reserve  | 799,630               | -          | -                     | -          |
| Accumulated depreciation   | 92,020,668            | 45         | 83,502,436            | 41         | Special reserve  | 5,162,071             | 3          | -                     | -          |
|  | 135,381,592           | 67         | 136,828,699           | 67         | Unappropriated earnings (accumulated deficit)  | (1,772,321)           | (1)        | 7,996,300             | 4          |
| Construction in progress and prepayments for equipment (Note 28)                       | 5,150,783             | 3          | 5,364,742             | 3          | Total retained earnings  | 4,189,380             | 2          | 7,996,300             | 4          |
| Net properties   | 140,532,375           | 70         | 142,193,441           | 70         | Other equity   |                       |            |                       |            |
| <b>INTANGIBLE ASSETS</b>   |                       |            |                       |            | Cumulative translation adjustments   | (1,598,197)           | (1)        | (3,370,031)           | (2)        |
| Computer software, net (Note 2)  | 385,726               | -          | 368,886               | -          | Net loss not recognized as pension cost  | (2,325,184)           | (1)        | (2,621,974)           | (1)        |
| Deferred pension cost (Note 2)   | 118,271               | -          | 177,407               | -          | Unrealized valuation loss on financial instruments   | 50,010                | -          | (64,422)              | -          |
| Net intangible assets  | 503,997               | -          | 546,293               | -          | Unrealized revaluation increment   | 41,298                | -          | 50,335                | -          |
| <b>OTHER ASSETS</b>  |                       |            |                       |            | Company shares held by subsidiaries reclassified into treasury stock   | (36,554)              | -          | (36,554)              | -          |
| Deposits (Note 28)   | 10,521,794            | 5          | 11,285,998            | 6          | Total other equity   | (3,868,627)           | (2)        | (6,042,646)           | (3)        |
| Deferred income tax assets - noncurrent (Notes 2 and 21)                               | 6,695,423             | 3          | 6,625,279             | 3          | Total stockholders' equity   | 47,059,078            | 23         | 48,662,700            | 24         |
| Restricted assets - noncurrent (Notes 26 and 27)                                       | 660,980               | -          | 1,005,944             | 1          |  |                       |            |                       |            |
| Other assets (Note 2)  | 838,910               | 1          | 971,719               | -          |  |                       |            |                       |            |
| Net other assets   | 18,717,107            | 9          | 19,888,940            | 10         |  |                       |            |                       |            |
| <b>TOTAL</b>   | <b>\$ 202,689,596</b> | <b>100</b> | <b>\$ 203,109,350</b> | <b>100</b> | <b>TOTAL</b>   | <b>\$ 202,689,596</b> | <b>100</b> | <b>\$ 203,109,350</b> | <b>100</b> |

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

# CHINA AIRLINES, LTD.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

|   | 2011               |            | 2010               |            |
|---|--------------------|------------|--------------------|------------|
|   | Amount             | %          | Amount             | %          |
| REVENUES (Notes 2 and 26)   |                    |            |                    |            |
| Passenger   | \$ 80,825,429      | 61         | \$ 75,721,475      | 55         |
| Cargo   | 46,388,470         | 35         | 56,758,861         | 41         |
| Others  | <u>5,026,570</u>   | <u>4</u>   | <u>5,660,124</u>   | <u>4</u>   |
| Total revenues  | <u>132,240,469</u> | <u>100</u> | <u>138,140,460</u> | <u>100</u> |
| COSTS (Notes 9, 22 and 26)  |                    |            |                    |            |
| Flight operations   | 83,461,996         | 63         | 71,796,622         | 52         |
| Terminal and landing fees   | 18,894,391         | 14         | 19,233,440         | 14         |
| Passenger services  | 7,904,359          | 6          | 8,492,098          | 6          |
| Aircraft maintenance  | 11,882,485         | 9          | 10,458,699         | 7          |
| Others  | <u>2,872,199</u>   | <u>2</u>   | <u>3,573,222</u>   | <u>3</u>   |
| Total costs   | <u>125,015,430</u> | <u>94</u>  | <u>113,554,081</u> | <u>82</u>  |
| GROSS PROFIT  | <u>7,225,039</u>   | <u>6</u>   | <u>24,586,379</u>  | <u>18</u>  |
| OPERATING EXPENSES (Notes 22 and 26)                                    |                    |            |                    |            |
| Marketing and selling   | 6,178,062          | 5          | 7,126,596          | 5          |
| General and administrative  | <u>2,611,841</u>   | <u>2</u>   | <u>2,694,728</u>   | <u>2</u>   |
| Total operating expenses  | <u>8,789,903</u>   | <u>7</u>   | <u>9,821,324</u>   | <u>7</u>   |
| OPERATING INCOME (LOSS)   | <u>(1,564,864)</u> | <u>(1)</u> | <u>14,765,055</u>  | <u>11</u>  |
| NONOPERATING INCOME AND GAINS   |                    |            |                    |            |
| Interest income   | 159,157            | -          | 109,043            | -          |
| Investment income recognized under the equity method (Notes 2 and 11)   | 662,566            | 1          | 905,588            | 1          |
| Dividend income (Note 2)  | 97,529             | -          | 187,712            | -          |
| Gain on disposal of properties, net (Note 2)                            | 41,505             | -          | 7,148              | -          |
| 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)            | 6,057              | -          | 343,945            | -          |
| Foreign exchange gain, net  | 189,217            | -          | -                  | -          |
| Others  | <u>541,251</u>     | <u>-</u>   | <u>500,575</u>     | <u>1</u>   |
| Total nonoperating income and gains                                     | <u>1,697,282</u>   | <u>1</u>   | <u>2,172,150</u>   | <u>2</u>   |
| NONOPERATING EXPENSES AND LOSSES  |                    |            |                    |            |
| Interest expense (Note 26)  | 2,244,708          | 2          | 2,655,929          | 2          |

(Continued)

# CHINA AIRLINES, LTD.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

|   | 2011                  |                  | 2010                 |                  |
|---|-----------------------|------------------|----------------------|------------------|
|   | Amount                | %                | Amount               | %                |
| Foreign exchange loss, net (Note 2)                     | -                     | -                | 691,284              | 1                |
| Impairment loss (Notes 2 and 12)                        | -                     | -                | 579,015              | -                |
| Others  | <u>235,944</u>        | -                | <u>1,390,866</u>     | <u>1</u>         |
| Total nonoperating expenses and losses                  | <u>2,480,652</u>      | <u>2</u>         | <u>5,317,094</u>     | <u>4</u>         |
| PRETAX INCOME (LOSS)                                    | (2,348,234)           | (2)              | 11,620,111           | 9                |
| INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 21)           | <u>(393,963)</u>      | <u>(1)</u>       | <u>998,017</u>       | <u>1</u>         |
| NET INCOME (LOSS)                                       | <u>\$ (1,954,271)</u> | <u>(1)</u>       | <u>\$ 10,622,094</u> | <u>8</u>         |
|   | <b>2011</b>           |                  | <b>2010</b>          |                  |
|   | <b>Before Tax</b>     | <b>After Tax</b> | <b>Before Tax</b>    | <b>After Tax</b> |
| EARNINGS (LOSS) PER SHARE (New Taiwan dollars; Note 23) |                       |                  |                      |                  |
| Basic   | <u>\$ (0.51)</u>      | <u>\$ (0.42)</u> | <u>\$ 2.53</u>       | <u>\$ 2.31</u>   |
| Diluted   | <u>\$ (0.51)</u>      | <u>\$ (0.42)</u> | <u>\$ 2.51</u>       | <u>\$ 2.29</u>   |

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

(Concluded)

**CHINA AIRLINES, LTD.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2011 AND 2010  
(In Thousands of New Taiwan Dollars)**

|  | Capital Stock Issued and Outstanding |               | Capital Surplus<br>(Notes 2 and 19) | Retained Earnings (Accumulated Deficit) (Notes 2 and 19) |                 |  |                | Cumulative<br>Translation<br>Adjustments<br>(Note 2) | Net Loss Not<br>Recognized as<br>Pension Cost<br>(Note 2) | Unrealized<br>Valuation Gain<br>or Loss on<br>Financial<br>Instruments<br>(Note 2) | Unrealized<br>Revaluation<br>Increment<br>(Notes 2 and 12) | Company Shares<br>Held by<br>Subsidiaries<br>Reclassified into<br>Treasury Stock<br>(Notes 2, 19 and 20) | Total<br>Stockholders'<br>Equity |
|--|--------------------------------------|---------------|-------------------------------------|--|-----------------|--|----------------|--|---|--|--|--|----------------------------------|
|  | Shares<br>(In Thousands)             | Amount        |                                     | Legal Reserve  | Special Reserve | Unappropriated<br>Earnings<br>(Accumulated<br>Deficit) | Total          |  |   |  |  |  |                                  |
| BALANCE, JANUARY 1, 2010   | 4,572,249                            | \$ 45,722,490 | \$ 629,150                          | \$ -   | \$ -            | \$ (4,034,018)   | \$ (4,034,018) | \$ (130,206)   | \$ (1,550,808)  | \$ (162,526)   | \$ 830,471   | \$ (36,554)  | \$ 41,267,999                    |
| Unrealized revaluation increment transferred to retained earnings                      | -                                    | -             | -                                   | -  | -               | 780,136  | 780,136        | -  | -   | -  | (780,136)  | -  | -                                |
| Accumulated deficit offset against reserve and capital surplus<br>Capital surplus      | -                                    | -             | (628,088)                           | -  | -               | 628,088  | 628,088        | -  | -   | -  | -  | -  | -                                |
| Translation adjustments on investments in shares of stocks                             | -                                    | -             | -                                   | -  | -               | -  | -              | (257,314)  | -   | -  | -  | -  | (257,314)                        |
| Translation adjustments on a foreign operating entity                                  | -                                    | -             | -                                   | -  | -               | -  | -              | (2,982,511)  | -   | -  | -  | -  | (2,982,511)                      |
| Conversion of convertible bonds  | 59,373                               | 593,734       | 391,866                             | -  | -               | -  | -              | -  | -   | -  | -  | -  | 985,600                          |
| Net income in 2010   | -                                    | -             | -                                   | -  | -               | 10,622,094   | 10,622,094     | -  | -   | -  | -  | -  | 10,622,094                       |
| Change in unrealized valuation loss on available-for-sale financial assets             | -                                    | -             | -                                   | -  | -               | -  | -              | -  | -   | (147,213)  | -  | -  | (147,213)                        |
| Change in unrealized gain on cash flow hedging financial instruments                   | -                                    | -             | -                                   | -  | -               | -  | -              | -  | -   | 246,694  | -  | -  | 246,694                          |
| Change in net loss not recognized as pension cost                                      | -                                    | -             | -                                   | -  | -               | -  | -              | -  | (1,040,771)   | -  | -  | -  | (1,040,771)                      |
| Unrealized loss on financial instruments of equity-method investees                    | -                                    | -             | -                                   | -  | -               | -  | -              | -  | -   | (1,377)  | -  | -  | (1,377)                          |
| Net loss not recognized as pension cost of equity-method investees                     | -                                    | -             | -                                   | -  | -               | -  | -              | -  | (30,395)  | -  | -  | -  | (30,395)                         |
| Adjustment due to nonproportional subscription for new shares issued by<br>an investee | -                                    | -             | (106)                               | -  | -               | -  | -              | -  | -   | -  | -  | -  | (106)                            |
| BALANCE, DECEMBER 31, 2010   | 4,631,622                            | 46,316,224    | 392,822                             | -  | -               | 7,996,300  | 7,996,300      | (3,370,031)  | (2,621,974)   | (64,422)   | 50,335   | (36,554)   | 48,662,700                       |
| Appropriation of the 2010 earning  |                                      |               |                                     |  |                 |  |                |  |   |  |  |  |                                  |
| Legal reserve  | -                                    | -             | -                                   | 799,630  | -               | (799,630)  | -              | -  | -   | -  | -  | -  | -                                |
| Special reserve  | -                                    | -             | -                                   | -  | 5,162,071       | (5,162,071)  | -              | -  | -   | -  | -  | -  | -                                |
| Cash dividends - NT\$0.4 per share   | -                                    | -             | -                                   | -  | -               | (1,852,649)  | (1,852,649)    | -  | -   | -  | -  | -  | (1,852,649)                      |
| Translation adjustments on investments in shares of stocks                             | -                                    | -             | -                                   | -  | -               | -  | -              | 78,226   | -   | -  | -  | -  | 78,226                           |
| Translation adjustments on a foreign operating entity                                  | -                                    | -             | -                                   | -  | -               | -  | -              | 1,693,608  | -   | -  | -  | -  | 1,693,608                        |
| Cash dividends received by subsidiaries for holding the Company's<br>shares            | -                                    | -             | 1,156                               | -  | -               | -  | -              | -  | -   | -  | -  | -  | 1,156                            |
| Compensation recognized for employee stock options                                     | -                                    | -             | 28,123                              | -  | -               | -  | -              | -  | -   | -  | -  | -  | 28,123                           |
| Net loss in 2011   | -                                    | -             | -                                   | -  | -               | (1,954,271)  | (1,954,271)    | -  | -   | -  | -  | -  | (1,954,271)                      |
| Change in unrealized valuation loss on available-for-sale financial assets             | -                                    | -             | -                                   | -  | -               | -  | -              | -  | -   | (17,583)   | -  | -  | (17,583)                         |
| Change in unrealized gain on cash flow hedging financial instruments                   | -                                    | -             | -                                   | -  | -               | -  | -              | -  | -   | 124,072  | -  | -  | 124,072                          |
| Revaluation increment transferred to other income on disposal of<br>revalued assets    | -                                    | -             | -                                   | -  | -               | -  | -              | -  | -   | -  | (9,037)  | -  | (9,037)                          |
| Change in net loss not recognized as pension cost                                      | -                                    | -             | -                                   | -  | -               | -  | -              | -  | 348,467   | -  | -  | -  | 348,467                          |
| Unrealized gain on financial instruments of equity-method investees                    | -                                    | -             | -                                   | -  | -               | -  | -              | -  | -   | 7,943  | -  | -  | 7,943                            |
| Net loss not recognized as pension cost of equity-method investees                     | -                                    | -             | -                                   | -  | -               | -  | -              | -  | (51,677)  | -  | -  | -  | (51,677)                         |
| BALANCE, DECEMBER 31, 2011   | 4,631,622                            | \$ 46,316,224 | \$ 422,101                          | \$ 799,630   | \$ 5,162,071    | \$ (1,772,321)   | \$ 4,189,380   | \$ (1,598,197)                                       | \$ (2,325,184)  | \$ 50,010  | \$ 41,298  | \$ (36,554)  | \$ 47,059,078                    |

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

# CHINA AIRLINES, LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

|  | 2011             | 2010              |
|--|------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                  |                   |
| Net income (loss)  | \$ (1,954,271)   | \$ 10,622,094     |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                  |                   |
| Deferred income taxes  | (458,618)        | 989,409           |
| Depreciation and amortization  | 10,403,689       | 10,054,254        |
| Allowance for doubtful accounts  | 72,017           | 38,000            |
| Gain on sale of available-for-sale financial assets  | -                | (118,139)         |
| Compensation cost of employee stock options  | 28,123           | -                 |
| Valuation gain on financial instruments, net   | (6,057)          | (343,945)         |
| Investment income recognized under the equity method   | (662,566)        | (905,588)         |
| Cash dividends received from equity-method investees   | 436,190          | 361,322           |
| Loss on inventories, properties and idle properties  | 298,396          | 226,438           |
| Gain on disposal of properties   | (41,505)         | (7,148)           |
| Impairment loss on land  | -                | 579,015           |
| Gain on disposal of idle properties, net   | (75,159)         | (16,492)          |
| Amortization of deferred profit on sale-leaseback  | (629,707)        | (659,181)         |
| Amortization of deferred credits   | (66,414)         | (66,413)          |
| Net changes in operating assets and liabilities:   |                  |                   |
| Financial assets and liabilities held for trading  | (2,972,745)      | (2,393,648)       |
| Notes and accounts receivable  | 1,640,821        | 524,547           |
| Notes and accounts receivable - related parties  | 215,403          | (17,322)          |
| Other receivables  | 109,726          | (33,160)          |
| Inventories  | (2,047,680)      | (1,351,000)       |
| Other current assets   | (874,121)        | (127,936)         |
| Accounts payable   | 228,393          | (421,652)         |
| Accounts payable - related parties   | (104,262)        | (18,516)          |
| Accrued expenses   | (7,949)          | 987,512           |
| Advance ticket sales   | 121,461          | 339,929           |
| Other current liabilities  | (16,565)         | 406,545           |
| Accrued pension cost   | 139,409          | 456,134           |
| Other liabilities  | <u>(177,667)</u> | <u>874,636</u>    |
| Net cash provided by operating activities  | <u>3,598,342</u> | <u>19,979,695</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                  |                   |
| Proceeds of the disposal of available-for-sale financial assets                                    | -                | 181,914           |
| Acquisition of investments accounted for by the equity method                                      | (200,000)        | (24,597)          |
| Investees' return of capital - investments accounted for by the equity method                      | -                | 10,000            |
| Increase in other financial assets - noncurrent  | -                | (1,147)           |
| Acquisition of properties  | (5,762,965)      | (5,206,611)       |
| Proceeds of the disposal of properties   | 218,310          | 7,585             |
| Increase in computer software  | (58,430)         | (57,148)          |
| Proceeds of the disposal of idle properties  | 93,165           | 28,775            |

(Continued)

# CHINA AIRLINES, LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

|  | 2011                 | 2010                 |
|--|----------------------|----------------------|
| Decrease in refundable deposits                            | 764,204              | 1,200,278            |
| Increase in deferred charges                               | (23,430)             | (28,417)             |
| Decrease (increase) in restricted assets                   | <u>344,964</u>       | <u>(212,713)</u>     |
| Net cash used in investing activities                      | <u>(4,624,182)</u>   | <u>(4,102,081)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                      |                      |
| Decrease in short-term loans                               | (1,100,000)          | (3,000,000)          |
| Decrease in short-term bills payable                       | (1,249,625)          | (1,399,135)          |
| Proceeds of long-term debt                                 | 17,476,748           | 7,118,705            |
| Repayments of long-term debt and capital lease obligations | (16,518,938)         | (19,106,367)         |
| Issuance of bonds payable                                  | 6,000,000            | 8,650,000            |
| Repayment of bonds payable                                 | (3,500,000)          | (2,880,000)          |
| Increase in guarantee deposits received                    | 26,070               | 21,678               |
| Decrease in deferred profits on sale-leaseback             | (186,997)            | -                    |
| Cash dividends   | <u>(1,852,649)</u>   | <u>-</u>             |
| Net cash used in financing activities                      | <u>(905,391)</u>     | <u>(10,595,119)</u>  |
| EFFECT OF EXCHANGE RATE CHANGES                            | <u>81,648</u>        | <u>(12,868)</u>      |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS           | (1,849,583)          | 5,269,627            |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR               | <u>10,796,980</u>    | <u>5,527,353</u>     |
| CASH AND CASH EQUIVALENTS, END OF YEAR                     | <u>\$ 8,947,397</u>  | <u>\$ 10,796,980</u> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>                  |                      |                      |
| Interest paid  | \$ 2,267,516         | \$ 2,709,735         |
| Less: Capitalized interest                                 | <u>75,309</u>        | <u>76,655</u>        |
| Interest paid (excluding capitalized interest)             | <u>\$ 2,192,207</u>  | <u>\$ 2,633,080</u>  |
| Income tax paid  | <u>\$ 67,179</u>     | <u>\$ 70,970</u>     |
| <b>NONCASH FINANCING ACTIVITIES</b>                        |                      |                      |
| Current portion of long-term loans and debts               | <u>\$ 18,047,762</u> | <u>\$ 17,253,668</u> |
| Current portion of capital lease obligations               | <u>\$ 1,185,639</u>  | <u>\$ 1,060,208</u>  |
| Current portion of bonds payable                           | <u>\$ 12,200,000</u> | <u>\$ 3,500,000</u>  |
| Conversion of convertible bonds                            | <u>\$ -</u>          | <u>\$ 985,600</u>    |

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

(Concluded)



# CHINA AIRLINES, LTD.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In New Taiwan Dollars, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

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

The major stockholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of December 31, 2011 and 2010, CADF and jointly held 39.10% and 11.22%, respectively, of the Company’s shares. The Company had 10,578 and 10,492 employees as of December 31, 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. Significant accounting policies are summarized as follows:

#### Foreign Currencies and Foreign Operations

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

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

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

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

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

### **Accounting Estimates**

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

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

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

### **Cash Equivalents**

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Financial Assets Carried at Cost**

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

## **Impairment of Accounts Receivable**

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company make this review 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 as a result of one or more events that occurred after the initial recognition of the accounts receivable, the accounts receivable are deemed to be impaired.

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

## **Impairment of Assets**

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

**Inventories**

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

**Investments Accounted for by the Equity Method**

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

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

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

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

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

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

**Properties**

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

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

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

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

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

### **Intangible Assets**

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

### **Deferred Charges**

Deferred charges mainly consist of (a) expenses for training pilots in operating new types of aircraft, (b) issue costs of corporate bonds and (c) costs incurred for syndicated loans. They are all amortized using the straight-line method. The amortization periods are 10 years for training expenses and the terms of the bonds or loans.

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

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

### **Pension Costs**

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

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

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

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

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

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

## **Income Tax**

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

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

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

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

## **Revenue Recognition**

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

### **3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES**

#### **Financial Instruments**

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." Among the main revisions is that loans and receivables originated by the Company are now covered by SFAS No. 34. This accounting change did not have a significant effect on the Company's financial statements as of and for the year ended December 31, 2011.

#### **Operating Segments**

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

#### 4. CASH AND CASH EQUIVALENTS

|                                       | <b>December 31</b>      |                          |
|---------------------------------------|-------------------------|--------------------------|
|                                       | <b>2011</b>             | <b>2010</b>              |
| Cash on hand                          | \$ 716,536              | \$ 639,281               |
| Revolving fund                        | 122,679,984             | 113,299,029              |
| Checking accounts and demand deposits | 4,256,564,478           | 6,568,081,267            |
| Time deposits                         | 3,767,681,541           | 4,114,960,258            |
| Cash equivalents                      | <u>799,754,590</u>      | <u>-</u>                 |
|                                       | <u>\$ 8,947,397,129</u> | <u>\$ 10,796,979,835</u> |

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

Financial instruments held for trading are summarized as follows:

|  | <b>December 31</b>      |                       |
|--|-------------------------|-----------------------|
|  | <b>2011</b>             | <b>2010</b>           |
| <u>Financial assets held for trading</u> |                         |                       |
| Current                                  |                         |                       |
| Beneficial certificates                  | \$ 3,004,222,113        | \$ 300,031,543        |
| Listed stocks                            | <u>274,516,500</u>      | <u>-</u>              |
|  | <u>\$ 3,278,738,613</u> | <u>\$ 300,031,543</u> |

Net gains on beneficial certificates were \$5,962,000 in 2011 and \$6,191,000 in 2010. On derivative instruments held for trading, there was no gain in 2011 but there was a gain of \$337,809,000 in 2010.

Financial instruments designated as at FVTPL were as follows:

|  | <b>December 31</b>    |                       |
|--|-----------------------|-----------------------|
|  | <b>2011</b>           | <b>2010</b>           |
| <u>Financial assets designated as at FVTPL</u> |                       |                       |
| Noncurrent                                     |                       |                       |
| Convertible bonds                              |                       |                       |
| China Life Insurance Co., Ltd.                 | <u>\$ 374,085,000</u> | <u>\$ 373,990,000</u> |

The transactions on financial assets designated as at FVTPL resulted in gains of \$95,000 in 2011 and losses of \$55,000 in 2010.



## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                      | December 31          |                        |                       |                        |
|--------------------------------------|----------------------|------------------------|-----------------------|------------------------|
|                                      | 2011                 |                        | 2010                  |                        |
|                                      | Carrying Value       | % of<br>Owner-<br>ship | Carrying Value        | % of<br>Owner-<br>ship |
| Foreign marketable equity securities |                      |                        |                       |                        |
| France Telecom                       | \$ <u>96,131,011</u> | -                      | \$ <u>117,314,587</u> | -                      |

In April 2010, the Company disposed of its entire holding in Trade-Van Information Service in the open market. The gain on this disposal was \$118,139,000.

## 7. NOTES AND ACCOUNTS RECEIVABLE, NET

|                                       | December 31             |                          |
|---------------------------------------|-------------------------|--------------------------|
|                                       | 2011                    | 2010                     |
| Notes receivable                      | \$ 294,225,639          | \$ 234,646,483           |
| Accounts receivable                   | <u>9,558,405,149</u>    | <u>11,266,471,700</u>    |
|                                       | 9,852,630,788           | 11,501,118,183           |
| Less: Allowance for doubtful accounts | <u>129,010,305</u>      | <u>64,660,316</u>        |
|                                       | <u>\$ 9,723,620,483</u> | <u>\$ 11,436,457,867</u> |

## 8. OTHER RECEIVABLES

|                 | December 31           |                       |
|-----------------|-----------------------|-----------------------|
|                 | 2011                  | 2010                  |
| Tax refunds     | \$ 293,143,806        | \$ 396,418,687        |
| Accrued revenue | 214,741,615           | 215,454,315           |
| Others          | <u>3,015,606</u>      | <u>6,519,369</u>      |
|                 | <u>\$ 510,901,027</u> | <u>\$ 618,392,371</u> |

## 9. INVENTORIES, NET

|  | December 31             |                         |
|--|-------------------------|-------------------------|
|  | 2011                    | 2010                    |
| Aircraft spare parts                   | \$ 7,955,786,647        | \$ 6,208,381,108        |
| Items for in-flight sale               | 349,466,926             | 333,675,809             |
| Work in process - maintenance services | <u>282,038,792</u>      | <u>124,210,598</u>      |
|  | <u>\$ 8,587,292,365</u> | <u>\$ 6,666,267,515</u> |

As of December 31, 2011 and 2010, the allowances for inventory devaluation were \$83,891,000 and \$66,081,000, respectively. The costs of inventories recognized as operating costs due to write-downs of inventories were \$17,810,000 in 2011 and \$11,850,000 in 2010.

## 10. FINANCIAL ASSETS CARRIED AT COST

|                                    | December 31           |                        |                       |                        |
|------------------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                                    | 2011                  |                        | 2010                  |                        |
|                                    | Carrying Value        | % of<br>Owner-<br>ship | Carrying Value        | % of<br>Owner-<br>ship |
| Unlisted common stocks             |                       |                        |                       |                        |
| Abacus International Holdings Ltd. | \$ 297,946,451        | 13.59                  | \$ 297,946,451        | 13.59                  |
| Jardine Air Terminal Services      | 56,022,929            | 15.00                  | 56,022,929            | 15.00                  |
| Chung Hwa Express Co.              | 11,000,000            | 11.00                  | 11,000,000            | 11.00                  |
| Regal International Advertising    | 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

|   | December 31             |                   |                         |                   |
|---|-------------------------|-------------------|-------------------------|-------------------|
|   | 2011                    |                   | 2010                    |                   |
|   | Carrying Value          | % of<br>Ownership | Carrying Value          | % of<br>Ownership |
| <u>Investees on which the Company<br/>exercises significant influence</u> |                         |                   |                         |                   |
| Taiwan Air Cargo Terminal   | \$ 1,613,091,139        | 54.00             | \$ 1,649,298,276        | 54.00             |
| Cal Park  | 1,466,188,021           | 100.00            | 1,457,413,760           | 100.00            |
| Mandarin Airlines   | 1,150,278,944           | 93.99             | 1,004,699,155           | 93.99             |
| Cal-Dynasty International   | 1,050,253,970           | 100.00            | 1,009,378,367           | 100.00            |
| Taoyuan International Airport Services                                    | 649,302,758             | 49.00             | 671,375,416             | 49.00             |
| China Pacific Catering Services   | 641,880,959             | 51.00             | 637,608,109             | 51.00             |
| Abacus Distribution Systems (Taiwan)                                      | 410,229,241             | 93.93             | 395,687,814             | 93.93             |
| Cal-Asia Investment   | 383,610,273             | 100.00            | 351,186,589             | 100.00            |
| China Aircraft Services   | 381,186,876             | 20.00             | 359,886,699             | 20.00             |
| Taiwan Airport Services   | 332,630,056             | 47.35             | 296,924,254             | 47.35             |
| Kaohsiung Catering Services   | 238,320,783             | 35.78             | 230,693,413             | 35.78             |
| Asian Compressor Technology Services                                      | 230,665,809             | 24.50             | 184,112,301             | 24.50             |
| Cal Hotel   | 203,061,718             | 100.00            | 48,305,061              | 100.00            |
| Science Park Logistics  | 177,403,739             | 28.48             | 174,871,708             | 28.48             |
| China Pacific Laundry Services  | 150,802,938             | 55.00             | 126,459,123             | 55.00             |
| Hwa Hsia  | 104,075,059             | 100.00            | 102,263,416             | 100.00            |
| Dynasty Holidays  | 38,268,728              | 51.00             | 44,393,676              | 51.00             |
| Yestrip   | 26,609,460              | 100.00            | 27,333,357              | 100.00            |
| Global Sky Express  | 7,218,765               | 25.00             | 7,377,510               | 25.00             |
| Freighter Princess Ltd.   | 35,088                  | 100.00            | 35,088                  | 100.00            |
| Freighter Prince Ltd.   | 34,602                  | 100.00            | 34,602                  | 100.00            |
| Freighter Queen Ltd.  | <u>32,895</u>           | 100.00            | <u>32,895</u>           | 100.00            |
|   | <u>\$ 9,255,181,821</u> |                   | <u>\$ 8,779,370,589</u> |                   |

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

|  | <b>Year Ended December 31</b> |                       |
|--|-------------------------------|-----------------------|
|  | <b>2011</b>                   | <b>2010</b>           |
| Taiwan Air Cargo Terminal              | \$ (36,207,137)               | \$ 25,735,197         |
| Cal Park                               | 8,774,261                     | (18,582,264)          |
| Mandarin Airlines                      | 145,592,245                   | 507,732,425           |
| Cal-Dynasty International              | 1,079,501                     | (10,178,667)          |
| Taoyuan International Airport Services | 22,637,711                    | 17,562,808            |
| China Pacific Catering Services        | 113,194,240                   | 110,254,668           |
| Abacus Distribution Systems (Taiwan)   | 132,381,857                   | 130,768,167           |
| Cal-Asia Investment                    | 29,585,706                    | 30,302,159            |
| China Aircraft Services                | 15,926,399                    | 14,765,782            |
| Taiwan Airport Services                | 44,584,201                    | 13,217,582            |
| Kaohsiung Catering Services            | 57,913,301                    | 49,476,560            |
| Asian Compressor Technology Services   | 107,631,009                   | 67,863,890            |
| Cal Hotel                              | (45,243,343)                  | (102,182,091)         |
| Science Park Logistics                 | 15,825,126                    | 15,510,768            |
| China Pacific Laundry Services         | 21,884,072                    | 13,605,565            |
| Hwa Hsia                               | 25,354,720                    | 25,381,454            |
| Dynasty Holidays                       | (5,128,274)                   | 5,855,220             |
| Yestrip                                | 5,314,288                     | 6,709,095             |
| Global Sky Express                     | <u>1,466,255</u>              | <u>1,789,626</u>      |
|  | <u>\$ 662,566,138</u>         | <u>\$ 905,587,944</u> |

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

Shown below are the movements in 2011 and 2010 of (a) the difference between the investment cost and the investee's net assets, or goodwill, and (b) a sale of depreciable assets to the Company by its subsidiary.

|                            | <b>Goodwill</b>      | <b>Transaction<br/>between<br/>Company and<br/>Subsidiary</b> |
|----------------------------|----------------------|---|
| <u>December 31, 2011</u>   |                      |   |
| Balance, beginning of year | \$ 52,423,365        | \$(150,646,025)   |
| Reduction                  | <u>-</u>             | <u>32,868,224</u>   |
| Balance, end of year       | <u>\$ 52,423,365</u> | <u>\$(117,777,801)</u>  |
| <u>December 31, 2010</u>   |                      |   |
| Balance, beginning of year | \$ 53,843,702        | \$(183,514,249)   |
| Reduction                  | <u>1,420,337</u>     | <u>32,868,224</u>   |
| Balance, end of year       | <u>\$ 52,423,365</u> | <u>\$(150,646,025)</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

|                                   | <b>December 31</b>       |                          |
|-----------------------------------|--------------------------|--------------------------|
|                                   | <b>2011</b>              | <b>2010</b>              |
| Revaluation increase - cost       |                          |                          |
| Buildings                         | <u>\$ 41,297,645</u>     | <u>\$ 50,335,009</u>     |
| Accumulated depreciation          |                          |                          |
| Buildings                         | \$ 2,735,167,939         | \$ 3,469,488,614         |
| Machinery and equipment           | 3,050,569,033            | 3,086,701,234            |
| Flight equipment                  | 78,780,714,029           | 70,066,802,888           |
| Furniture                         | 413,077,707              | 413,573,173              |
| Leased flight and other equipment | 6,208,371,294            | 5,592,854,537            |
| Leasehold improvements            | <u>832,767,516</u>       | <u>873,015,258</u>       |
|                                   | <u>\$ 92,020,667,518</u> | <u>\$ 83,502,435,704</u> |

Interests capitalized amounted to \$75,309,000 in 2011 and \$76,655,000 in 2010, with interests calculated at rates ranging from 1.91% to 2.06% and from 1.6017% to 2.2177%, 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 moved to Cal Park in Nan Kan in March 2010, 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

|   | <b>December 31</b> |                         |
|---|--------------------|-------------------------|
|   | <b>2011</b>        | <b>2010</b>             |
| Bank loans. Interest - 0.72% to 0.88% in 2010 | <u>\$ -</u>        | <u>\$ 1,100,000,000</u> |

## 14. SHORT-TERM BILLS PAYABLE

|  | <b>December 31</b> |                         |
|--|--------------------|-------------------------|
|  | <b>2011</b>        | <b>2010</b>             |
| Commercial paper - discounted interest of 0.698% to 0.738% in the year ended December 31, 2010 | \$ -               | \$ 1,250,000,000        |
| Less: Unamortized discount on bills payable  | <u>-</u>           | <u>375,288</u>          |
|  | <u>\$ -</u>        | <u>\$ 1,249,624,712</u> |

## 15. BONDS PAYABLE

|  | December 31              |                          |
|--|--------------------------|--------------------------|
|  | 2011                     | 2010                     |
| Five-year secured domestic bonds - issued at par in<br>July 2006; repayable in July 2009, July 2010 and July 2011;<br>2.21% interest p.a., payable annually. | \$ -                     | \$ 2,600,000,000         |
| November 2007; repayable in November 2010, November<br>2011 and November 2012; indicator rate plus 0.4% interest<br>p.a., payable quarterly.                 | 1,200,000,000            | 2,100,000,000            |
| January 2010; repayable in January 2013, January 2014 and<br>January 2015; indicator rate plus 1.5% interest p.a.,<br>payable quarterly.                     | 1,300,000,000            | 1,300,000,000            |
| February 2010; repayable in February 2013, February 2014<br>and February 2015; indicator rate plus 1.5% interest p.a.,<br>payable quarterly.                 | 2,300,000,000            | 2,300,000,000            |
| May 2011; repayable in May 2014, May 2015 and May 2016;<br>1.35% interest p.a., payable annually.  | 6,000,000,000            | -                        |
| Three-year private unsecured bonds-issued at par in<br>April 2009; repayable in April 2012; 3.4% interest p.a.,<br>payable semiannually.                     | 8,800,000,000            | 8,800,000,000            |
| June 2009; repayable in June 2012; 3.4% interest p.a.,<br>payable semiannually.  | 2,200,000,000            | 2,200,000,000            |
| May 2010; repayable in May 2013; 2.8% interest p.a.,<br>payable semiannually.  | 5,050,000,000            | 5,050,000,000            |
| Five-year private unsecured bonds-issued at par in<br>April 2009; repayable in April 2014; 3.6% interest p.a.,<br>payable semiannually.                      | 1,100,000,000            | 1,100,000,000            |
| June 2009; repayable in June 2014; 3.6% interest p.a.,<br>payable semiannually.  | <u>800,000,000</u>       | <u>800,000,000</u>       |
|  | 28,750,000,000           | 26,250,000,000           |
| Less: Current portion  | <u>12,200,000,000</u>    | <u>3,500,000,000</u>     |
|  | <u>\$ 16,550,000,000</u> | <u>\$ 22,750,000,000</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 502,779,000 common shares of the Company. The Company repurchased and wrote off bonds with aggregate face value of \$2,767,000,000, and also redeemed the remaining bonds with an aggregate face value of \$30,000,000 in August 2010.

## 16. LONG-TERM DEBT

|  | <b>December 31</b>       |                          |
|--|--------------------------|--------------------------|
|  | <b>2011</b>              | <b>2010</b>              |
| Bank loans   | \$ 77,201,623,954        | \$ 81,207,197,696        |
| Commercial paper, net of unamortized discounts of \$23,252,282 and \$7,100,891 in the years ended December 31, 2011 and 2010, respectively | <u>10,231,747,718</u>    | <u>2,997,899,109</u>     |
|  | 87,433,371,672           | 84,205,096,805           |
| Less: Current portion  | <u>18,047,761,512</u>    | <u>17,253,668,462</u>    |
|  | <u>\$ 69,385,610,160</u> | <u>\$ 66,951,428,343</u> |

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

|                                  | <b>Currency</b>           |                     |                     |
|----------------------------------|---------------------------|---------------------|---------------------|
|                                  | <b>New Taiwan Dollars</b> | <b>U.S. Dollars</b> | <b>Japanese Yen</b> |
| <u>Amounts</u>                   |                           |                     |                     |
| Original currency                |                           |                     |                     |
| 2011                             | \$ 49,575,496,546         | \$ 895,741,879      | \$ 1,240,000,000    |
| 2010                             | 48,224,426,346            | 1,101,711,283       | 2,480,000,000       |
| Translated in New Taiwan dollars |                           |                     |                     |
| 2011                             | 49,575,496,546            | 27,143,693,451      | 482,433,957         |
| 2010                             | 48,224,426,346            | 32,119,862,512      | 862,908,838         |

### Interest rates

|      |               |               |         |
|------|---------------|---------------|---------|
| 2011 | 0.7%-2.6%     | 0.3911%-4.77% | 0.6957% |
| 2010 | 1.024%-2.909% | 0.2656%-4.79% | 0.6869% |

### Periods

|      |                     |                    |                       |
|------|---------------------|--------------------|-----------------------|
| 2011 | 2002/4/11-2020/2/26 | 2000/7/6-2017/9/21 | 2007/12/26-2012/12/26 |
| 2010 | 2002/4/11-2020/2/26 | 2000/7/6-2017/9/21 | 2007/12/26-2012/12/26 |

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until March 2012, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 1.341% to 2.102% in 2011 and 0.525% to 1.723% in 2010.

## 17. LONG-TERM CAPITAL LEASE OBLIGATIONS

|                           | <b>December 31</b>      |                         |
|---------------------------|-------------------------|-------------------------|
|                           | <b>2011</b>             | <b>2010</b>             |
| Capital lease obligations | \$ 2,320,705,642        | \$ 3,292,956,470        |
| Less: Current portion     | <u>1,185,639,137</u>    | <u>1,060,207,601</u>    |
|                           | <u>\$ 1,135,066,505</u> | <u>\$ 2,232,748,869</u> |

As of December 31, 2011, the Company was in contract with certain foreign companies under capital lease agreements of aircraft and related parts expiring on various dates until February 2014.

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

| <b>Period</b> | <b>Amount</b>    |
|---------------|------------------|
| 2012          | \$ 1,185,639,137 |
| 2013          | 875,853,499      |
| 2014          | 259,213,007      |

## 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 \$113,599,000 in 2011 and \$123,139,000 in 2010.

The pension plan under the Labor Standards Law is a defined benefit pension plan. Benefits are based on the service years accumulated and the average basic salaries and wages of the six months before retirement. The Company makes monthly contributions to a pension fund at 7% of salaries and wages. The fund is administered by a pension fund committee and deposited in the committee's name in the Bank of Taiwan. The Company recognized pension cost of \$749,430,000 in 2011 and \$987,154,000 in 2010.

Other defined benefit pension plan is summarized as follows:

### a. Net pension cost

|   | <b>2011</b>           | <b>2010</b>           |
|---|-----------------------|-----------------------|
| Service cost                              | \$ 251,472,577        | \$ 303,312,345        |
| Interest cost                             | 213,032,486           | 209,868,179           |
| Projected return on plan assets           | (43,011,242)          | (47,224,192)          |
| Amortization of net transition obligation | -                     | 307,507,000           |
| Amortization of prior service cost        | 59,135,597            | 59,135,597            |
| Amortization of pension gains or losses   | <u>268,800,843</u>    | <u>154,554,898</u>    |
|   | <u>\$ 749,430,261</u> | <u>\$ 987,153,827</u> |

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

|  | <b>December 31</b>        |                           |
|--|---------------------------|---------------------------|
|  | <b>2011</b>               | <b>2010</b>               |
| Benefit obligation:                          |                           |                           |
| Vested benefit obligation                    | \$ (5,641,281,091)        | \$ (6,036,996,281)        |
| Non-vested benefit obligation                | (3,448,394,448)           | (3,046,712,685)           |
| Accumulated benefit obligation               | (9,089,675,539)           | (9,083,708,966)           |
| Additional benefits based on future salaries | (1,268,607,961)           | (1,174,030,951)           |
| Projected benefit obligation                 | (10,358,283,500)          | (10,257,739,917)          |
| Fair value of plan assets                    | <u>2,710,958,860</u>      | <u>2,436,797,815</u>      |
| Funded status                                | (7,647,324,640)           | (7,820,942,102)           |
| Unrecognized prior service cost              | 118,271,189               | 177,406,786               |
| Unrecognized net actuarial loss              | 3,459,892,285             | 3,713,782,427             |
| Additional liability                         | <u>(2,309,555,513)</u>    | <u>(2,717,158,262)</u>    |
| Accrued pension cost                         | <u>\$ (6,378,716,679)</u> | <u>\$ (6,646,911,151)</u> |
| Vested benefits                              | <u>\$ 9,170,131,479</u>   | <u>\$ 10,212,886,418</u>  |

|  | <b>December 31</b>    |                       |
|--|-----------------------|-----------------------|
|  | <b>2011</b>           | <b>2010</b>           |
| c. Actuarial assumptions                         |                       |                       |
| Discount rate used in determining present values | 2.00%                 | 2.25%                 |
| Future salary increase rate                      | 1.50%                 | 1.50%                 |
| Expected rate of return on plan assets           | 2.00%                 | 2.25%                 |
| d. Contributions to the fund                     | <u>\$ 553,644,102</u> | <u>\$ 504,007,891</u> |
| e. Payments from the fund                        | <u>\$ 309,753,726</u> | <u>\$ 245,579,890</u> |

## 19. STOCKHOLDERS' EQUITY

To meet the Company's financial demand for its operation as well as debt repayment, the board resolved in June 2011 to publicly issue 568,378,000 common shares at NT\$11.73 per share having a NT\$10.00 par value and the record dates of February 10, 2012 for the common share issuances. The Company completed the related registration of capital increase on February 20, 2012.

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



Other information on employee stock options is as follows:

|   | <b>Number of<br/>Options<br/>(In Thousands)</b> | <b>Weighted<br/>-average<br/>Exercise<br/>Price</b> |
|---|---|---|
| <u>Employee stock options on a capital increase in 2011</u> |   |   |
| Options granted   | 56,838  | \$ 11.73  |
| Options exercised   | -   | 11.73   |
| Options expired   | <u>-</u>  | 11.73   |
|   | <u>56,838</u>                                   |   |
| Weighted-average fair value of options granted              |   | <u>\$ 0.4948</u>                                    |

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

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

The compensation cost of employee stock options issued for capital increase in December 2011 was recognized at \$28,123,000, consisting of the capital surplus - employee stock options at their fair value of \$28,123,000.

Under the Company Law, capital surplus may be used to offset a deficit. The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, additional paid-in capital from issuance of stocks for combination and treasury stock transactions) and donations may be capitalized within a certain percentage of the Company's paid-in capital. Under the revised Company Law issued on January 4, 2012, the capital surplus may also be distributed in cash. However, the capital surplus from long-term investments may not be used for any purpose.

Capital surplus is summarized as follows:

|  | <u>December 31</u>    |                       |
|--|-----------------------|-----------------------|
|  | <b>2011</b>           | <b>2010</b>           |
| Arising from the issuance of common shares | \$ 391,866,400        | \$ 391,866,400        |
| Arising from treasury stock transactions   | 1,155,512             | -                     |
| Arising from long-term investments         | 955,395               | 955,395               |
| Employee stock options                     | <u>28,123,422</u>     | <u>-</u>              |
|  | <u>\$ 422,100,729</u> | <u>\$ 392,821,795</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 dividends only. In determining the amount of cash dividends to be distributed, the board of directors should take into account future cash requirements of the Company, primarily cash requirements for future aircraft acquisitions. Distribution of earnings generated in prior years should also meet the foregoing guidelines.

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

There was a net loss for year ended December 31, 2011; thus, no bonus to employees was estimated. For 2010, the bonus to employees was estimated at \$61,038,000. The bonus to employees represented 3% of net income (net of the bonus) net of the accumulated deficit, legal reserve, and special reserve. 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.

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 should be appropriated until it has reached the Company's paid-in capital. This reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

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

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

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

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

estimated for 2009 because of a net loss in that year.

On March 23, 2012, the Board of Directors of the Company resolved to offset the accumulated deficit of 2011. The Company offset the accumulated deficit (a net loss of \$1,954,271,000) against the unappropriated earnings of \$181,950,000, a special reserve of \$1,288,701,000, and the legal reserve of \$483,620,000. No bonus to employees was estimated for 2011 because of a net loss in that year.

Offsetting the accumulated deficit in 2011 will be made and approved by the stockholders on June 15, 2012.

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

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

## 20. TREASURY STOCK

| Purpose of Treasury Stock   | (Shares in Thousands)                        |   |  |
|---|--|---|--|
|   | Number of<br>Shares,<br>Beginning<br>of Year | Reduction<br>During<br>the Year<br>(Note) | Number of<br>Shares,<br>End<br>of Year |
| <u>Year ended December 31, 2011</u>   |  |   |  |
| Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock | <u>2,889</u>                                 | -   | <u>2,889</u>                           |
| <u>Year ended December 31, 2010</u>   |  |   |  |
| Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock | <u>2,889</u>                                 | -   | <u>2,889</u>                           |

The Company's shares held by its subsidiaries as of December 31, 2011 and 2010 were as follows:

| Subsidiary               | Shares<br>(In Thousands) | Carrying<br>Amount   | Market Value         |
|--------------------------|--------------------------|----------------------|----------------------|
| <u>December 31, 2011</u> |                          |                      |                      |
| Mandarin Airlines        | 2,075                    | \$ 27,385,090        | \$ 27,385,090        |
| Hwa Hsia                 | 814                      | <u>10,746,806</u>    | <u>10,746,806</u>    |
|                          |                          | <u>\$ 38,131,896</u> | <u>\$ 38,131,896</u> |
| <u>December 31, 2010</u> |                          |                      |                      |
| Mandarin Airlines        | 2,075                    | \$ 53,525,402        | \$ 53,525,402        |
| Hwa Hsia                 | 814                      | <u>21,005,122</u>    | <u>21,005,122</u>    |
|                          |                          | <u>\$ 74,530,524</u> | <u>\$ 74,530,524</u> |

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

shares and the right to vote.

## 21. INCOME TAX

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

|   | <b>2011</b>          | <b>2010</b>          |
|---|----------------------|----------------------|
| Income tax expense (benefit) on income (loss) before income tax at statutory rate | \$ (399,199,776)     | \$ 1,975,418,927     |
| Add (deduct) tax effects of:  |                      |                      |
| Permanent differences   | (37,004,274)         | 63,714,501           |
| Temporary differences   | (58,417,941)         | (409,096,939)        |
| Loss carryforwards  | 494,621,991          | -                    |
| Loss carryforwards used   | -                    | (1,535,442,872)      |
| Overseas income tax expense   | <u>64,346,625</u>    | <u>-</u>             |
| Income tax expense - current  | <u>\$ 64,346,625</u> | <u>\$ 94,593,617</u> |

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

|  | <b>2011</b>             | <b>2010</b>           |
|--|-------------------------|-----------------------|
| Income tax expense - current                                     | \$ 64,346,625           | \$ 94,593,617         |
| Investment tax credits used                                      | -                       | (26,707,194)          |
| Net changes in deferred income tax expense (benefit):            |                         |                       |
| Allowance for doubtful accounts                                  | (4,701,504)             | -                     |
| Allowance for loss on inventories                                | (3,027,711)             | (2,014,611)           |
| Equity in net gain or loss of foreign equity-method investees    | 775,033                 | 1,922,972             |
| Loss on disposal of properties                                   | (27,101,449)            | -                     |
| Depreciation difference between accounting and tax on properties | (1,479,662)             | (1,479,662)           |
| Allowance for loss on idle properties                            | (13,164,385)            | (27,824,770)          |
| Accrued expense for frequent-flyer program                       | 1,786,491               | 6,386,000             |
| Unrealized lawsuit loss  | 26,813,880              | 125,032,981           |
| Provision for pension cost                                       | (23,699,407)            | (77,630,460)          |
| Unrealized foreign exchange gain or loss                         | 96,588,942              | (85,223,332)          |
| Valuation gain or loss on financial instruments                  | -                       | 464,298,547           |
| Difference between accounting and tax on interest                | 5,627,713               | 5,629,274             |
| Loss carryforwards   | (548,773,588)           | 1,538,854,513         |
| Investment tax credits   | 947,642,479             | 593,238,965           |
| 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 valuation allowance  | (915,993,563)           | (2,588,135,742)       |
| Adjustment of prior years' tax                                   | <u>396,689</u>          | <u>(59,278,409)</u>   |
| Income tax expense (benefit)                                     | <u>\$ (393,963,417)</u> | <u>\$ 998,017,352</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 on January 1, 2010.

- c. Deferred income tax assets (liabilities) as of December 31, 2011 and 2010 consisted of the following:

|  | <b>December 31</b>      |                         |
|--|-------------------------|-------------------------|
|  | <b>2011</b>             | <b>2010</b>             |
| <b>Current</b>   |                         |                         |
| Allowance for loss on inventories                                | \$ 14,261,546           | \$ 11,233,835           |
| Loss on disposal of properties                                   | 27,101,449              | -                       |
| Accrued expenses for frequent-flyer program                      | 16,561,826              | 18,348,317              |
| Unrealized lawsuit loss  | 37,539,432              | 26,813,880              |
| Unrealized foreign exchange loss                                 | -                       | 94,479,190              |
| Allowance for doubtful accounts                                  | 4,701,504               | -                       |
| Investment income tax credits                                    | <u>111,417,863</u>      | <u>840,497,327</u>      |
| Deferred tax assets  | 211,583,620             | 991,372,549             |
| Less: Valuation allowance  | <u>(44,577,863)</u>     | <u>(840,497,327)</u>    |
| Deferred income tax assets, net                                  | 167,005,757             | 150,875,222             |
| Unrealized gain on financial instruments                         | (11,902,268)            | (1,639,180)             |
| Unrealized foreign exchange gain                                 | <u>(2,109,752)</u>      | <u>-</u>                |
| Deferred income tax assets, net                                  | <u>\$ 152,993,737</u>   | <u>\$ 149,236,042</u>   |
| <b>Noncurrent</b>  |                         |                         |
| Equity in net loss of foreign equity-method investees            | \$ 96,230,011           | \$ 97,005,044           |
| Allowance for loss on idle properties                            | 175,924,406             | 162,760,021             |
| Provision for pension cost                                       | 691,451,878             | 667,840,220             |
| Difference between accounting and tax on interest                | 81,584,659              | 87,212,372              |
| Unrealized lawsuit loss  | 123,343,849             | 160,883,281             |
| Cumulative translation adjustments                               | 327,341,382             | 690,247,230             |
| Unrealized loss on financial instruments                         | 3,566,915               | 15,114,817              |
| Loss carryforwards   | 5,209,915,370           | 4,661,141,782           |
| Investment income tax credits                                    | <u>230,917,136</u>      | <u>449,480,151</u>      |
| Deferred income tax assets                                       | 6,940,275,606           | 6,991,684,918           |
| Less: Valuation allowance  | <u>(98,843,838)</u>     | <u>(218,917,937)</u>    |
| Deferred income tax assets, net                                  | 6,841,431,768           | 6,772,766,981           |
| Depreciation difference between accounting and tax on properties | <u>(146,008,753)</u>    | <u>(147,488,415)</u>    |
| Deferred income tax assets, net                                  | <u>\$ 6,695,423,015</u> | <u>\$ 6,625,278,566</u> |

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

|                | <b>December 31</b>   |                       |
|----------------|----------------------|-----------------------|
|                | <b>2011</b>          | <b>2010</b>           |
| Balance of ICA | <u>\$ 24,942,084</u> | <u>\$ 265,654,010</u> |

Since the Company had an accumulated deficit as of December 31, 2011, there was no expected creditable tax ratio. The actual creditable ratio for the distribution of the earnings of 2010 was 4.08%. The Company had no unappropriated retained earnings generated since January 1, 1998.

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

| <b>Laws and Statutes</b>                          | <b>Tax Credit Source</b>  | <b>Total Creditable Amount</b>                                   | <b>Remaining Creditable Amount</b>                               | <b>Expiry Year</b>           |
|---|---|--|--|------------------------------|
| Article 6 of the Statute for Upgrading Industries | R&D expenses, personnel training expenses and purchases of eligible equipment | \$ 111,417,863<br>165,684,028<br>40,542,154<br><u>24,690,954</u> | \$ 111,417,863<br>165,684,028<br>40,542,154<br><u>24,690,954</u> | 2012<br>2013<br>2014<br>2015 |
|   |   | <u>\$ 342,334,999</u>  | <u>\$ 342,334,999</u>  |                              |

f. Unused tax loss carryforwards as of December 31, 2011 were as follows:

| <b>Expiry Year</b> | <b>Unused Amount</b>     |
|--------------------|--------------------------|
| 2018               | \$ 8,398,753,893         |
| 2019               | 19,338,265,982           |
| 2021               | <u>2,909,541,126</u>     |
|                    | <u>\$ 30,646,561,001</u> |

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

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

## 22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

|                            | <b>2011</b>                          |   | <b>Total</b>      |
|----------------------------|--------------------------------------|---|-------------------|
|                            | <b>Classified as Operating Costs</b> | <b>Classified as Operating Expenses</b> |                   |
| Personnel                  |                                      |   |                   |
| Salaries                   | \$ 9,250,252,749                     | \$ 2,188,707,448                        | \$ 11,438,960,197 |
| Labor and health insurance | 542,117,138                          | 431,561,104                             | 973,678,242       |
| Pension cost               | 614,596,517                          | 248,432,925                             | 863,029,442       |
| Others                     | 1,749,778,957                        | 155,617,032                             | 1,905,395,989     |
| Depreciation               | 9,869,502,485                        | 373,520,933                             | 10,243,023,418    |
| Amortization               | 2,418,487                            | 158,246,585                             | 160,665,072       |

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

### 23. EARNINGS (LOSS) PER SHARE

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

|   | <b>Amounts (Thousands)<br/>(As Numerator)</b> |                       | <b>Shares<br/>(Thousands)<br/>(As Denominator)</b> | <b>Earnings (Loss)<br/>Per Share (NT\$)</b> |                  |
|---|---|-----------------------|--|---|------------------|
|   | <b>Pretax</b>                                 | <b>After Tax</b>      |  | <b>Pretax</b>                               | <b>After Tax</b> |
| <u>2011</u>   |   |                       |  |   |                  |
| Basic and diluted loss per share                    |   |                       |  |   |                  |
| Net loss on common stock                            | <u>\$ (2,384,234)</u>                         | <u>\$ (1,954,271)</u> | <u>4,628,733</u>                                   | <u>\$ (0.51)</u>                            | <u>\$ (0.42)</u> |
| <u>2010</u>   |   |                       |  |   |                  |
| Basic EPS   |   |                       |  |   |                  |
| Net income on common stock                          | \$ 11,620,111                                 | \$ 10,622,094         | 4,591,971  | <u>\$ 2.53</u>                              | <u>\$ 2.31</u>   |
| Effect of dilutive potential common shares          |   |                       |  |   |                  |
| Bonus to employees                                  | -   | -                     | 1,384  |   |                  |
| Third issue of unsecured domestic convertible bonds | <u>-</u>                                      | <u>-</u>              | <u>44,683</u>                                      |   |                  |
| Diluted EPS   | <u>\$ 11,620,111</u>                          | <u>\$ 10,622,094</u>  | <u>4,638,038</u>                                   | <u>\$ 2.51</u>                              | <u>\$ 2.29</u>   |

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

## 24. FINANCIAL INSTRUMENTS

### a. Fair values of financial instruments

|   | December 31       |                      |                   |                      |
|---|-------------------|----------------------|-------------------|----------------------|
|   | 2011              |                      | 2010              |                      |
|   | Carrying Amount   | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| <u>Financial assets</u>   |                   |                      |                   |                      |
| Financial assets - with fair values approximating carrying amounts      | \$ 30,660,481,931 | \$ 30,660,481,931    | \$ 35,654,998,501 | \$ 35,654,998,501    |
| Financial assets at fair value through profit or loss                   | 3,652,823,613     | 3,652,823,613        | 674,021,543       | 674,021,543          |
| Available-for-sale financial assets                                     | 96,131,011        | 96,131,011           | 117,314,587       | 117,314,587          |
| Derivative financial assets for hedging                                 | 108,667,850       | 108,667,850          | 210,357           | 210,357              |
| Financial assets carried at cost  | 371,366,902       | -                    | 371,366,902       | -                    |
| <u>Financial liabilities</u>  |                   |                      |                   |                      |
| Financial liabilities - with fair values approximating carrying amounts | 17,231,288,467    | 17,231,288,467       | 19,741,116,935    | 19,741,116,935       |
| Derivative financial liabilities for hedging                            | 72,400,976        | 72,400,976           | 119,578,956       | 119,578,956          |
| Bonds issued  | 28,750,000,000    | 29,543,925,532       | 26,250,000,000    | 28,014,183,080       |
| Loans and debts   | 87,433,371,672    | 87,461,638,881       | 84,205,096,805    | 84,430,090,884       |

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

- 1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: cash and cash equivalents, receivables, receivables - related parties, other receivables, other financial assets - noncurrent, deposit accounts, restricted assets - noncurrent, short-term loans, commercial paper, accounts payable, accounts payable to related parties, accrued expenses, current other liabilities and portion of other liabilities - others.
- 2) Fair values of financial instruments designated as at fair value through profit or loss, available-for-sale financial assets, and derivative financial assets for hedging are based on their quoted prices in an active market. If quoted market prices are not available, fair values are estimated using valuation techniques. For those instruments which are acquired in private and could not be traded in the open market, the Company calculates their fair values by the Black-Scholes model. For those derivative financial assets for hedging and with no quoted prices, the fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments. The valuation techniques are applied to the derivative financial assets by financial institutions, which calculate fair values at the expiry date of each contract.
- 3) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Thus, no fair value is presented.
- 4) Fair values of bonds payable are based on their quoted market prices.
- 5) Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. The fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 1.1281 % to 1.25% in 2011 and 0.78% to 2.167% in 2010 prevailing in the market for long-term debts.

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



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

|   | Quoted Market Prices |                | Fair Value Based on Estimates |                |
|---|----------------------|----------------|-------------------------------|----------------|
|   | December 31          |                | December 31                   |                |
|   | 2011                 | 2010           | 2011                          | 2010           |
| <u>Financial assets</u>                               |                      |                |                               |                |
| Financial assets at fair value through profit or loss | \$ 3,278,738,613     | \$ 300,031,543 | \$ 374,085,000                | \$ 373,990,000 |
| Available-for-sale financial assets                   | 96,131,011           | 117,314,587    | -                             | -              |
| Derivative financial assets for hedging               | -                    | -              | 108,667,850                   | 210,357        |
| <u>Financial liabilities</u>                          |                      |                |                               |                |
| Derivative financial liabilities for hedging          | -                    | -              | 72,400,976                    | 119,578,956    |
| Bonds issued  | 10,793,610,000       | 8,300,832,000  | 18,750,315,532                | 19,713,351,080 |
| Loans and debts                                       | -                    | -              | 87,461,638,881                | 84,430,090,884 |

- d. As of December 31, 2011 and 2010, loans, short-term bills payable, bonds payable, and capital lease obligations at fixed rate that were exposed to fair value interest rate risk, amounted to \$24,596,691,000 and \$26,044,628,000, respectively, and those at floating rate, which were exposed to cash flow interest rate risk, amounted to \$93,907,387,000 and \$90,053,050,000, respectively.
- e. The adjustments of stockholders' equity credited directly from the available-for-sale financial assets amounted to \$17,583,000 for 2011 and \$29,074,000 for 2010, respectively. As of December 31, 2010, the gain recognized and deducted from the adjustments of stockholders' equity was \$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 committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging percentage. This committee informs the Company of global economic and financial conditions, controls the entire financial risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the assistance of financial risk experts to effect risk management.

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

The Company uses derivative instruments to avoid major market risks.

The following table summarizes the aggregate contractual (notional) amounts, credit risk and fair value of the derivative financial instruments of the Company as of December 31, 2011 and 2010.

| Hedge               | December 31                   |             |                 |                               |             |                  |
|---------------------|-------------------------------|-------------|-----------------|-------------------------------|-------------|------------------|
|                     | 2011                          |             |                 | 2010                          |             |                  |
|                     | Contractual (Notional) Amount | Credit Risk | Fair Value      | Contractual (Notional) Amount | Credit Risk | Fair Value       |
| <u>The Company</u>  |                               |             |                 |                               |             |                  |
| Interest rate swaps | \$ 3,335,000,000              | \$ -        | \$ (26,577,900) | \$ 7,729,000,000              | \$ -        | \$ (100,658,695) |
| Currency options    |                               |             |                 |                               |             |                  |
| - Call              | 696,969,697                   | 4,602,140   | 4,515,794       | 87,463,557                    | 210,357     | 210,357          |
| - Put               | 696,969,697                   | 794,188     | (2,659,461)     | 87,463,557                    | -           | (775,901)        |
| Forward exchange    | 1,090,909,091                 | 9,674,025   | 8,908,414       | 364,431,487                   | -           | (18,144,360)     |
| Fuel swaps (Note)   |                               |             |                 |                               |             |                  |
| - Call              | 93,597,496                    | 93,597,496  | 93,597,496      | -                             | -           | -                |
| - Put               | 41,517,468                    | -           | (41,517,468)    | -                             | -           | -                |

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

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

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

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

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

#### b. Cash flow hedge

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

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

(Continued)

| Hedged Items              | Designated as Hedging Instruments | Financial Instruments |                      | Expected Cash Flow Period | Profit or Loss Recognition Period |
|---------------------------|-----------------------------------|-----------------------|----------------------|---------------------------|-----------------------------------|
|                           |                                   | December 31, 2011     |                      |                           |                                   |
|                           |                                   | Nominal Amount        | Fair Value           |                           |                                   |
| Fuel cost in U.S. dollars | Fuel swaps                        |                       |                      |                           |                                   |
|                           | - Call                            | \$ 93,597,496         | \$ 93,597,496        | 2011 to 2012              | 2011 to 2012                      |
|                           | - Put                             | 41,517,468            | (41,517,468)         | 2011 to 2012              | 2011 to 2012                      |
|                           |                                   |                       | <u>\$ 36,266,875</u> |                           |                                   |

(Concluded)

| Hedged Items                      | Designated as Hedging Instruments | Financial Instruments |                         | Expected Cash Flow Period | Profit or Loss Recognition Period |
|-----------------------------------|-----------------------------------|-----------------------|-------------------------|---------------------------|-----------------------------------|
|                                   |                                   | December 31, 2010     |                         |                           |                                   |
|                                   |                                   | Nominal Amount        | Fair Value              |                           |                                   |
| <u>The Company</u>                |                                   |                       |                         |                           |                                   |
| Floating-interest long-term debts | Interest rate swaps               | \$ 7,729,000,000      | \$ (100,658,695)        | 2006 to 2013              | 2006 to 2013                      |
| Fuel cost in U.S. dollars         | Currency options                  |                       |                         |                           |                                   |
|                                   | - Call                            | 87,463,557            | 210,357                 | 2010 to 2011              | 2010 to 2011                      |
|                                   | - Put                             | 87,463,557            | (775,901)               | 2010 to 2011              | 2010 to 2011                      |
| Lease cost in U.S. dollars        | Forward exchange                  | 364,431,487           | (18,144,360)            | 2010 to 2011              | 2010 to 2011                      |
|                                   |                                   |                       | <u>\$ (119,368,599)</u> |                           |                                   |

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

| Adjustment Items   | December 31    |                 |
|--|----------------|-----------------|
|  | 2011           | 2010            |
| Amount recognized in equity during the year                            | \$ 118,908,800 | \$ (58,197,522) |
| Amount removed from equity and included in profit or loss for the year | 5,162,519      | 304,891,857     |

## 26. RELATED-PARTY TRANSACTIONS

- a. The Company's related parties

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

(Continued)

| <u>Related Party</u>                  | <u>Relationship with the Company</u> |
|---------------------------------------|--------------------------------------|
| Yestrip                               | Subsidiary                           |
| Global Sky Express                    | Subsidiary                           |
| Freighter Princess Ltd.               | Subsidiary                           |
| Freighter Prince Ltd.                 | Subsidiary                           |
| Freighter Queen Ltd.                  | Subsidiary                           |
| Yangtze River Express Airlines        | Subsidiary's equity-method investee  |
| China Aviation Development Foundation | Major stockholder (39.10%)           |

(Concluded)

b. Significant transactions with related parties:

|  | <u>2011</u>             |               | <u>2010</u>             |               |
|--|-------------------------|---------------|-------------------------|---------------|
|  | <u>Amount</u>           | <u>%</u>      | <u>Amount</u>           | <u>%</u>      |
| 1) Revenues  |                         |               |                         |               |
| Mandarin Airlines                                  | \$ 1,992,992,303        | 1.51          | \$ 1,972,718,644        | 1.43          |
| Yangtze River Express Airlines                     | 413,227,934             | 0.31          | 619,348,992             | 0.45          |
| Global Sky Express                                 | 173,667,300             | 0.13          | 157,295,701             | 0.11          |
| China Aviation Development Foundation              | 43,945,387              | 0.03          | 34,287,952              | 0.03          |
| Taiwan Air Cargo Terminal                          | 16,577,041              | 0.01          | 20,072,126              | 0.01          |
| Others   | <u>56,740,885</u>       | <u>0.05</u>   | <u>55,005,001</u>       | <u>0.04</u>   |
|  | <u>\$ 2,697,150,850</u> | <u>2.04</u>   | <u>\$ 2,858,728,416</u> | <u>2.07</u>   |
| 2) Costs   |                         |               |                         |               |
| China Pacific Catering Services                    | \$ 1,022,825,052        | 0.82          | \$ 991,442,983          | 0.87          |
| Taoyuan International Airport Services             | 963,217,353             | 0.77          | 1,008,725,080           | 0.89          |
| Taiwan Airport Services                            | 357,520,529             | 0.29          | 250,887,926             | 0.22          |
| Taiwan Air Cargo Terminal                          | 273,858,674             | 0.22          | 360,212,338             | 0.32          |
| Mandarin Airlines                                  | 253,102,909             | 0.21          | 244,758,891             | 0.22          |
| Hwa Hsia   | 250,323,655             | 0.20          | 247,056,399             | 0.22          |
| Cal-Park   | 213,019,195             | 0.17          | 147,929,995             | 0.13          |
| China Aircraft Services                            | 204,948,299             | 0.16          | 203,183,035             | 0.18          |
| Kaohsiung Catering Services                        | 116,392,074             | 0.09          | 97,224,893              | 0.09          |
| Cal Hotel  | 79,955,286              | 0.06          | 70,498,832              | 0.06          |
| China Pacific Laundry Services                     | 78,817,192              | 0.06          | 71,088,462              | 0.06          |
| China Aviation Development Foundation              | 68,044,125              | 0.05          | 48,185,184              | 0.04          |
| Dynasty Holidays                                   | 56,842,650              | 0.05          | 69,352,891              | 0.06          |
| Asian Compressor Technology Services               | 48,243,448              | 0.04          | 24,879,158              | 0.02          |
| Yangtze River Express Airlines Co., Ltd.           | 47,023,485              | 0.04          | 53,161,125              | 0.05          |
| Cal-Dynasty International                          | 37,352,941              | 0.03          | 31,174,603              | 0.03          |
| Science Park Logistics                             | 27,310,453              | 0.02          | 30,130,081              | 0.02          |
| Others   | <u>10,525,919</u>       | <u>0.01</u>   | <u>11,022,618</u>       | <u>0.01</u>   |
|  | <u>\$ 4,109,323,239</u> | <u>3.29</u>   | <u>\$ 3,960,914,494</u> | <u>3.49</u>   |
|  | <b>December 31</b>      |               |                         |               |
|  | <u>2011</u>             |               | <u>2010</u>             |               |
|  | <u>Amount</u>           | <u>%</u>      | <u>Amount</u>           | <u>%</u>      |
| 3) Notes and accounts receivable - related parties |                         |               |                         |               |
| Mandarin Airlines                                  | \$ 224,039,272          | 79.22         | \$ 406,515,442          | 81.59         |
| Yangtze River Express Airlines                     | 29,123,374              | 10.30         | 53,499,398              | 10.74         |
| Yestrip  | 14,972,813              | 5.29          | 15,428,430              | 3.10          |
| Global Sky Express                                 | 7,121,113               | 2.52          | 7,493,854               | 1.50          |
| China Aviation Development Foundation              | 3,697,160               | 1.31          | 6,673,705               | 1.34          |
| Taiwan Air Cargo Terminal                          | 1,014,467               | 0.36          | 6,364,218               | 1.28          |
| Others   | <u>2,840,858</u>        | <u>1.00</u>   | <u>2,237,269</u>        | <u>0.45</u>   |
|  | <u>\$ 282,809,057</u>   | <u>100.00</u> | <u>\$ 498,212,316</u>   | <u>100.00</u> |

|  | December 31           |               |                         |               |
|--|-----------------------|---------------|-------------------------|---------------|
|  | 2011                  |               | 2010                    |               |
|  | Amount                | %             | Amount                  | %             |
| 4) Accounts payable to related parties |                       |               |                         |               |
| China Pacific Catering Services        | \$ 261,782,338        | 27.11         | \$ 242,601,525          | 22.68         |
| Taoyuan International Airport Services | 259,901,080           | 26.92         | 226,554,733             | 21.18         |
| Mandarin Airlines                      | 174,655,487           | 18.09         | 316,913,382             | 29.62         |
| Taiwan Airport Services                | 72,934,113            | 7.55          | 60,565,555              | 5.66          |
| Hwa Hsia                               | 39,299,101            | 4.07          | 35,402,794              | 3.31          |
| Taiwan Air Cargo Terminal              | 38,785,230            | 4.02          | 36,731,367              | 3.43          |
| China Aircraft Services                | 35,726,255            | 3.70          | 31,387,429              | 2.93          |
| Kaohsiung Catering Services            | 23,009,686            | 2.38          | 16,095,343              | 1.51          |
| Yangtze River Express Airlines         | 16,079,730            | 1.67          | 62,397,359              | 5.83          |
| China Pacific Laundry Services         | 13,943,715            | 1.44          | 12,949,726              | 1.21          |
| Others                                 | <u>29,477,968</u>     | <u>3.05</u>   | <u>28,258,102</u>       | <u>2.64</u>   |
|  | <u>\$ 965,594,703</u> | <u>100.00</u> | <u>\$ 1,069,857,315</u> | <u>100.00</u> |

5) Lease of properties

In December 2008, the Company rented out planes to Mandarin Airlines under an operating leasing contract. The rent received is based on this contract. The rental rate was adjusted in August 2009. As of December 31, 2011 and 2010, the monthly rentals received amounted to \$1,073,312,000 and \$741,187,000, respectively.

The Company rented planes from Mandarin Airlines under an operating lease agreement. The Company paid the rental by flight hours. The Company paid hourly flight rentals of about \$185,184,000 in 2011 and \$219,647,000 in 2010, respectively.

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. As of December 31, 2011 and 2010, the Company had paid usage rentals of about \$68,044,000 and \$48,185,000, respectively.

In March 2010, the Company signed with CAL Park a one-year renewable operating lease agreement to use the Operating and Aviation Headquarters building of the Taiwan Taoyuan International Airport at a fixed rental of \$14,793,000 monthly. The Company paid rentals of \$147,930,000 in 2010. In January 2011, the fixed rental was adjusted to \$17,752,000 monthly. The Company paid rentals of \$213,019,000 in 2011.

6) Endorsements and guarantees

|  | December 31       |                  |                   |                  |
|--|-------------------|------------------|-------------------|------------------|
|  | 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  | \$ 3,180,000,000 |
| Freighter Princess Ltd.                              | 29,519,987        | 29,519,987       | 114,271,986       | 114,271,986      |
| Freighter Prince Ltd.                                | 334,243,354       | 334,243,354      | 340,116,200       | 340,116,200      |
| Freighter Queen Ltd.                                 | 297,216,378       | 297,216,378      | 318,319,748       | 318,319,748      |
| Cal Hotel  | 180,000,000       | 146,379,000      | 180,000,000       | 167,000,000      |
| <u>Cal Asia</u>                                      |                   |                  |                   |                  |
| Taikoo Spirit Aerospace Systems (Jinjiang) Composite | 16,524,242        | 13,004,576       | 15,897,959        | -                |

As of December 31, 2011 and 2010, U.S. Treasury Bill amounting to \$660,980,000 and \$772,708,000, respectively, had been pledged as collaterals for financing lease transactions of Freighter Princess Ltd., Freighter Prince Ltd. and Freighter Queen Ltd. and were included in restricted assets - noncurrent.

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

7) Bonds payable - related parties

Related parties that invested in the first issue of private unsecured bonds in 2010 (Note 15) are summarized as follows:

| <b>Related Parties</b>                 | <b>December 31, 2011</b> |                    |
|--|--------------------------|--------------------|
|  | <b>Units</b>             | <b>Par/Dollars</b> |
| 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         |

| <b>Related Parties</b>                 | <b>December 31, 2010</b> |                    |
|--|--------------------------|--------------------|
|  | <b>Units</b>             | <b>Par/Dollars</b> |
| Taoyuan International Airport Services | 300                      | \$ 300,000,000     |
| Mandarin Airlines                      | 300                      | 300,000,000        |
| Abacus Distribution Systems (Taiwan)   | 60                       | 60,000,000         |
| China Pacific Catering Services        | 40                       | 40,000,000         |
| Hwa Hsia                               | 10                       | 10,000,000         |

As of December 31, 2011 and 2010, interest expenses were \$19,826,000 and \$12,476,000, respectively. The interest payable were \$2,454,000 each in 2011 and 2010.

c. Compensation of directors, supervisors and management personnel

|                                    | <b>December 31</b>   |                      |
|------------------------------------|----------------------|----------------------|
|                                    | <b>2011</b>          | <b>2010</b>          |
| Salaries                           | \$ 38,127,633        | \$ 35,876,618        |
| Incentive and special compensation | <u>12,111,219</u>    | <u>10,259,138</u>    |
|                                    | <u>\$ 50,238,852</u> | <u>\$ 46,135,756</u> |

## 27. PLEDGED ASSETS

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

|  | <b>December 31</b>        |                           |
|--|---------------------------|---------------------------|
|  | <b>2011</b>               | <b>2010</b>               |
| Restricted assets - noncurrent               |                           |                           |
| U.S. Treasury Bills                          | \$ 660,979,718            | \$ 772,707,934            |
| Pledged certificates of deposit              | -                         | 233,236,152               |
| Properties - land and flight equipment (net) | <u>105,573,933,044</u>    | <u>108,913,293,581</u>    |
|  | <u>\$ 106,234,912,762</u> | <u>\$ 109,919,237,667</u> |

## 28. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2011, the Company had commitments and contingent liabilities as follow:

- a. In 2009, the Securities and Futures Investors Protection Center (SFIPC) filed a civil lawsuit against Far East Air Transport Ltd. (FEAT) and its executives, directors and supervisors (natural persons) because of allegedly false financial statements for a period starting from the second quarter of 2005 to the third quarter of 2007; the filing was based on Article 20 and Article 20 - 1 of the Securities and Exchange Act; Article 23 of the Company Act; and Articles 28, 184 and 185 of the Civil Code. In this lawsuit, the SFIPC imposed joint and several liabilities on FEAT'S executives, directors, and supervisors for them to give a total compensation of \$297,061,000 to the investors of FEAT. Later, in January 2010, SFIPC included in its lawsuit the directors and supervisors who are legal persons of FEAT (including the Company), as joint defendants. As of March 23, 2012, the date of the accompanying auditors' report, there were 36 joint defendants in this lawsuit. Although the case is still under review by the Taipei District Court, the Company believes this case will have no material impact on its financial and sales operations.
- b. The Company leased certain flight equipment, hangar, and headquarters building under various operating lease agreements expiring on various dates until January 2024. Lease deposits aggregated \$9,841,485,000.

Minimum rentals for future years are summarized as follows:

| <b>Year</b> | <b>Amount</b>    |
|-------------|------------------|
| 2012        | \$ 6,162,868,808 |
| 2013        | 5,135,692,280    |
| 2014        | 4,469,489,528    |
| 2015        | 3,404,969,793    |
| 2016        | 2,611,199,219    |

Rentals from 2017 and on will aggregate \$8,681,394,000. The present value of these rentals, discounted using the discount interest rate 1.37% for one-year time deposits of Chunghwa Post Co., Ltd., is \$8,110,400,000.

- c. In January 2008, the Company entered into a contract to buy from Airbus fourteen A350-900 aircraft, with the option to buy six more A350-900 aircraft, with aggregate purchase prices of US\$3,933,235,000 and US\$1,802,645,000, respectively. As of December 31, 2011, the Company had paid about US\$119,197,000, which was included in the "prepayments for equipment" in the properties section of the balance sheets.

## 29. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

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

(Unit: Foreign Currencies/New Taiwan Dollars)

|   | 2011               |               |                    | 2010               |               |                    |
|---|--------------------|---------------|--------------------|--------------------|---------------|--------------------|
|   | Foreign Currencies | Exchange Rate | New Taiwan Dollars | Foreign Currencies | Exchange Rate | New Taiwan Dollars |
| <u>Financial assets</u>                       |                    |               |                    |                    |               |                    |
| Monetary items                                |                    |               |                    |                    |               |                    |
| USD   | \$ 123,586,016     | 30.3030       | \$ 3,745,027,050   | \$ 135,094,696     | 29.1545       | \$ 3,938,620,880   |
| EUR   | 13,462,095         | 40.4858       | 545,023,672        | 18,095,814         | 38.4615       | 695,992,857        |
| HKD   | 360,575,843        | 3.8926        | 1,403,577,527      | 351,346,381        | 3.7481        | 1,316,890,482      |
| JPY   | 1,517,912,341      | 0.3891        | 590,619,692        | 3,578,595,109      | 0.3479        | 1,245,161,833      |
| RMB   | 873,956,113        | 4.7596        | 4,159,681,517      | 1,389,090,663      | 4.3764        | 6,079,171,392      |
| Foreign operating entity                      |                    |               |                    |                    |               |                    |
| USD   | 1,317,164,584      | 30.3030       | 39,914,038,382     | 1,237,432,031      | 29.1545       | 36,076,735,586     |
| Investments accounted for using equity method |                    |               |                    |                    |               |                    |
| USD   | 47,317,520         | 30.3030       | 1,433,864,243      | 46,667,378         | 29.1545       | 1,360,564,956      |
| HKD   | 97,926,908         | 3.8926        | 381,186,876        | 96,017,771         | 3.7481        | 359,886,699        |
| JPY   | 98,362,112         | 0.3891        | 38,268,728         | 127,587,425        | 0.3479        | 44,393,676         |
| <u>Financial liabilities</u>                  |                    |               |                    |                    |               |                    |
| Monetary items                                |                    |               |                    |                    |               |                    |
| USD   | 213,553,896        | 30.3030       | 6,471,323,714      | 151,456,611        | 29.1545       | 4,415,644,622      |
| EUR   | 9,708,706          | 40.4858       | 393,064,717        | 10,308,421         | 38.4615       | 396,477,719        |
| HKD   | 59,839,143         | 3.8926        | 232,929,849        | 63,865,143         | 3.7481        | 239,374,600        |
| JPY   | 3,632,121,446      | 0.3891        | 1,413,258,455      | 5,865,642,709      | 0.3479        | 2,040,933,441      |
| RMB   | 236,237,315        | 4.7596        | 1,124,395,124      | 263,504,944        | 4.3764        | 1,153,194,505      |

## 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. SEGMENT INFORMATION**

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

## CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED  
 YEAR ENDED DECEMBER 31, 2011  
 (In New Taiwan Dollars, Unless Stated Otherwise)

| No. | Endorsement/<br>Guarantee Provider | Counter-party   |   | Limits on Each<br>Counter-party's<br>Endorsement/<br>Guarantee Amounts<br>(Note 1) | Maximum<br>Balance for the<br>Period | Ending Balance   | Value of Collaterals<br>Property, Plant, or<br>Equipment | Ratio of<br>Accumulated<br>Amount of<br>Collateral to Net<br>Equity of the Latest<br>Financial Statement<br>(%) | Maximum<br>Collateral/<br>Guarantee Amounts<br>Allowable<br>(Note 2) |
|-----|------------------------------------|---|---|--|--------------------------------------|------------------|--|---|--|
|     |                                    | Name  | Nature of Relationship                          |  |                                      |                  |  |   |  |
| 0   | China Airlines<br>(the "Company")  | Cal Park  | 100% subsidiary                                 | \$ 9,411,815,576   | \$ 3,400,000,000                     | \$ 3,400,000,000 | \$ -   | 7.22  | \$ 23,529,538,941  |
|     |                                    | Cal Hotel   | 100% subsidiary                                 | 9,411,815,576  | 180,000,000                          | 180,000,000      | -  | 0.38  | 23,529,538,941   |
|     |                                    | Freighter Princess Ltd.                                 | 100% subsidiary                                 | 9,411,815,576  | 114,942,202                          | 29,519,987       | 29,519,987   | 0.06  | 23,529,538,941   |
|     |                                    | Freighter Prince Ltd.                                   | 100% subsidiary                                 | 9,411,815,576  | 355,670,294                          | 334,243,354      | 334,243,354  | 0.71  | 23,529,538,941   |
|     |                                    | Freighter Queen Ltd.                                    | 100% subsidiary                                 | 9,411,815,576  | 299,028,673                          | 297,216,378      | 297,216,378  | 0.63  | 23,529,538,941   |
| 1   | Cal Asia                           | Taikoo Spirit Aerospace Systems<br>(Jinjiang) Composite | Investments accounted for by the<br>cost method | 76,722,055   | 16,625,000                           | 16,524,242       | -  | 4.31  | 191,805,136  |

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

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

## CHINA AIRLINES, LTD. AND INVESTEEES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 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  | December 31, 2011 |                  |                         |                                 | Note          |
|------------------------------------|---|---|--|-------------------|------------------|-------------------------|---------------------------------|---------------|
|                                    |   |   |  | Shares/Units      | Carrying Value   | Percentage of Ownership | Market Value or Net Asset Value |               |
| China Airlines (the "Company")     | <u>Stock</u>  |   |  |                   |                  |                         |                                 |               |
|                                    | Taiwan Air Cargo Terminal                                     | Subsidiary  | Investments accounted for by the equity method                     | 135,000,000       | \$ 1,613,091,139 | 54.00                   | \$ 1,613,091,139                | -             |
|                                    | Cal Park  | Subsidiary  | Investments accounted for by the equity method                     | 150,000,000       | 1,466,188,021    | 100.00                  | 1,466,188,021                   | -             |
|                                    | Mandarin Airlines   | Subsidiary  | Investments accounted for by the equity method                     | 188,154,025       | 1,150,278,944    | 93.99                   | 1,293,873,290                   | Note 1        |
|                                    | Cal-Dynasty International                                     | Subsidiary  | Investments accounted for by the equity method                     | 2,614,500         | 1,050,253,970    | 100.00                  | 1,050,253,970                   | -             |
|                                    | Taoyuan International Airport Services                        | Subsidiary  | Investments accounted for by the equity method                     | 34,300,000        | 649,302,758      | 49.00                   | 649,302,758                     | -             |
|                                    | China Pacific Catering Services                               | Subsidiary  | Investments accounted for by the equity method                     | 43,911,000        | 641,880,959      | 51.00                   | 641,880,959                     | -             |
|                                    | Abacus Distribution Systems (Taiwan)                          | Subsidiary  | Investments accounted for by the equity method                     | 13,021,042        | 410,229,241      | 93.93                   | 410,229,241                     | -             |
|                                    | Cal-Asia Investment   | Subsidiary  | Investments accounted for by the equity method                     | 45,476,200        | 383,610,273      | 100.00                  | 383,610,273                     | -             |
|                                    | China Aircraft Service  | Equity-method investees   | Investments accounted for by the equity method                     | 28,400,000        | 381,186,876      | 20.00                   | 334,429,713                     | Note 2        |
|                                    | Taiwan Airport Services                                       | Subsidiary  | Investments accounted for by the equity method                     | 20,626,644        | 332,630,056      | 47.35                   | 332,630,056                     | -             |
|                                    | Kaohsiung Catering Services                                   | Equity-method investees   | Investments accounted for by the equity method                     | 14,329,759        | 238,320,783      | 35.78                   | 239,741,119                     | Note 2        |
|                                    | Asian Compressor Technology Services                          | Equity-method investees   | Investments accounted for by the equity method                     | 7,732,200         | 230,665,809      | 24.50                   | 230,665,809                     | -             |
|                                    | Cal Hotel Co., Ltd.   | Subsidiary  | Investments accounted for by the equity method                     | 46,500,000        | 203,061,718      | 100.00                  | 203,061,718                     | -             |
|                                    | Science Park Logistics  | Equity-method investees   | Investments accounted for by the equity method                     | 13,293,000        | 177,403,739      | 28.48                   | 170,317,226                     | Note 2        |
|                                    | China Pacific Laundry Services                                | Subsidiary  | Investments accounted for by the equity method                     | 13,750,000        | 150,802,938      | 55.00                   | 150,802,938                     | -             |
|                                    | Hwa Hsia  | Subsidiary  | Investments accounted for by the equity method                     | 50,000            | 104,075,059      | 100.00                  | 114,821,867                     | Note 1        |
|                                    | Dynasty Holidays  | Subsidiary  | Investments accounted for by the equity method                     | 408               | 38,268,728       | 51.00                   | 38,268,728                      | -             |
|                                    | Yestrip   | Subsidiary  | Investments accounted for by the equity method                     | 1,600,000         | 26,609,460       | 100.00                  | 26,609,460                      | -             |
|                                    | Global Sky Express  | Subsidiary  | Investments accounted for by the equity method                     | 250,000           | 7,218,765        | 25.00                   | 7,218,765                       | -             |
|                                    | Freighter Princess Ltd.                                       | Subsidiary  | Investments accounted for by the equity method                     | 1,000             | 35,088           | 100.00                  | 35,088                          | -             |
|                                    | Freighter Prince Ltd.   | Subsidiary  | Investments accounted for by the equity method                     | 1,000             | 34,602           | 100.00                  | 34,602                          | -             |
|                                    | Freighter Queen Ltd.  | Subsidiary  | Investments accounted for by the equity method                     | 1,000             | 32,895           | 100.00                  | 32,895                          | -             |
|                                    | Hua Han Financial Holdings                                    | -   | Financial assets at fair value through profit or loss - current    | 16,790,000        | 274,516,500      | -                       | 274,516,500                     | -             |
|                                    | France Telecom  | -   | Available-for-sale - current                                       | 195,587           | 96,131,011       | -                       | 96,131,011                      | -             |
|                                    | Abacus International Holdings Ltd. - unlisted common stock    | -   | Financial assets at cost - noncurrent                              | 1,359,368         | 297,946,451      | 13.59                   | 240,641,836                     | Notes 3 and 6 |
|                                    | Abacus International Holdings Ltd. - unlisted preferred stock | -   | Financial assets at cost - noncurrent                              | 135,937           | 472,522          | -                       | -                               | Notes 3 and 6 |
|                                    | Jardine Air Terminal Services                                 | -   | Financial assets at cost - noncurrent                              | 12,000,000        | 56,022,929       | 15.00                   | 51,539,510                      | Note 5        |
|                                    | Chung Hua Express Co.   | -   | Financial assets at cost - noncurrent                              | 1,100,000         | 11,000,000       | 11.00                   | 15,734,819                      | Note 5        |
|                                    | Regal International Advertising                               | -   | Financial assets at cost - noncurrent                              | 592,500           | 5,925,000        | 6.58                    | 568,375                         | Note 5        |
|                                    | Far Eastern Air Transport                                     | -   | Financial assets at cost - noncurrent                              | 34,753,954        | -                | 5.73                    | -                               | -             |
|                                    | <u>Convertible bonds</u>                                      |   |  |                   |                  |                         |                                 |               |
|                                    | China Life Insurance Co., Ltd.                                | -   | Financial assets at fair value through profit or loss - noncurrent | 2,500             | 374,085,000      | -                       | 374,085,000                     | -             |
| <u>Beneficial certificates</u>     |   |   |  |                   |                  |                         |                                 |               |
| Mega Diamond Money Market Fund     | -   | Financial assets at fair value through profit or loss - current | 124,610,923.61   | 1,503,443,250     | -                | 1,503,443,250           | -                               |               |
| Taishin 1699 Money Market Fund     | -   | Financial assets at fair value through profit or loss - current | 69,097,779.07  | 900,420,065       | -                | 900,420,065             | -                               |               |
| Taishin Ta-Chong Money Market Fund | -   | Financial assets at fair value through profit or loss - current | 29,236,561.70  | 400,268,992       | -                | 400,268,992             | -                               |               |
| Jih Sun Money Market Fund          | -   | Financial assets at fair value through profit or loss - current | 14,032,232.04  | 200,089,806       | -                | 200,089,806             | -                               |               |

(Continued)

| Holding Company Name                   | Marketable Securities Type and Issuer/Name                                     | Relationship with the Holding Company | Financial Statement Account                                     | December 31, 2011 |                |                         |                                 | Note          |
|--|--|---------------------------------------|---|-------------------|----------------|-------------------------|---------------------------------|---------------|
|  |  |                                       |   | Shares/Units      | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value |               |
| Taiwan Air Cargo Terminal              | <u>Beneficial certificates</u><br>Jih Sun Money Market Fund                    | -                                     | Financial assets at fair value through profit or loss - current | 1,982,004.91      | \$ 28,262,003  | -                       | \$ 28,262,003                   | -             |
|  | Capital Money Market Fund  | -                                     | Financial assets at fair value through profit or loss - current | 673,535.20        | 10,475,493     | -                       | 10,475,493                      | -             |
|  | Taishin 1699 Money Market Fund   | -                                     | Financial assets at fair value through profit or loss - current | 6,152,710.27      | 80,176,583     | -                       | 80,176,583                      | -             |
|  | Taishin Ta-Chong Money Market Fund   | -                                     | Financial assets at fair value through profit or loss - current | 5,836,344.00      | 80,177,449     | -                       | 80,177,449                      | -             |
|  | Mega Diamond Money Market Fund   | -                                     | Financial assets at fair value through profit or loss - current | 6,672,869.81      | 80,508,842     | -                       | 80,508,842                      | -             |
| Mandarin Airlines                      | <u>Stock</u><br>China Airlines   | Parent company                        | Available-for-sale financial asset - current                    | 2,074,628         | 27,385,090     | -                       | 27,385,090                      | -             |
|  | France Telecom   | -                                     | Available-for-sale financial asset - current                    | 8,274             | 4,066,654      | -                       | 4,066,654                       | -             |
|  | <u>Bond</u><br>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                     | -             |
| Taoyuan International Airport Services | <u>Stock</u><br>Taiwan Air Cargo Terminal                                      | Controlled by China Airlines          | Financial assets carried at cost - noncurrent                   | 6,250,000         | 62,250,000     | 2.50                    | 76,680,145                      | -             |
|  | <u>Bond</u><br>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                     | -             |
| China Pacific Catering Services        | <u>Beneficial certificates</u><br>JF (Taiwan) Taiwan Money Market Fund         | -                                     | Available-for-sale financial asset - current                    | 6,737,862.10      | 107,070,532    | -                       | 107,143,462                     | -             |
|  | HSBC NTD Money Market Fund II  | -                                     | Available-for-sale financial asset - current                    | 5,854,079.10      | 85,610,638     | -                       | 85,610,638                      | -             |
|  | FSITC Money Market Fund  | -                                     | Available-for-sale financial asset - current                    | 570,573.99        | 98,174,102     | -                       | 98,174,102                      | -             |
|  | Yuanta Wan Tai Money Market Fund   | -                                     | Available-for-sale financial asset - current                    | 2,054,105.10      | 30,002,465     | -                       | 30,002,465                      | -             |
|  | <u>Bond</u><br>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                      | -             |
| Abacus Distribution Systems (Taiwan)   | <u>Beneficial certificates</u><br>Mirae Asset Solomon Money Market Fund        | -                                     | Financial assets at fair value through profit or loss - current | 265,726.48        | 3,235,644      | -                       | 3,235,644                       | -             |
|  | FSITC Taiwan Money Market Fund   | -                                     | Financial assets at fair value through profit or loss - current | 2,443,018.80      | 36,005,375     | -                       | 36,005,375                      | -             |
|  | PCA Well Pool Money Market Fund  | -                                     | Financial assets at fair value through profit or loss - current | 1,606,232.60      | 21,054,451     | -                       | 21,054,451                      | -             |
|  | Taishin 1699 Money Market Fund   | -                                     | Financial assets at fair value through profit or loss - current | 3,093,687.15      | 40,314,018     | -                       | 40,314,018                      | -             |
|  | Taishin Ta-Chong Money Market Fund   | -                                     | Financial assets at fair value through profit or loss - current | 1,917,956.20      | 26,258,161     | -                       | 26,258,161                      | -             |
|  | Yuanta Wan Tai Money Market Fund   | -                                     | Financial assets at fair value through profit or loss - current | 2,264,653.80      | 33,077,678     | -                       | 33,077,678                      | -             |
|  | Mega Diamond Money Market Fund   | -                                     | Financial assets at fair value through profit or loss - current | 3,661,438.47      | 44,175,535     | -                       | 44,175,535                      | -             |
|  | <u>Bond</u><br>First Issue of Private Unsecured Bonds in 2010 - China Airlines | Parent company                        | Bond investments with no active market - noncurrent             | 60                | 60,000,000     | -                       | 60,000,000                      | -             |
| Cal-Asia Investment                    | <u>Stock</u><br>Xiamen International Airport Air Cargo Terminal                | Equity-method investees               | Investments accounted for by the equity method                  | -                 | 216,039,848    | 14.00                   | 214,110,868                     | Notes 2 and 4 |
|  | Xiamen International Airport Air Cargo Storage                                 | Equity-method investees               | Investments accounted for by the equity method                  | -                 | 84,477,697     | 14.00                   | 36,973,028                      | Notes 2 and 4 |

(Continued)

| Holding Company Name             | Marketable Securities Type and Issuer/Name                      | Relationship with the Holding Company                           | Financial Statement Account                                     | December 31, 2011 |                |                         |                                 | Note          |
|----------------------------------|---|---|---|-------------------|----------------|-------------------------|---------------------------------|---------------|
|                                  |   |   |   | Shares/Units      | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value |               |
| Taiwan Airport Services          | Eastern United International Logistics                          | Equity-method investees   | Investments accounted for by the equity method                  | 1,050,000         | \$ 22,694,515  | 35.00                   | \$ 26,841,481                   | -             |
|                                  | Yangtze River Express Airlines                                  | Equity-method investees   | Investments accounted for by the equity method                  | -                 | -              | 25.00                   | (1,444,341,234)                 | Note 4        |
|                                  | Taikoo (Xiamen) Landing Gear Services                           | -   | Financial assets carried at cost - noncurrent                   | -                 | 33,672,727     | 8.00                    | 4,781,715                       | -             |
|                                  | Taikoo Spirit Aerospace Systems (Jinjiang) Composite            | -   | Financial assets carried at cost - noncurrent                   | -                 | 19,272,727     | 5.45                    | 11,659,377                      | -             |
|                                  | <u>Stock</u>  |   |   |                   |                |                         |                                 |               |
|                                  | TransAsia Airways   | -   | Available-for-sale financial asset - noncurrent                 | 2,265,182         | 41,339,572     | 0.40                    | 41,339,572                      | -             |
|                                  | Taiwan Airport Service (Samoa)                                  | Subsidiary  | Investments accounted for by the equity method                  | -                 | 298,909,923    | 100.00                  | 298,909,923                     | Note 4        |
|                                  | Titan V.C. Corp.  | -   | Financial assets carried at cost - noncurrent                   | 1,448,171         | 2,065,210      | 0.30                    | 8,095,276                       | Note 5        |
|                                  | Taiwan Air Cargo Terminal                                       | Controlled by China Airlines                                    | Financial assets carried at cost - noncurrent                   | 6,250,000         | 62,500,000     | 2.50                    | 74,680,145                      | -             |
|                                  | <u>Beneficial certificates</u>                                  |   |   |                   |                |                         |                                 |               |
|                                  | Fuh-Hwa Money Market Fund                                       | -   | Financial assets at fair value through profit or loss - current | 123,426.20        | 1,722,055      | -                       | 1,722,055                       | -             |
|                                  | Prudential Financial Global Small & Mid cap Fund                | -   | Financial assets at fair value through profit or loss - current | 84,320.00         | 2,108,843      | -                       | 2,108,843                       | -             |
|                                  | Prudential Financial High-Tech Fund                             | -   | Financial assets at fair value through profit or loss - current | 118,970.00        | 1,664,390      | -                       | 1,664,390                       | -             |
|                                  | Prudential Financial Taiwan Enterprise Fund                     | -   | Financial assets at fair value through profit or loss - current | 55,300.00         | 1,091,069      | -                       | 1,091,069                       | -             |
|                                  | Taishin 1699 Money Market Fund                                  | -   | Financial assets at fair value through profit or loss - current | 3,317,355.41      | 43,228,790     | -                       | 43,228,790                      | -             |
|                                  | Taishin Ta-Chong Money Market Fund                              | -   | Financial assets at fair value through profit or loss - current | 295,966.90        | 4,051,994      | -                       | 4,051,994                       | -             |
|                                  | Capital Money Market Fund                                       | -   | Financial assets at fair value through profit or loss - current | 1,032,795.70      | 16,063,072     | -                       | 16,063,072                      | -             |
| Mega Diamond Money Market Fund   | -   | Financial assets at fair value through profit or loss - current | 3,201,783.50  | 38,629,838        | -              | 38,629,838              | -                               |               |
| Union Money Market Fund          | -   | Financial assets at fair value through profit or loss - current | 867,131.76  | 11,044,657        | -              | 11,044,657              | -                               |               |
| Jih Sun Money Market Fund        | -   | Financial assets at fair value through profit or loss - current | 492,164.05  | 7,017,915         | -              | 7,017,915               | -                               |               |
| Yuanta Wan Tai Money Market Fund | -   | Financial assets at fair value through profit or loss - current | 892,918.50  | 13,042,057        | -              | 13,042,057              | -                               |               |
| Hwa Hsia                         | <u>Stock</u>  |   |   |                   |                |                         |                                 |               |
|                                  | Hwa Shin Building Safeguard                                     | Subsidiary  | Investments accounted for by the equity method                  | 1,000,000         | 16,710,036     | 100.00                  | 16,710,036                      | Note 5        |
|                                  | China Airlines  | Parent company  | Available-for-sale financial asset - current                    | 814,152           | 10,746,806     | -                       | 10,746,806                      | -             |
|                                  | <u>Beneficial certificates</u>                                  |   |   |                   |                |                         |                                 |               |
|                                  | Taishin Ta-Chong Money Market Fund                              | -   | Financial assets at fair value through profit or loss - current | 1,404,287.30      | 19,225,676     | -                       | 19,225,676                      | -             |
|                                  | Taishin 1699 Money Market Fund                                  | -   | Financial assets at fair value through profit or loss - current | 349,522.71        | 4,554,666      | -                       | 4,554,666                       | -             |
| Yuanta Wan Tai Money Market Fund | -   | Financial assets at fair value through profit or loss - current | 200,00.00   | 1,623,600         | -              | 1,623,600               | -                               |               |
| Taiwan Airport Service (Samoa)   | <u>Bond</u>   |   |   |                   |                |                         |                                 |               |
|                                  | First Issue of Private Unsecured Bonds in 2010 - China Airlines | Parent company  | Bond investments with no active market - noncurrent             | 10                | 10,000,000     | -                       | 10,000,000                      | -             |
|                                  | <u>Stock</u>  |   |   |                   |                |                         |                                 |               |
|                                  | Xiamen International Airport Air Cargo Terminal                 | Equity-method investees   | Investments accounted for by the equity method                  | -                 | 214,900,970    | 14.00                   | 214,110,868                     | Notes 2 and 4 |
|                                  | Xiamen International Airport Air Cargo Storage                  | Equity-method investees   | Investments accounted for by the equity method                  | -                 | 83,984,636     | 14.00                   | 36,973,028                      | 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.

(Continued)

Note 3: The subsidiary's net asset value was \$240,641,836, which included common stock and preferred stock as of and for the year ended December 31, 2011.

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

Note 5: The net asset value was calculated using the investee's unaudited financial statements as of and for the year ended December 31, 2011 because the audited financial statements were not prepared on time.

Note 6: 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 audited financial statements were not prepared on time.

Note 7: 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 audited financial statements were not prepared on time.

(Concluded)

## CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 YEAR ENDED DECEMBER 31, 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 (Note) |                  | Disposal       |                    |                  | Gain (Loss) on Disposal | Ending Balance |                  |   |
|---------------------------|---|---|---------------|------------------------|-------------------|---------------|--------------------|------------------|----------------|--------------------|------------------|-------------------------|----------------|------------------|---|
|                           |   |   |               |                        | Shares/Units      | Amount        | Shares/Units       | Amount           | Shares/Units   | Amount             | Carrying Value   |                         | Shares/Units   | Amount           |   |
| China Airlines            | Beneficial certificates<br>Mega Diamond Money Market Fund | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | 216,275,245.46     | \$ 2,603,443,250 | 91,664,321.85  | \$1,101,195,585.00 | \$ 1,100,000,000 | \$ 1,195,585            | 124,610,923.61 | \$ 1,503,443,250 |   |
|                           | Taishin 1699 Money Market Fund                            | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | 184,817,192.75     | 2,400,420,065    | 115,719,413.68 | 1,502,064,178.00   | 1,500,000,000    | 2,064,178               | 69,097,779.07  | 900,420,065      |   |
|                           | Taishin Ta-Chong Money Market Fund                        | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | 135,633,642.90     | 1,850,268,992    | 106,397,081.20 | 1,451,066,122.28   | 1,450,000,000    | 1,066,122               | 29,236,561.70  | 400,268,992      |   |
|                           | Jih Sun Money Market Fund                                 | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | 42,234,134.25      | 600,089,806      | 28,201,902.21  | 400,093,032.00     | 400,000,000      | 93,032                  | 14,032,232.04  | 200,089,806      |   |
|                           | Fubon Chi-Hsiang Money Market Fund                        | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | 9,965,916.60  | 150,000,000.00     | 36,496,444.50    | 550,000,000    | 36,496,444.50      | 550,083,961.00   | 550,000,000             | 83,961         | -                | - |
|                           | Union Money Market Fund                                   | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | 11,853,116.18 | 150,000,000.00     | 67,079,081.03    | 850,000,000    | 67,079,081.03      | 850,623,839.00   | 850,000,000             | 623,839        | -                | - |
|                           | ING Money Market Fund                                     | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 12,784,045.51    | 200,000,000    | 12,784,045.51      | 200,048,579.00   | 200,000,000             | 48,579         | -                | - |
|                           | Taishin Lucky Money Market Fund                           | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 93,628,512.00    | 1,000,000,000  | 93,628,512.00      | 1,000,759,773.00 | 1,000,000,000           | 759,773        | -                | - |
|                           | Polaris De-Bao Money Market Fund                          | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 17,362,467.60    | 200,000,000    | 17,362,467.60      | 200,024,308.00   | 200,000,000             | 24,308         | -                | - |
|                           | TIIM Money Market Fund                                    | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 13,805,957.27    | 200,000,000    | 13,805,957.27      | 200,020,709.00   | 200,000,000             | 20,709         | -                | - |
|                           | Prudential Financial Money Market Fund                    | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 13,172,106.70    | 200,000,000    | 13,172,106.70      | 200,017,123.00   | 200,000,000             | 17,123         | -                | - |
|                           | FSITC Taiwan Money Market Fund                            | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 20,445,856.00    | 300,000,000    | 20,445,856.00      | 300,114,497.00   | 300,000,000             | 114,497        | -                | - |
|                           | FSITC Money Market Fund                                   | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 2,338,702.74     | 400,000,000    | 2,338,702.74       | 400,105,243.00   | 400,000,000             | 105,243        | -                | - |
|                           | KGI Victory Money Market Fund                             | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 8,992,401.42     | 100,000,000    | 8,992,401.42       | 100,008,992.00   | 100,000,000             | 8,992          | -                | - |
|                           | Fuh-Hwa Money Market Fund                                 | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 14,396,775.10    | 200,000,000    | 14,396,775.10      | 200,044,630.00   | 200,000,000             | 44,630         | -                | - |
|                           | TIIM Money Market Fund                                    | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 82,699,002.39    | 1,200,000,000  | 82,699,002.39      | 1,201,169,175.00 | 1,200,000,000           | 1,169,175      | -                | - |
|                           | The RSIT Enhanced Money Market Fund                       | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 30,497,445.58    | 350,000,000    | 30,497,445.58      | 350,072,823.00   | 350,000,000             | 72,823         | -                | - |
|                           | JF (Taiwan) Taiwan First Money Market Fund                | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | -                  | 6,860,357.40     | 100,000,000    | 6,860,357.40       | 100,007,546.00   | 100,000,000             | 7,546          | -                | - |
| Taiwan Air Cargo Terminal | Beneficial certificates<br>Mega Diamond Money Market Fund | Financial assets at fair value through profit or loss - current | -             | -                      | 8,372,069.17      | 100,321,667   | 9,173,057.32       | 110,187,175      | 10,872,256.68  | 130,994,414.00     | 130,000,000      | 994,414                 | 6,672,869.81   | 80,508,842       |   |
|                           | Taishin Ta-Chong Money Market Fund                        | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | 11,712,688.00      | 160,177,449      | 5,856,344.00   | 80,175,692.00      | 80,000,000       | 175,692                 | 5,856,344.00   | 80,177,449       |   |
|                           | Taishin 1699 Money Market Fund                            | Financial assets at fair value through profit or loss - current | -             | -                      | -                 | -             | 15,378,514.07      | 200,176,583      | 9,225,803.80   | 120,220,526.00     | 120,000,000      | 220,526                 | 6,152,710.27   | 80,176,583       |   |

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

## CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 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/<br>Sale   | Amount          | % to<br>Total | Payment Terms | Unit Price           | Payment Terms | Ending Balance                     | % to<br>Total |         |   |
| China Airlines, Ltd. ("China Airlines") | Taiwan Air Cargo Terminal              | Subsidiary  | Purchase            | \$ 273,858,674  | 0.22          | 30 days       | \$ -                 | -             | \$ (38,785,230)                    | (2.58)        | -       |   |
|   | Cal Park                               | Subsidiary  | Purchase            | 213,019,195     | 0.17          | 2 months      | -                    | -             | -                                  | -             | -       |   |
|   | Mandarin Airlines                      | Subsidiary  | Sale                | (1,992,992,303) | (1.51)        | 2 months      | -                    | -             | 224,039,272                        | 2.23          | -       |   |
|   |  |   |                     | Purchase        | 253,102,909   | 0.20          | 2 months             | -             | -                                  | (174,655,487) | (11.63) | - |
|   | Taoyuan International Airport Services | Subsidiary  | Purchase            | 963,217,353     | 0.77          | 40 days       | -                    | -             | (259,901,080)                      | (17.30)       | -       |   |
|   | China Pacific Catering Services        | Subsidiary  | Purchase            | 1,022,825,052   | 0.82          | 60 days       | -                    | -             | (261,782,338)                      | (17.43)       | -       |   |
|   | Taiwan Airport Services                | Subsidiary  | Purchase            | 357,520,529     | 0.29          | 40 days       | -                    | -             | (72,934,113)                       | (4.86)        | -       |   |
|   | China Aircraft Services                | Equity-method investee                            | Purchase            | 204,948,299     | 0.16          | 30 days       | -                    | -             | (35,726,255)                       | (2.38)        | -       |   |
|   | Hwa Hsia                               | Subsidiary  | Purchase            | 250,323,655     | 0.20          | 2 months      | -                    | -             | (39,299,101)                       | (2.62)        | -       |   |
|   | Yangtze River Express Airlines         | Subsidiary's equity-method investee               | Sale                | (413,227,934)   | (0.31)        | 2 months      | -                    | -             | 29,123,274                         | 0.29          | -       |   |
| Taiwan Air Cargo Terminal               | China Airlines                         | Parent company                                    | Sale                | (273,858,674)   | (19.30)       | 30 days       | -                    | -             | 38,785,230                         | 45.31         | -       |   |
| Cal Park                                | China Airlines                         | Parent company                                    | Sale                | (213,019,195)   | (72.16)       | 2 months      | -                    | -             | -                                  | -             | -       |   |
| Mandarin Airlines                       | China Airlines                         | Parent company                                    | Purchase            | 1,992,992,303   | 32.31         | 2 months      | -                    | -             | (224,039,272)                      | (68.25)       | -       |   |
|   |  |   | Sale                | (253,102,909)   | (3.64)        | 2 months      | -                    | -             | 174,655,487                        | 59.25         | -       |   |
| Taoyuan International Airport Services  | China Airlines                         | Parent company                                    | Sale                | (963,217,353)   | (42.44)       | 30 days       | -                    | -             | 259,901,080                        | 63.33         | -       |   |
| China Pacific Catering Services         | China Airlines                         | Parent company                                    | Sale                | (1,022,825,052) | (58.79)       | 60 days       | -                    | -             | 261,782,338                        | 69.72         | -       |   |
| Taiwan Airport Services                 | China Airlines                         | Parent company                                    | Sale                | (357,520,529)   | (40.23)       | 45 days       | -                    | -             | 72,934,113                         | 46.99         | -       |   |
| China Aircraft Services                 | China Airlines                         | Investor using equity method                      | Sale                | (204,948,299)   | (17.20)       | 30 days       | -                    | -             | 35,726,255                         | 16.24         | -       |   |
| Hwa Hsia                                | China Airlines                         | Parent company                                    | Sale                | (250,323,655)   | (83.49)       | 2 months      | -                    | -             | 39,299,101                         | 86.11         | -       |   |
| Yangtze River Express Airlines          | China Airlines                         | Parent company of stockholder using equity-method | Purchase            | 413,227,934     | 5.10          | 2 months      | -                    | -             | (29,123,274)                       | (0.81)        | -       |   |



**CHINA AIRLINES, LTD. AND INVESTEES**

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

**DECEMBER 31, 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             | \$ 224,039,272 | 6.32          | \$ -    | -            | \$ 114,307,629                        | \$ -                    |
| Mandarin Airlines                       | China Airlines    | Parent company         | 174,655,487    | 1.03          | -       | -            | 138,021,067                           | -                       |
| Taoyuan International Airport Services  | China Airlines    | Parent company         | 259,901,080    | 3.96          | -       | -            | 154,377,100                           | -                       |
| China Pacific Catering Services         | China Airlines    | Parent company         | 261,782,338    | 4.06          | -       | -            | 176,662,395                           | -                       |

## CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
YEAR ENDED DECEMBER 31, 2011  
(In New Taiwan Dollars, Unless Stated Otherwise)

| Investor Company                       | Investee Company                                | Location                                | Main Businesses and Products   | Investment Amount |                   | Balance as of December 31, 2011 |                         |                  | Net Income (Loss) of the Investee | Investment Income (Loss) | Note   |
|--|---|---|--|-------------------|-------------------|---------------------------------|-------------------------|------------------|-----------------------------------|--------------------------|--------|
|  |   |   |  | December 31, 2011 | December 31, 2010 | Shares                          | Percentage of Ownership | Carrying Value   |                                   |                          |        |
| China Airlines, Ltd.                   | Taiwan Air Cargo Terminal                       | Taoyuan, Taiwan                         | Air cargo and storage  | \$ 1,350,000,000  | \$ 1,350,000,000  | 135,000,000                     | 54.00                   | \$ 1,613,091,139 | \$ (67,050,254)                   | \$ (36,207,137)          | -      |
|  | Cal Park  | Taoyuan, Taiwan                         | Real estate lease and international trade  | 1,500,000,000     | 1,500,000,000     | 150,000,000                     | 100.00                  | 1,466,188,021    | 8,774,261                         | 8,774,261                | -      |
|  | Mandarin Airlines                               | Taipei, Taiwan                          | Air transportation and maintenance of aircraft                                       | 2,042,368,252     | 2,042,368,252     | 188,154,025                     | 93.99                   | 1,150,278,944    | 120,183,243                       | 145,592,245              | Note 1 |
|  | Cal-Dynasty International                       | Los Angeles, U.S.A.                     | A holding company, real estate and hotel services                                    | US\$ 26,145,000   | US\$ 26,145,000   | 2,614,500                       | 100.00                  | 1,050,253,970    | 1,079,501                         | 1,079,501                | Note 2 |
|  | Taoyuan International Airport Services          | Taoyuan, Taiwan                         | Airport services   | 147,000,000       | 147,000,000       | 34,300,000                      | 49.00                   | 649,302,758      | 46,199,412                        | 22,637,711               | -      |
|  | China Pacific Catering Services                 | Taoyuan, Taiwan                         | In-flight catering   | 439,110,000       | 439,110,000       | 43,911,000                      | 51.00                   | 641,880,959      | 221,949,490                       | 113,194,240              | -      |
|  | Abacus Distribution System (Taiwan)             | Taipei, Taiwan                          | Sale and maintenance of hardware and software  | 52,200,000        | 52,200,000        | 13,021,042                      | 93.93                   | 410,229,241      | 140,929,391                       | 132,381,857              | -      |
|  | Cal-Asia Investment                             | Territory of the British Virgin Islands | General investment   | US\$ 45,476,200   | US\$ 45,476,200   | 45,476,200                      | 100.00                  | 383,610,273      | 29,585,706                        | 29,585,706               | -      |
|  | China Aircraft Service                          | Hong Kong International Airport         | Airport services   | HK\$ 58,000,000   | HK\$ 58,000,000   | 28,400,000                      | 20.00                   | 381,186,876      | 79,631,989                        | 15,926,399               | -      |
|  | Taiwan Airport Services                         | Taipei, Taiwan                          | Airport services   | 12,289,100        | 12,289,100        | 20,626,644                      | 47.35                   | 332,630,056      | 94,154,330                        | 44,584,201               | -      |
|  | Kaohsiung Catering Services                     | Kaohsiung, Taiwan                       | In-flight catering   | 140,240,221       | 140,240,221       | 14,329,759                      | 35.78                   | 238,320,783      | 161,860,900                       | 57,913,301               | -      |
|  | Asian Compressor Technology Services            | Taoyuan, Taiwan                         | Research, manufacture and maintenance of engines                                     | 77,322,000        | 77,322,000        | 7,732,200                       | 24.50                   | 230,665,809      | 439,310,240                       | 107,631,009              | -      |
|  | Cal Hotel Co., Ltd.                             | Taoyuan, Taiwan                         | Hotel business   | 465,000,000       | 265,000,000       | 46,500,000                      | 100.00                  | 203,061,718      | (45,243,343)                      | (45,243,343)             | -      |
|  | Science Park Logistics                          | Tainan, Taiwan                          | Storage and customs of services  | 150,654,000       | 150,654,000       | 13,293,000                      | 28.48                   | 177,403,739      | 55,556,000                        | 15,825,126               | -      |
|  | China Pacific Laundry Services                  | Taoyuan, Taiwan                         | Cleaning and leasing of the towel of airlines, hotels, restaurants, and health clubs | 137,500,000       | 137,500,000       | 13,750,000                      | 55.00                   | 150,802,938      | 39,789,221                        | 21,884,072               | -      |
|  | Hwa Hsia  | Taoyuan, Taiwan                         | Cleaning of aircraft and maintenance of machine and equipment                        | 50,000,000        | 50,000,000        | 50,000                          | 100.00                  | 104,075,059      | 25,680,381                        | 25,354,720               | Note 1 |
|  | Dynasty Holidays                                | Tokyo, Japan                            | Travel business  | JPY 20,400,000    | JPY 20,400,000    | 408                             | 51.00                   | 38,268,728       | (10,055,440)                      | (5,128,274)              | -      |
|  | Yestrip   | Taipei, Taiwan                          | Travel business  | 26,264,643        | 36,264,643        | 1,600,000                       | 100.00                  | 26,609,460       | 5,314,288                         | 5,314,288                | -      |
|  | Global Sky Express                              | Taipei, Taiwan                          | Forwarding and storage of air cargo  | 2,500,000         | 2,500,000         | 250,000                         | 25.00                   | 7,218,765        | 5,865,020                         | 1,466,255                | -      |
|  | Freighter Princess Ltd.                         | Cayman Islands                          | Aircraft lease   | US\$ 1,000        | US\$ 1,000        | 1,000                           | 100.00                  | 35,088           | -                                 | -                        | -      |
| Freighter Prince Ltd.                  | Cayman Islands                                  | Aircraft lease                          | US\$ 1,000   | US\$ 1,000        | 1,000             | 100.00                          | 34,602                  | -                | -                                 | -                        |        |
| Freighter Queen Ltd.                   | Cayman Islands                                  | Aircraft lease                          | US\$ 1,000   | US\$ 1,000        | 1,000             | 100.00                          | 32,895                  | -                | -                                 | -                        |        |
| Taoyuan International Airport Services | Tao Yao   | Taoyuan, Taiwan                         | Manpower placement and machine installation  | -                 | 10,000,000        | -                               | -                       | -                | 150,892                           | 151,964                  | -      |
| Cal-Asia Investment                    | Xiamen International Airport Air Cargo Terminal | Xiamen International Airport            | Forwarding and storage of air cargo  | US\$ 4,117,846    | US\$ 4,117,846    | -                               | 14.00                   | 216,039,848      | 120,961,616                       | 16,934,647               | Note 4 |
|  | Xiamen International Airport Air Cargo Storage  | Xiamen International Airport            | Forwarding and storage of air cargo  | US\$ 1,947,441    | US\$ 1,947,441    | -                               | 14.00                   | 84,477,697       | 69,241,226                        | 9,693,794                | Note 4 |
|  | Eastern United International Logistics          | Hong Kong                               | Forwarding and storage of air cargo  | HK\$ 3,329,268    | HK\$ 3,329,268    | 1,050,000                       | 35.00                   | 22,694,515       | 11,947,607                        | 4,785,939                | Note 5 |
| Yangtze River Express Airlines         | Shanghai, China                                 | Forwarding and storage of air cargo     | US\$ 38,796,173  | US\$ 38,796,173   | -                 | 25.00                           | -                       | (2,097,732,469)  | -                                 | Notes 3 and 4            |        |
| Taiwan Airport Services                | Taiwan Airport Service (Samoa)                  | Samoa                                   | Airport services and investment  | US\$ 5,876,976    | US\$ 5,876,976    | -                               | 100.00                  | 298,909,923      | 27,985,427                        | 27,985,427               | Note 4 |
| Hwa Hsia                               | Hwa Shin Building Safeguard                     | Taoyuan, Taiwan                         | Building security and maintenance services   | 10,000,000        | 10,000,000        | 1,000,000                       | 100.00                  | 16,710,036       | 4,729,683                         | 5,150,705                | -      |
| Taiwan Airport Service (Samoa)         | Xiamen International Airport Air Cargo Terminal | Xiamen International Airport            | Forwarding and storage of air cargo  | US\$ 3,950,226    | US\$ 3,950,226    | -                               | 14.00                   | 214,900,970      | 120,961,836                       | 16,934,657               | Note 4 |
|  | Xiamen International Airport Air Cargo Storage  | Xiamen International Airport            | Forwarding and storage of air cargo  | US\$ 1,926,750    | US\$ 1,926,750    | -                               | 14.00                   | 83,984,636       | 69,241,351                        | 9,693,789                | Note 4 |

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

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

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

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

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

## CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENT IN MAINLAND CHINA  
 YEAR ENDED DECEMBER 31, 2011  
 (In New Taiwan Dollars, Unless Stated Otherwise)

| Investee Company Name                          | Main Businesses and Products              | Total Amount of Paid-in Capital       | Investment Type      | Accumulated Outflow of Investment from Taiwan as of January 1, 2011 | Investment Flows            |        | Accumulated Outflow of Investment from Taiwan as of December 31, 2011 | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 4) | Carrying Value as of December 31, 2011 | Accumulated Inward Remittance of Earnings as of December 31, 2011 |
|--|---|---------------------------------------|----------------------|---|-----------------------------|--------|---|--|---------------------------------|--|---|
|  |   |                                       |                      |   | Outflow                     | Inflow |   |  |                                 |  |   |
| Xiamen International Air Cargo Terminal        | Forwarding and storage of air cargo       | \$ 1,068,443,598<br>(RMB 224,480,000) | Indirect<br>(Note 1) | \$ 124,783,212<br>(US\$ 4,117,846)                                  | \$ -                        | \$ -   | \$ 124,783,212<br>(US\$ 4,117,846)                                    | 14.00%                                       | \$ 16,934,647<br>(US\$ 575,778) | \$ 216,039,848<br>(US\$ 7,129,315)     | \$ 55,524,000<br>(US\$1,887,816)<br>(Note 5)                      |
| Xiamen International Airport Air Cargo Storage | Forwarding and storage of air cargo       | 66,634,936<br>(RMB 14,000,000)        | Indirect<br>(Note 1) | 59,013,364<br>(US\$ 1,947,441)                                      | -                           | -      | 59,013,364<br>(US\$ 1,947,441)  | 14.00%                                       | 9,693,794<br>(US\$ 329,589)     | 84,477,697<br>(US\$ 2,787,764)         | -   |
| Taikoo (Xiamen) Landing Gear Services          | Maintenance services of landing gear      | 420,909,091<br>(US\$ 13,890,000)      | Indirect<br>(Note 1) | 33,672,727<br>(US\$ 1,111,200)                                      | -                           | -      | 33,672,727<br>(US\$ 1,111,200)  | 8.00%  | -                               | 33,672,727<br>(US\$ 1,111,200)         | -   |
| Taikoo Spirit Aerospace Systems (Jinjang)      | Composite material                        | 393,534,127<br>(RMB 82,681,520)       | Indirect<br>(Note 1) | 19,272,727<br>(US\$ 636,000)  | -                           | -      | 19,272,727<br>(US\$ 636,000)  | 5.45%  | -                               | 19,272,727<br>(US\$ 636,000)           | -   |
| Yangtze River Express Airlines                 | Forwarding and storage of air cargo       | 2,379,819,134<br>(RMB 500,000,000)    | Indirect<br>(Note 1) | 1,175,641,606<br>(US\$ 38,796,173)                                  | -                           | -      | 1,175,641,606<br>(US\$ 38,796,173)                                    | 25.00%                                       | -                               | -                                      | -   |
| Shanghai Eastern Aircraft Maintenance          | Aircraft line maintenance                 | 93,939,934<br>(US\$ 3,100,000)        | Indirect<br>(Note 2) | -   | 7,515,152<br>(US\$ 248,000) | -      | 7,515,152<br>(US\$ 248,000)   | 8.00%  | -                               | 7,515,152<br>(US\$ 248,000)            | -   |
| Shanghai Eastern United International          | Forwarding of air cargo and ocean freight | 30,303,030<br>(US\$ 1,000,000)        | Indirect<br>(Note 3) | -   | 5,196,970<br>(US\$ 171,500) | -      | 5,196,970<br>(US\$ 171,500)   | 17.15%                                       | -                               | 5,196,970<br>(US\$ 171,500)            | -   |

| Accumulated Investment in Mainland China as of December 31, 2011 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|---------------------------|
| \$1,425,095,758 (US\$47,028,160)                                 | \$1,430,471,909 (Note 6)                                     | \$28,235,446,729 (Note 7) |

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

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

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

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

(Continued)

Note 5: The inward remittance of earnings in 2011 amounted to US\$1,887,816.

Note 6: The amount comprised US\$45,995,573 and NT\$36,666,667.

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

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

(Concluded)