

China Airlines, Ltd.

**Financial Statements for the
Six Months Ended June 30, 2010 and 2009 and
Independent Auditors' Report**

CHINA AIRLINES, LTD.

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Balance Sheets	2
Statements of Income	3-4
Statements of Changes in Stockholders' Equity	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-50

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of China Airlines, Ltd. as of June 30, 2010 and 2009 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of June 30, 2010 and 2009 and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of China Airlines, Ltd. and its subsidiaries as of and for the six months ended June 30, 2010 and 2009 on which we have issued unqualified opinions in our reports dated August 12, 2010.

August 12, 2010

Notice to Readers

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

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

CHINA AIRLINES, LTD.

BALANCE SHEETS
JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

ASSETS	2010		2009	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 3)	\$ 10,729,335	5	\$ 3,166,465	2
Financial assets at fair value through profit or loss - current (Notes 2, 4 and 23)	1,100,370	1	-	-
Available-for-sale financial assets - current (Notes 2, 5 and 23)	110,432	-	329,469	-
Derivative financial assets for hedging - current (Notes 2, 23 and 24)	14,686	-	29,376	-
Receivables:				
Notes and accounts, net (Notes 2 and 6)	13,376,253	6	8,006,890	4
Notes and accounts - related parties (Note 25)	515,542	-	386,623	-
Other receivables (Note 7)	970,602	1	949,270	1
Inventories, net (Notes 2 and 8)	5,884,598	3	5,037,890	2
Deferred income tax assets - current (Notes 2 and 20)	397,012	-	59,532	-
Other current assets	485,695	-	171,051	-
Total current assets	33,584,525	16	18,136,566	9
LONG-TERM INVESTMENTS				
Financial assets at fair value through profit or loss - noncurrent (Notes 2, 4 and 23)	374,044	-	351,613	-
Derivative financial assets for hedging - noncurrent (Notes 2, 23 and 24)	-	-	2,073	-
Financial assets carried at cost - noncurrent (Notes 2, 9 and 23)	371,367	-	371,367	-
Investments accounted for using equity method (Notes 2 and 10)	8,532,507	4	8,048,603	4
Other financial assets - noncurrent	12,868	-	16,029	-
Total long-term investments	9,290,786	4	8,789,685	4
PROPERTIES (Notes 2, 11 and 26)				
Cost				
Land	2,106,788	1	2,106,788	1
Buildings	7,765,882	4	7,844,669	4
Machinery and equipment	3,643,685	2	3,541,675	2
Flight equipment	194,687,922	90	187,344,810	89
Furniture	691,121	-	520,097	-
Leased flight and other equipment	14,720,344	7	23,098,581	11
Leasehold improvements	1,022,456	-	964,545	-
Revaluation increment	50,335	-	50,335	-
Total cost and revaluation increment	224,688,533	104	225,471,500	107
Accumulated depreciation	78,675,242	36	69,277,173	33
	146,013,291	68	156,194,327	74
Construction in progress and prepayments for equipment (Note 27)	5,071,615	2	4,457,206	2
Net properties	151,084,906	70	160,651,533	76
INTANGIBLE ASSETS				
Computer software, net (Note 2)	330,366	-	377,815	-
Deferred pension cost (Note 2)	544,049	-	910,696	1
Total intangible assets	874,415	-	1,288,511	1
OTHER ASSETS				
Idle properties, net	239,515	-	380,089	-
Deposits (Note 27)	12,695,893	6	12,926,917	6
Deferred charges (Note 2)	751,619	-	848,975	1
Deferred income tax assets - noncurrent (Notes 2 and 20)	6,289,445	3	6,737,569	3
Restricted assets - noncurrent (Notes 25 and 26)	1,128,319	1	405,834	-
Net other assets	21,104,791	10	21,299,384	10
TOTAL	\$ 215,939,423	100	\$ 210,165,679	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans (Notes 12 and 26)	\$ 200,000	-	\$ 5,300,000	3
Short-term bills payable (Note 13)	2,549,056	1	1,448,795	1
Financial liabilities at fair value through profit or loss - current (Notes 2, 4 and 23)	353,285	-	8,075,485	4
Derivative financial liabilities for hedging - current (Notes 2, 23 and 24)	200,690	-	205,331	-
Accounts payable	289,858	-	46,228	-
Accounts payable to related parties (Note 25)	1,164,777	1	1,027,951	-
Accrued expenses (Notes 2 and 27)	13,134,788	6	7,991,287	4
Advance ticket sales (Note 2)	9,320,551	4	7,080,863	3
Bonds issued - current portion (Notes 2, 14 and 23)	3,865,600	2	1,950,000	1
Loans and debts - current portion (Notes 15, 23 and 26)	17,717,132	8	16,838,088	8
Capital lease obligations - current portion (Notes 2 and 16)	1,127,291	1	1,576,696	1
Other current liabilities	1,544,911	1	980,511	-
Total current liabilities	51,467,939	24	52,521,235	25
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Financial liabilities at fair value through profit or loss - noncurrent (Notes 2, 4 and 23)	-	-	424,712	-
Derivative financial liabilities for hedging - noncurrent (Notes 2, 23 and 24)	75,447	-	658,500	-
Bonds issued - noncurrent (Notes 2, 14 and 23)	26,250,000	12	21,465,600	10
Loans and debts - noncurrent (Notes 15, 23 and 26)	74,978,100	35	87,084,376	42
Capital lease obligations - noncurrent (Notes 2 and 16)	3,057,827	1	4,281,486	2
Total long-term liabilities	104,361,374	48	113,914,674	54
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 17)	5,734,787	3	5,369,721	3
Deferred profits on sale-leaseback (Note 2)	6,461,151	3	7,122,647	3
Others	399,906	-	429,723	-
Total other liabilities	12,595,844	6	12,922,091	6
Total liabilities	168,425,157	78	179,358,000	85
CAPITAL STOCK, NT\$10.00 PAR VALUE				
Authorized - 5,200,000 thousand shares				
Issued and outstanding - 4,572,249 thousand shares in 2010 and 3,369,338 thousand shares in 2009	45,722,490	21	33,693,384	16
CAPITAL SURPLUS, LONG-TERM INVESTMENTS	1,062	-	968	-
RETAINED EARNINGS (ACCUMULATED DEFICIT)				
Unappropriated earnings (accumulated deficit)	2,867,350	1	(2,365,538)	(1)
OTHER EQUITY				
Cumulative translation adjustments	(157,251)	-	356,860	-
Net loss not recognized as pension cost	(1,570,023)	(1)	(1,206,178)	-
Unrealized valuation loss on financial instruments	(143,279)	-	(465,734)	-
Unrealized revaluation increment	830,471	1	830,471	-
Company shares held by subsidiaries reclassified into treasury stock	(36,554)	-	(36,554)	-
Total other equity	(1,076,636)	-	(521,135)	-
Total stockholders' equity	47,514,266	22	30,807,679	15
TOTAL	\$ 215,939,423	100	\$ 210,165,679	100

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

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars and Shares)

	2010		2009	
	Amount	%	Amount	%
REVENUES (Notes 2 and 25)				
Passenger	\$ 35,541,148	53	\$ 28,982,359	68
Cargo	28,402,936	43	11,355,503	26
Others	<u>2,774,059</u>	<u>4</u>	<u>2,571,004</u>	<u>6</u>
Total revenues	<u>66,718,143</u>	<u>100</u>	<u>42,908,866</u>	<u>100</u>
COSTS (Notes 21 and 25)				
Flying operations	35,075,752	52	23,900,613	56
Terminal and landing fees	9,236,466	14	7,981,587	18
Passenger services	3,978,210	6	3,816,739	9
Aircraft maintenance	4,702,203	7	3,330,523	8
Others	<u>1,783,792</u>	<u>3</u>	<u>1,377,518</u>	<u>3</u>
Total costs	<u>54,776,423</u>	<u>82</u>	<u>40,406,980</u>	<u>94</u>
GROSS PROFIT	<u>11,941,720</u>	<u>18</u>	<u>2,501,886</u>	<u>6</u>
OPERATING EXPENSES (Note 21)				
Marketing and selling	3,332,840	5	3,047,627	7
General and administrative	<u>1,771,682</u>	<u>3</u>	<u>1,171,938</u>	<u>3</u>
Total operating expenses	<u>5,104,522</u>	<u>8</u>	<u>4,219,565</u>	<u>10</u>
OPERATING INCOME (LOSS)	<u>6,837,198</u>	<u>10</u>	<u>(1,717,679)</u>	<u>(4)</u>
NONOPERATING INCOME AND GAINS				
Interest income (Note 25)	43,955	-	21,131	-
Investment income recognized under the equity method (Notes 2 and 10)	487,679	1	-	-
Dividend income (Note 2)	171,460	-	96,206	-
Gain on disposal of properties, net (Note 2)	955	-	3,355	-
Gain on sale of available-for-sale financial assets	118,139	-	-	-
Valuation gain on financial instruments, net (Notes 2 and 4)	289,714	-	1,780,234	4
Others	<u>294,779</u>	<u>1</u>	<u>371,953</u>	<u>1</u>
Total nonoperating income and gains	<u>1,406,681</u>	<u>2</u>	<u>2,272,879</u>	<u>5</u>

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars and Shares)

	2010		2009	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest expense	\$ 1,415,290	2	\$ 1,818,277	4
Investment loss recognized under the equity method (Notes 2 and 10)	-	-	24,006	-
Foreign exchange loss, net (Note 2)	47,330	-	39,921	-
Others (Note 14)	<u>92,639</u>	<u>-</u>	<u>886,428</u>	<u>2</u>
Total nonoperating expenses and losses	<u>1,555,259</u>	<u>2</u>	<u>2,768,632</u>	<u>6</u>
PRETAX INCOME (LOSS)	6,688,620	10	(2,213,432)	(5)
INCOME TAX EXPENSE (Notes 2 and 20)	<u>(415,340)</u>	<u>(1)</u>	<u>(152,106)</u>	<u>(1)</u>
NET INCOME (LOSS)	<u>\$ 6,273,280</u>	<u>9</u>	<u>\$ (2,365,538)</u>	<u>(6)</u>
	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS (LOSS) PER SHARE (Note 22)				
Basic	<u>\$ 1.46</u>	<u>\$ 1.37</u>	<u>\$ (0.67)</u>	<u>\$ (0.71)</u>
Diluted	<u>\$ 1.44</u>	<u>\$ 1.35</u>	<u>\$ (0.67)</u>	<u>\$ (0.71)</u>

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

(Concluded)

CHINA AIRLINES, LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued and Outstanding		Capital Surplus, Long-term Investment (Note 2)	Retained Earnings (Accumulated Deficit) (Notes 2 and 18)				Cumulative Translation Adjustments (Note 2)	Net Loss Not Recognized as Pension Cost (Note 2)	Unrealized Valuation Gain or Loss on Financial Instruments (Note 2)	Unrealized Revaluation Increment (Notes 2 and 11)	Company Shares Held by Subsidiaries Reclassified into Treasury Stock (Notes 2, 18 and 19)	Total Stockholders' Equity
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	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
Accumulated deficit offset by capital surplus													
Capital surplus	-	-	(628,088)	-	-	628,088	628,088	-	-	-	-	-	-
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	(110,527)	-	-	-	-	(110,527)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	83,482	-	-	-	-	83,482
Net income in the six months ended June 30, 2010	-	-	-	-	-	6,273,280	6,273,280	-	-	-	-	-	6,273,280
Unrealized valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(152,925)	-	-	(152,925)
Unrealized gain on cash flow hedge	-	-	-	-	-	-	-	-	-	173,976	-	-	173,976
Unrealized loss on financial instruments of equity-method investees	-	-	-	-	-	-	-	-	-	(1,804)	-	-	(1,804)
Net loss not recognized as pension cost of equity-method investees	-	-	-	-	-	-	-	-	(19,215)	-	-	-	(19,215)
BALANCE, JUNE 30, 2010	<u>4,572,249</u>	<u>\$ 45,722,490</u>	<u>\$ 1,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,867,350</u>	<u>\$ 2,867,350</u>	<u>\$ (157,251)</u>	<u>\$ (1,570,023)</u>	<u>\$ (143,279)</u>	<u>\$ 830,471</u>	<u>\$ (36,554)</u>	<u>\$ 47,514,266</u>
BALANCE, JANUARY 1, 2009	4,625,170	\$ 46,251,703	\$ 10,804,107	\$ 4,728,750	\$ 949,183	\$ (31,335,519)	\$ (25,657,586)	\$ 390,247	\$ (1,206,178)	\$ (690,297)	\$ 830,471	\$ (36,554)	\$ 30,685,913
Accumulated deficit offset by reserve and capital surplus													
Legal reserve	-	-	-	(4,728,750)	-	4,728,750	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(949,183)	949,183	-	-	-	-	-	-	-
Capital surplus	-	-	(10,755,829)	-	-	10,755,829	10,755,829	-	-	-	-	-	-
Capital reduction to offset accumulated deficit	(1,490,176)	(14,901,757)	-	-	-	14,901,757	14,901,757	-	-	-	-	-	-
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	(3,589)	-	-	-	-	(3,589)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	(29,798)	-	-	-	-	(29,798)
Conversion of bonds into capital stock	234,344	2,343,438	(47,310)	-	-	-	-	-	-	-	-	-	2,296,128
Net loss in the six months ended June 30, 2009	-	-	-	-	-	(2,365,538)	(2,365,538)	-	-	-	-	-	(2,365,538)
Unrealized valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	18,476	-	-	18,476
Unrealized gain on cash flow hedge	-	-	-	-	-	-	-	-	-	204,725	-	-	204,725
Unrealized gain on financial instruments of equity-method investees	-	-	-	-	-	-	-	-	-	1,362	-	-	1,362
BALANCE, JUNE 30, 2009	<u>3,369,338</u>	<u>\$ 33,693,384</u>	<u>\$ 968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,365,538)</u>	<u>\$ (2,365,538)</u>	<u>\$ 356,860</u>	<u>\$ (1,206,178)</u>	<u>\$ (465,734)</u>	<u>\$ 830,471</u>	<u>\$ (36,554)</u>	<u>\$ 30,807,679</u>

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 6,273,280	\$ (2,365,538)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income taxes	435,491	119,070
Depreciation and amortization	5,009,201	4,987,617
Provision for doubtful accounts	1,000	11,000
Gain on sale of available-for-sale financial assets	(118,139)	-
Valuation gain on financial instruments	(289,714)	(1,780,234)
Investment loss (gain) recognized under the equity method	(487,679)	24,006
Cash dividends received from equity-method investees	147,920	159,172
Loss on inventories, properties and idle properties	190,449	136,729
Gain on disposal of properties	(955)	(3,355)
Loss (gain) on disposal of idle properties, net	(9,577)	35,995
Loss on convertible bonds converted due to induced conversion	-	866,628
Amortization of deferred profit on sale-leaseback	(327,587)	(332,836)
Amortization of deferred credits	(33,207)	(33,207)
Net changes in operating assets and liabilities:		
Financial assets and liabilities held for trading	(2,894,987)	(10,622,593)
Notes and accounts receivable	(1,378,248)	66,477
Notes and accounts receivable - related parties	(34,652)	(87,728)
Other receivables	(179,899)	(201,319)
Inventories	(483,552)	25,920
Other current assets	(253,800)	138,908
Accounts payable	(439,881)	(540,572)
Accounts payable to related parties	76,404	239
Accrued expenses	1,821,665	(2,209,003)
Advance ticket sales	1,010,661	(1,322,773)
Other current liabilities	160,425	(194,089)
Accrued pension cost	218,139	197,516
Net cash provided by (used in) operating activities	<u>8,412,758</u>	<u>(12,923,970)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to designated as at fair value financial assets	-	(250,000)
Proceeds from disposal of available-for-sale financial assets	181,914	-
Increase in investments accounted for by the equity method	-	(50,000)
Investees' return of capital - investments accounted for by the equity method	10,000	-
Increase in other financial assets - noncurrent	-	(7,607)
Additions to properties	(1,146,768)	(474,030)
Proceeds of disposal of properties	1,093	6,549
Increase in computer software	(1,892)	(109,215)
Proceeds of disposal of idle properties	14,065	8,897
Increase in deposits made	(209,617)	(813,091)

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
Increase in deferred charges	\$ (34,776)	\$ (44,186)
Increase in restricted assets - noncurrent	<u>(335,088)</u>	<u>(141,808)</u>
Net cash used in investing activities	<u>(1,521,069)</u>	<u>(1,874,491)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(3,900,000)	(3,630,033)
Increase (decrease) in short-term bills payable	(99,704)	52,145
Proceeds of long-term debts	3,216,262	12,325,753
Repayments of long-term debts and capital lease obligations	(9,532,909)	(10,840,876)
Issuance of bonds	8,650,000	12,900,000
Redemption of bonds issued	-	(21,700)
Increase (decrease) in deposits-in	<u>(16,011)</u>	<u>5,894</u>
Net cash provided by (used in) financing activities	<u>(1,682,362)</u>	<u>10,791,183</u>
EFFECTS OF EXCHANGE RATE CHANGES	<u>(7,345)</u>	<u>(107,933)</u>
INCREASE (DECREASE) IN CASH	5,201,982	(4,115,211)
CASH, BEGINNING OF PERIOD	<u>5,527,353</u>	<u>7,281,676</u>
CASH, END OF PERIOD	<u>\$ 10,729,335</u>	<u>\$ 3,166,465</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 1,365,556	\$ 1,822,879
Less: Capitalized interest	<u>38,665</u>	<u>56,872</u>
Interest paid (excluding capitalized interest)	<u>\$ 1,326,891</u>	<u>\$ 1,766,007</u>
Income tax paid	<u>\$ 36,865</u>	<u>\$ 33,829</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term loans and debts	<u>\$ 17,717,132</u>	<u>\$ 16,838,088</u>
Current portion of capital lease obligations	<u>\$ 1,127,291</u>	<u>\$ 1,576,696</u>
Current portion of bonds issued	<u>\$ 3,865,600</u>	<u>\$ 1,950,000</u>
Convertible bonds converted into common stock	<u>\$ -</u>	<u>\$ 1,429,500</u>

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

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (In New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

The major stockholders of the Company are China Aviation Development Foundation and National Development Fund, Executive Yuan (which acquired the Company’s common shares through a private placement in September 2009). As of June 30, 2010 and 2009, China Aviation Development Foundation held 39.61% and 51.28% of the Company’s shares, respectively. As of June 30, 2010, National Development Fund, Executive Yuan held 11.37% of the Company’s shares. The Company had 10,074 and 9,639 employees as of June 30, 2010 and 2009, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China. Under these guidelines and principles, the Company has to make certain estimates and assumptions that could affect the allowance for doubtful accounts, loss on market value decline of inventories, property depreciation, asset impairment, accrued expenses - frequent flyer program, pension cost, income tax, loss on pending lawsuits and bonuses of employees. Actual results could differ from these estimates.

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

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

Current or Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition.

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

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

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

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

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

Available-for-sale Financial Assets

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

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

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

Allowances for Doubtful Accounts

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

Inventories

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

Financial Assets Carried at Cost

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

Investments Accounted for Using Equity Method

Investments in companies in which the Company exercises significant influence on the investees' operating and financial policy decisions are accounted for using equity method. Under this method, investments are stated at cost on the acquisition date and subsequently adjusted for the Company's proportionate share or equity in the investees' net income or net loss. Cash dividends received are accounted for as a reduction of the carrying values of the investments. On investment acquisition, the difference, if any, between the cost of investment and the Company's share in the investee's net equity is amortized using the straight-line method over five years. However, effective January 1, 2006, based on the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments Accounted for by Equity Method," investment premiums for the cost of investment is greater than the Company share of the investee's identified net assets, representing goodwill, are no longer amortized but tested annually for impairment or if there is objective evidence that the goodwill is impaired.

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

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

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

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

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

Properties

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

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

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

Leased Flight and Other Equipment

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

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

Computer Software Costs

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

Deferred Charges

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

Accrued Expenses - Frequent-flyer Program

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

Convertible Bonds

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

Pension Costs

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

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

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

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

Deferred Profits on Sale-leaseback

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

Income Tax

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

Income tax credits for certain acquisitions of eligible equipment or technology, research and development expenses and personnel training expenses are recognized in the period those acquisitions or expenses are incurred.

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

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

Asset Impairment

Statement of Financial Accounting Standards No. 35 - “Impairment of Assets” requires the Company to determine on each balance sheet date if properties, intangible assets and other assets (including a cash-generating unit) have been impaired. If there is impairment, then the Company must calculate the recoverable amount of the asset or the cash-generating unit. An impairment loss should be recognized whenever the recoverable amount of the asset or the cash-generating unit is below the carrying amount, and this impairment loss is either charged to accumulated impairment or used to reduce the carrying amount of the asset directly. If the Company revalues properties as required by law, an impairment loss on revalued properties should be charged to unrealized revaluation increment on properties, and if the capital surplus - revaluation increment on properties is not enough, the portion that exceeds the balance will be recognized as loss in the statement of income. After the recognition of an impairment loss, the depreciation (amortization) charged to the asset should be adjusted in future periods for the revised asset carrying

amount (net of accumulated impairment), less its salvage value, and calculated on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

Revenues

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

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

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

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

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currency (ex. investments in equity instruments), which are measured at fair value, are reported using the closing exchange rate. For a non-monetary financial asset with the changes in fair value recognized as an adjustment to stockholders' equity, exchange differences are recognized as an adjustment to stockholders' equity. For a non-monetary financial asset at fair value through profit or loss, exchange differences are recognized in the income statement. Non-monetary financial assets and liabilities denominated in foreign currency, which are measured at cost, are reported using the historical exchange rate on the date of transaction.

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

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

Hedge Accounting

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

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

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

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the six months ended June 30, 2010.

3. CASH AND CASH EQUIVALENTS

	June 30	
	2010	2009
Cash on hand	\$ 1,835,833	\$ 2,211,390
Revolving fund	120,021,753	127,785,893
Cash in banks	5,412,604,117	3,036,467,987
Certificates of deposit	4,505,580,518	-
Cash equivalents	<u>689,292,931</u>	<u>-</u>
	<u>\$ 10,729,335,152</u>	<u>\$ 3,166,465,270</u>

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

Financial instruments classified as held for trading were as follows:

	June 30	
	2010	2009
<u>Financial assets held for trading</u>		
Current		
Beneficiary certificates	<u>\$ 1,100,370,035</u>	<u>\$ -</u>
<u>Financial liabilities held for trading</u>		
Current		
Fuel option contracts	<u>\$ 353,284,687</u>	<u>\$ 8,075,485,032</u>
Non-current		
Fuel option contracts	<u>\$ -</u>	<u>\$ 424,712,459</u>

The gains on beneficiary certificates in the six months ended June 30, 2010 and 2009 were \$2,455,000 and \$745,000, respectively. The gains on derivative instruments held for trading in the six months ended June 30, 2010 and 2009 were \$287,260,000 and \$1,677,876,000, respectively.

Financial instruments designated as at FVTPL were as follows:

	June 30	
	2010	2009
<u>Financial assets designated as at FVTPL</u>		
Non-current		
Convertible bonds		
China Life Insurance Co., Ltd.	<u>\$ 374,044,385</u>	<u>\$ 351,612,500</u>

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

The results of transactions on financial assets designated as at FVTPL for the six months ended June 30, 2010 and 2009 were losses of \$1,000 and gains of \$101,613,000, respectively.

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30			
	2010		2009	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Current</u>				
Domestic marketable equity securities				
Trade-Van Information Service	\$ -	-	\$ 184,484,430	5.98
Foreign marketable equity securities				
France Telecom	<u>110,432,332</u>	-	<u>144,984,731</u>	-
	<u>\$ 110,432,332</u>		<u>\$ 329,469,161</u>	

In their meeting in June 2009, the stockholders of Trade-Van Information Service resolved to reduce this investee's capital. The Company thus received, on the date of the authorities, approval of the investee's capital reduction, capital return of \$28,545,000 from Trade Van Information Service.

6. NOTES AND ACCOUNTS RECEIVABLE, NET

	June 30	
	2010	2009
Notes receivable	\$ 384,215,387	\$ 143,115,963
Accounts receivable	<u>13,039,323,894</u>	<u>7,915,996,141</u>
	13,423,539,281	8,059,112,104
Less: Allowance for doubtful accounts	<u>47,286,103</u>	<u>52,222,236</u>
	<u>\$ 13,376,253,178</u>	<u>\$ 8,006,889,868</u>

7. OTHER RECEIVABLES

	June 30	
	2010	2009
Accrued revenue	\$ 597,598,578	\$ 669,636,926
Tax refunds	369,595,003	279,310,890
Others	<u>3,408,425</u>	<u>322,664</u>
	<u>\$ 970,602,006</u>	<u>\$ 949,270,480</u>

8. INVENTORIES, NET

	June 30	
	2010	2009
Aircraft spare parts	\$ 5,368,330,249	\$ 4,454,903,615
Items for in-flight sale	319,914,832	335,611,530
Work-in-process - maintenance services	<u>196,353,217</u>	<u>247,374,540</u>
	<u>\$ 5,884,598,298</u>	<u>\$ 5,037,889,685</u>

As of June 30, 2010 and 2009, the allowance for inventories devaluation were \$54,231,000 and \$48,838,000, respectively.

9. FINANCIAL ASSETS CARRIED AT COST

	June 30			
	2010		2009	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted common stocks				
Abacus International Holdings Ltd.	\$ 297,946,451	13.59	\$ 297,946,451	13.59
Jardine Air Terminal Services	56,022,929	15.00	56,022,929	15.00
Chung Hwa Express Co.	11,000,000	11.00	11,000,000	11.00
Regal International Advertising	5,925,000	6.58	5,925,000	6.58
Far Eastern Air Transport	<u>-</u>	5.73	<u>-</u>	5.73
	370,894,380		370,894,380	
Unlisted preferred stocks				
Abacus International Holdings Ltd.	<u>472,522</u>	-	<u>472,522</u>	-
	<u>\$ 371,366,902</u>		<u>\$ 371,366,902</u>	

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	June 30			
	2010		2009	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Investees on which the Company exercises significant influence				
Taiwan Air Cargo Terminal	\$ 1,658,599,569	54.00	\$ 1,623,364,678	54.00
Cal Park	1,464,007,227	100.00	1,493,492,246	100.00
Cal-Dynasty International	1,112,292,990	100.00	1,139,291,809	100.00
Mandarin Airlines	759,065,569	93.99	304,388,636	93.99
Taoyuan International Airport Services	667,561,351	49.00	719,976,000	49.00
China Pacific Catering Services	613,930,900	51.03	585,220,896	51.00
China Aircraft Services	389,510,702	20.00	388,595,167	20.00
Cal-Asia Investment	369,016,206	100.00	372,425,000	100.00
Abacus Distribution Systems (Taiwan)	333,200,687	93.93	301,468,992	93.93
Taiwan Airport Services	294,658,419	47.35	292,556,874	47.35
Kaohsiung Catering Services	179,823,466	31.76	194,170,502	31.76
Science Park Logistics	165,920,828	28.48	163,655,662	28.48
Asian Compressor Technology Services	148,881,571	24.50	145,633,367	24.50
China Pacific Laundry Services	119,343,523	55.00	111,896,201	55.00
Hwa Hsia	95,297,791	100.00	88,817,388	100.00
Cal Hotel	89,740,528	100.00	49,958,101	100.00
Dynasty Holidays	40,907,303	51.00	35,947,166	51.00
Yestrip	24,059,162	100.00	31,710,818	100.00
Global Sky Express	6,587,044	25.00	5,930,474	25.00
Freighter Princess Ltd.	35,088	100.00	35,088	100.00
Freighter Prince Ltd.	34,602	100.00	34,602	100.00
Freighter Queen Ltd.	32,895	100.00	32,895	100.00
	<u>\$ 8,532,507,421</u>		<u>\$ 8,048,602,562</u>	

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

	Six Months Ended June 30	
	2010	2009
Taiwan Air Cargo Terminal	\$ 35,036,490	\$ (33,106,037)
Cal Park	(11,988,797)	(3,298,693)
Cal-Dynasty International	(11,181,917)	13,863,355
Mandarin Airlines	262,372,453	(149,307,715)
Taoyuan International Airport Services	25,289,082	(6,522,860)
China Pacific Catering Services	66,997,532	36,973,707
China Aircraft Services	6,902,182	9,697,934
Cal-Asia Investment	16,876,422	10,092,852
Abacus Distribution Systems (Taiwan)	68,281,040	46,920,923
Taiwan Airport Services	150,738	(21,416,451)
Kaohsiung Catering Services	23,263,791	14,322,783
Science Park Logistics	6,559,888	4,954,645
Asian Compressor Technology Services	32,633,160	36,427,734
China Pacific Laundry Services	5,208,312	4,019,936

(Continued)

	Six Months Ended June 30	
	2010	2009
Hwa Hsia	\$ 16,369,774	\$ 15,561,123
Cal Hotel	(60,746,624)	(9,092,604)
Dynasty Holidays	1,221,039	3,847,966
Yestrip	3,434,900	1,680,382
Global Sky Express	<u>999,160</u>	<u>374,631</u>
	<u>\$ 487,678,625</u>	<u>\$ (24,006,389)</u> (Concluded)

The equity-method investments investees' financial statements, which had been used to determine the carrying amount of the Company's investments, had been audited, except those of China Aircraft Ltd., Freightier Princess Ltd., Freightier Prince Ltd. and Freightier Queen Ltd., which were minor subsidiaries. The Company believes that, had these four investees' financial statements been audited, any resulting adjustment would have had no material effect on the Company's financial statements.

The difference between the investment cost and the investee's net assets derives from goodwill and related-party transaction of depreciable assets between the Company and its subsidiary. The information on goodwill for the six months ended June 30, 2010 and 2009 was as follows:

	Goodwill	Transaction between Company and Subsidiary
<u>Six months ended June 30, 2010</u>		
Beginning	\$ 53,843,702	\$(183,514,249)
Decrease	<u>-</u>	<u>16,434,112</u>
Ending	<u>\$ 53,843,702</u>	<u>\$(167,080,137)</u>
<u>Six months ended June 30, 2009</u>		
Beginning	\$ 53,843,702	\$(216,382,473)
Decrease	<u>-</u>	<u>16,434,112</u>
Ending	<u>\$ 53,843,702</u>	<u>\$(199,948,361)</u>

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

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

11. PROPERTIES

	June 30	
	2010	2009
Revaluation increment - cost		
Building	<u>\$ 50,335,009</u>	<u>\$ 50,335,009</u>
Accumulated depreciation		
Building	\$ 3,380,943,247	\$ 3,285,981,849
Machinery and equipment	3,060,239,481	2,952,149,807
Flight equipment	65,578,436,022	52,418,759,502
Furniture	390,682,640	416,725,208
Leased flight and other equipment	5,445,710,799	9,477,155,375
Leasehold improvements	<u>819,230,303</u>	<u>726,401,071</u>
	<u>\$ 78,675,242,492</u>	<u>\$ 69,277,172,812</u>

Interests capitalized in the six months ended June 30, 2010 and 2009 amounted to \$38,665,000 and \$56,872,000, respectively. These interests were calculated at rates ranging from 1.60% to 2.22% and from 2.18% to 3.27% in the six months ended June 30, 2010 and 2009, respectively.

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

12. SHORT-TERM LOANS

	June 30	
	2010	2009
Bank loans. Interest - 0.79% and 1% to 2.55% in the six months ended June 30, 2010 and 2009, respectively	<u>\$ 200,000,000</u>	<u>\$ 5,300,000,000</u>

The short-term loans in the six months ended June 30, 2010 will mature on various dates before August 2010.

13. SHORT-TERM BILLS PAYABLE

	June 30	
	2010	2009
Aggregate face value - discounted interest of 0.638% and 1% to 2.038% in the six months ended June 30, 2010 and 2009, respectively	\$ 2,550,000,000	\$ 1,450,000,000
Less: Unamortized discount	<u>943,720</u>	<u>1,204,647</u>
	<u>\$ 2,549,056,280</u>	<u>\$ 1,448,795,353</u>

Commercial paper in the six months ended June 30, 2010 had matured on various dates before August 2010.

14. BONDS ISSUED

	June 30	
	2010	2009
Current		
First issue of secured bonds in 2006	\$ 1,950,000,000	\$ 1,950,000,000
First issue of secured bonds in 2007	900,000,000	-
Third issue of unsecured domestic convertible bonds	<u>1,015,600,000</u>	<u>-</u>
	<u>\$ 3,865,600,000</u>	<u>\$ 1,950,000,000</u>
Noncurrent		
First issue of secured bonds in 2006	\$ 2,600,000,000	\$ 4,550,000,000
First issue of secured bonds in 2007	2,100,000,000	3,000,000,000
First issue of private unsecured bonds in 2009	9,900,000,000	9,900,000,000
Second issue of private unsecured bonds in 2009	3,000,000,000	3,000,000,000
First issue of secured bonds in 2010	3,600,000,000	-
First issue of private unsecured bonds in 2010	5,050,000,000	-
Third issue of unsecured domestic convertible bonds	<u>-</u>	<u>1,015,600,000</u>
	<u>\$ 26,250,000,000</u>	<u>\$ 21,465,600,000</u>

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

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

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

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

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

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

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. On 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. The conversion price was NT\$16.6 on June 30, 2010.
- e. As of June 30, 2010, bonds with aggregate face value of \$6,217,400,000 had been converted into 443,405,000 common shares of the Company. The Company repurchased and wrote off bonds with aggregate face value of \$1,059,400,000. In August 2008, the Company redeemed its bonds at 99.7% of their face value, and these redeemed bonds had an aggregate face value of \$1,707,600,000.

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. On February 23, 2007, the holders can require the Company to redeem their bonds at 99.7% of face value.
- c. The Company may redeem the bonds piecemeal between August 24, 2004 and January 14, 2009 under certain conditions.
- d. Between August 24, 2004 and February 13, 2009 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT\$17.5, subject to adjustment if there is capital injection by cash, stock dividend distribution, or issuance of stock as employee stock bonus.
- e. Between February 2, 2009 and February 10, 2009, the Company reset the conversion price from NT\$13.9 to NT\$6.1 in accordance with conversion features for induced conversion. When bonds with aggregate face value of \$1,429,500,000 were converted into 234,344,000 common shares of the Company, the Company recognized a conversion loss of conversion price adjustment of \$866,628,000 as nonoperating losses. As of February 24, 2009, bonds with aggregate face value of \$9,545,900,000 had been converted into 779,353,000 common shares of the Company. The Company repurchased and wrote off bonds with aggregate face value of \$432,400,000 and also redeemed the remaining bonds in March 2009, with an aggregate face value of \$21,700,000.

15. LONG-TERM LOANS

	June 30	
	2010	2009
Bank loans	\$ 88,324,776,840	\$ 96,962,902,248
Commercial paper, net of unamortized discounts of \$9,544,744 and \$15,438,374 in the six months ended June 30, 2010 and 2009, respectively	<u>4,370,455,256</u>	<u>6,959,561,626</u>
	92,695,232,096	103,922,463,874
Less: Current portion	<u>17,717,132,128</u>	<u>16,838,087,906</u>
	<u>\$ 74,978,099,968</u>	<u>\$ 87,084,375,968</u>

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

	Currency		
	New Taiwan Dollars	U.S. Dollars	Japanese Yen
<u>Amounts</u>			
Original currency			
2010	\$ 47,460,410,873	\$ 1,236,534,280	\$ 3,100,000,000
2009	51,993,743,526	1,321,883,504	4,340,000,000
Translated in New Taiwan dollars			
2010	47,460,410,873	39,759,944,719	1,104,421,248
2009	51,993,743,526	43,483,010,039	1,486,148,683
<u>Interest rates</u>			
2010	0.915%-2.895%	0.2949%-4.77%	0.745%
2009	0.914%-3.096%	0.6244%-4.79%	1.1144%
<u>Periods</u>			
2010	2001/7/20-2020/2/26	2000/7/6-2017/9/21	2007/12/26-2012/12/26
2009	2001/2/27-2020/2/26	2000/7/6-2017/9/21	2007/12/26-2012/12/26

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until March 2017, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 0.5% to 1.648% and 0.177% to 1.636% in the six months ended June 30, 2010 and 2009, respectively.

16. LONG-TERM CAPITAL LEASE OBLIGATIONS

	June 30	
	2010	2009
Capital lease obligations	\$ 4,185,118,402	\$ 5,858,182,562
Less: Current portion	<u>1,127,291,193</u>	<u>1,576,696,303</u>
	<u>\$ 3,057,827,209</u>	<u>\$ 4,281,486,259</u>

As of June 30, 2010 the Company was leasing aircraft and related parts from certain foreign companies under capital lease agreements expiring on various dates until February 2014.

Future lease payments on flight equipment are summarized as follows:

Period	Amount
July to December 2010	\$ 553,336,828
2011	1,169,296,486
2012	1,258,073,683
2013	929,362,233
2014	275,049,172

17. PENSION PLAN

Based on the defined contribution pension plan under the Labor Pension Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts under the custody of the Bureau of Labor Insurance is at 6% of salaries and wages. The Company recognized a defined contribution pension cost of \$65,066,000 and \$61,539,000 in the first half of 2010 and 2009.

The pension plan under the Labor Standards Law is a defined benefit pension plan. Benefits are based on the service years accumulated and the average basic salaries and wages of the six months before retirement. The Company makes monthly contributions to a pension fund at 7% of salaries and wages. The fund is administered by a pension fund committee and deposited in the committee's name in the Bank of Taiwan. The Company recognized pension costs of \$493,835,000 and \$492,042,000 for the six months ended June 30, 2010 and 2009, respectively.

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

a. Pension fund movements

	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	\$ 2,143,340,771	\$ 2,214,785,881
Contributions	258,536,925	271,573,240
Income from pension fund investments	19,721,825	-
Payment	<u>(127,110,212)</u>	<u>(589,440,173)</u>
Balance, end of period	<u>\$ 2,294,489,309</u>	<u>\$ 1,896,918,948</u>

b. Accrued pension cost movements

	June 30	
	2010	2009
Balance, beginning of period	\$ 5,516,648,371	\$ 5,172,204,600
Pension cost recognized	493,835,020	492,042,281
Contributions	(258,536,925)	(271,573,240)
Payment	<u>(17,159,321)</u>	<u>(22,952,231)</u>
Balance, end of period	<u>\$ 5,734,787,145</u>	<u>\$ 5,369,721,410</u>

18. STOCKHOLDERS' EQUITY

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

No bonus to employees has been estimated for in 2009 because of accumulated deficit in 2009.

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

The second issue of unsecured domestic convertible bonds with the aggregate face value of 1,429,500,000 had been converted into the Company's 234,344,000 common shares in the six months ended June 30, 2009. Under the related regulations, the Company can issue the shares first and then apply to the authorities for approval of the related capital increase.

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

Under the Company Law, of the publicly issued common shares, 10% should be reserved for subscription by the Company's employees. In July 2009, the board resolved the amount of shares and price for subscription by the employees. Under Statement of Financial Accounting Standards No. 39 - "Share-based Payment", the compensation cost of employee stock options was recognized on the grant-date using the fair value method.

Other information on employee stock options is as follows:

	Number of Options (In Thousands)	Weighted- average Exercise Price
<u>Employee stock options on a capital increase in 2009</u>		
Options granted	60,000	\$ 10.8
Options exercised	(18,064)	10.8
Options expired	<u>(41,936)</u>	10.8
	<u> -</u>	
Weighted-average fair value of options granted	<u>\$ 2.46813</u>	

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

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

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

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

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

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

For the six months ended June 30, 2010, the bonus to employees was \$49,352,000. The bonus to employees represented 3% of net income (net of the bonus) deducted accumulated deficit, legal reserve, cumulative translation adjustments, net loss not recognized as pension cost, unrealized valuation gain or loss on financial instruments and unrealized revaluation increment. However, there were net losses for the six months ended June 30, 2009; thus, no bonus to employees were estimated. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are retroactively adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

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

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain shareholders' equity accounts (excluding treasury stocks) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

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

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

19. TREASURY STOCK

Purpose of Treasury Stock	(Shares in Thousands)		
	Number of Shares, Beginning of Period	Addition (Reduction) During the Period	Number of Shares, End of Period
<u>Six months ended June 30, 2010</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	2,889	-	2,889
<u>Six months ended June 30, 2009</u>			
Company's shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	4,166	-	4,166

The Company's shares held by its subsidiaries as of June 30, 2010 and 2009 were as follows:

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
<u>June 30, 2010</u>			
Mandarin Airlines	2,075	\$ 34,231,362	\$ 34,231,362
Hwa Hsia	814	<u>13,433,508</u>	<u>13,433,508</u>
		<u>\$ 47,664,870</u>	<u>\$ 47,664,870</u>
<u>June 30, 2009</u>			
Mandarin Airlines	2,992	\$ 24,296,550	\$ 24,296,550
Hwa Hsia	1,174	<u>9,534,764</u>	<u>9,534,764</u>
		<u>\$ 33,831,314</u>	<u>\$ 33,831,314</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 will no longer have voting rights.

20. INCOME TAX

- a. The reconciliation of the income tax expense (benefit) on (gain) loss before income tax benefit (expense) at statutory income tax rate (tax rate of 17% and 25% of the year 2010 and 2009, respectively) and income tax expense - current is as follows:

	Six Months Ended June 30	
	2010	2009
Income tax expense (benefit) on income (loss) before income tax at statutory rate	\$ 1,137,065,483	\$ (553,357,958)
Add (deduct) tax effects of:		
Permanent differences	(96,665,255)	349,173,182
Temporary differences	(358,316,981)	(2,504,963,076)
Loss carryforwards	-	2,709,147,852
Loss carryforwards used	(635,687,566)	-
Overseas income tax expense	<u>-</u>	<u>32,907,729</u>
Income tax expense - current	<u>\$ 46,395,681</u>	<u>\$ 32,907,729</u>

- b. Income tax expense consisted of the following:

	Six Months Ended June 30	
	2010	2009
Income tax expense - current	\$ 46,395,681	\$ 32,907,729
Investment tax credits used	(7,268,497)	-
Net changes in deferred income tax expense (benefit)		
Equity in net loss of foreign equity-method investees	2,349,013	7,500,421
Depreciation difference between accounting and tax on properties	(733,750)	(863,236)
Allowance for loss on idle properties	(26,737,496)	(27,078,629)
Accrued expense for frequent-flyer program	7,408,981	1,891,997
Unrealized litigation loss	(3,867,281)	-
Valuation loss on financial instruments	404,240,150	2,460,242,613
Provision for pension cost	(37,083,591)	(39,503,362)
Unrealized foreign exchange gain or loss	9,949,452	99,460,299
Difference between accounting and tax on interest	2,791,503	3,312,973
Carryforward of unused tax losses	638,371,977	(2,707,526,689)
Investment income tax credits	(27,602,309)	1,835,192,014
Effect of tax law changes on deferred income tax	1,336,738,578	2,140,477,650
Adjustment in valuation allowance due to changes in tax laws	(300,383,915)	(807,301,332)
Other adjustment in valuation allowance	(1,569,949,504)	(2,846,735,136)
Adjustment of prior years' tax	<u>(59,278,617)</u>	<u>128,805</u>
Income tax expense	<u>\$ 415,340,375</u>	<u>\$ 152,106,117</u>

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

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

- c. Deferred income tax assets (liabilities) as of June 30, 2010 and 2009 consisted of the following:

	June 30	
	2010	2009
Current		
Allowance for loss on inventories	\$ 9,219,224	\$ 9,767,560
Accrued expenses for frequent-flyer program	17,325,336	30,526,928
Unrealized litigation loss	316,597,423	-
Unrealized foreign exchange loss	9,661,818	18,272,379
Valuation gain or loss on financial instruments	60,058,397	-
Unrealized gain or loss on financial instruments	-	965,524
Investment income tax credit	<u>626,581,274</u>	<u>633,849,771</u>
Deferred income tax assets	1,039,443,472	693,382,162
Less: Valuation allowance	<u>(626,581,274)</u>	<u>(633,849,771)</u>
Deferred income tax assets, net	412,862,198	59,532,391
Unrealized loss on financial instruments	<u>(15,850,097)</u>	<u>-</u>
Net deferred income tax assts	<u>\$ 397,012,101</u>	<u>\$ 59,532,391</u>
Noncurrent		
Equity in net loss of foreign equity-method investees	\$ 96,579,003	\$ 123,682,536
Allowance for loss on idle properties	161,672,747	161,398,675
Provision for pension cost	627,293,351	651,877,583
Difference between accounting and tax on interest	90,050,143	112,593,350
Valuation gain or loss on financial instruments	-	1,700,039,498
Cumulative translation adjustments	32,208,141	-
Unrealized gain or loss on financial instruments	35,034,153	139,069,244
Carry forward of unused tax losses	5,561,624,318	6,132,449,813
Investment income tax credit	<u>1,284,237,478</u>	<u>1,098,871,303</u>
Deferred income tax assets	7,888,699,334	10,119,982,002
Less: Valuation allowance	<u>(1,451,020,228)</u>	<u>(3,117,063,506)</u>
Deferred income tax assets, net	6,437,679,106	7,002,918,496
Depreciation difference between accounting and tax on properties	(148,234,327)	(176,134,104)
Cumulative translation adjustments	<u>-</u>	<u>(89,214,952)</u>
Deferred income tax assets, net	<u>\$ 6,289,444,779</u>	<u>\$ 6,737,569,440</u>

The above deferred income taxes were computed at a tax rate of 17% and 20% as of June 30, 2010 and 2009, respectively.

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

	June 30	
	2010	2009
Balance of ICA	<u>\$ 208,150,392</u>	<u>\$ 193,444,596</u>

The Company had no unappropriated retained earnings generated since January 1, 1998 as of December 31, 2009 and 2008, and therefore had no expected creditable tax ratios.

e. Unused investment income tax credits as of June 30, 2010 were as follows:

Regulatory Basis of Tax Credits	Source of the Tax Credit	Total Amount of the Tax Credits	Remaining Tax Credits	Expiry Year
Article 6 of the Statute for Upgrading Industries	R&D expenses, personnel	\$ 633,849,771	\$ 626,581,274	2010
	training expenses and	840,426,652	840,426,652	2011
	purchases of eligible	243,143,796	243,143,796	2012
	equipment	165,725,549	165,794,201	2013
		34,802,154	34,802,154	2014
Article 50 of the Statute for Development of Tourism	Expenses for sponsoring to government in attending international tourism organizations and travel fairs	70,675	70,675	2011

f. Unused tax loss carryforwards as of June 30, 2010 were as follows:

Expiry Year	Amount
2018	\$ 13,377,171,178
2019	19,338,265,982

g. The income tax returns of the Company through 2007, except for 2006 had been examined by the tax authorities.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2010		
	Included in Operating Costs	Included in Operating Expenses	Total
Personnel			
Salaries	\$ 4,881,442,060	\$ 1,798,444,222	\$ 6,679,886,282
Labor and health insurance	244,520,182	195,554,416	440,074,598
Pension cost	364,682,681	194,218,431	558,901,112
Others	1,047,305,620	159,831,954	1,207,137,574
Depreciation	4,701,160,781	189,835,020	4,890,995,801
Amortization	1,960,715	116,244,135	118,204,850
Six Months Ended June 30, 2009			
	Included in Operating Costs	Included in Operating Expenses	Total
Personnel			
Salaries	\$ 3,877,594,200	\$ 1,116,492,460	\$ 4,994,086,660
Labor and health insurance	218,297,381	190,209,612	408,506,993
Pension cost	352,792,472	200,788,561	553,581,033
Others	1,013,037,629	168,575,401	1,181,613,030
Depreciation	4,714,135,498	185,901,558	4,900,037,056
Amortization	3,493,451	84,086,958	87,580,409

22. EARNINGS (LOSS) PER SHARE

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

	Amounts (Thousands) (As Numerator)		Shares (Thousands) (As Denominator)	Earnings (Loss) Per Share (NT\$)	
	Pretax	After Tax		Pretax	After Tax
<u>Six months ended June 30, 2010</u>					
Basic earnings per share					
Net income on common stock	\$ 6,688,620	\$ 6,273,280	4,569,360	<u>\$ 1.46</u>	<u>\$ 1.37</u>
Effect of dilutive potential common stock					
Third issue of unsecured domestic convertible bonds	<u>-</u>	<u>-</u>	<u>61,181</u>		
Diluted earnings per share	<u>\$ 6,688,620</u>	<u>\$ 6,273,280</u>	<u>4,630,541</u>	<u>\$ 1.44</u>	<u>\$ 1.35</u>
<u>Six months ended June 30, 2009</u>					
Basic and diluted Earnings Per Share					
Net loss on common stock	\$ (2,213,432)	\$ (2,365,538)	<u>3,326,054</u>	<u>\$ (0.67)</u>	<u>\$ (0.71)</u>

23. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

	June 30			
	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 39,428,811,480	\$ 39,428,811,480	\$ 25,858,029,562	\$ 25,858,029,562
Financial assets at fair value through profit or loss	1,474,414,420	1,474,414,420	351,612,500	351,612,500
Available-for-sale financial assets	110,432,332	110,432,332	329,469,161	329,469,161
Derivative financial assets for hedging	14,686,499	14,686,499	31,448,912	31,448,912
Financial assets carried at cost	371,366,902	-	371,366,902	-
<u>Financial liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	21,705,620,224	21,705,620,224	21,817,869,489	21,817,869,489
Financial liabilities at fair value through profit or loss	353,284,687	353,284,687	8,500,197,491	8,500,197,491
Derivative financial liabilities for hedging	276,137,116	276,137,116	863,830,944	863,830,944
Bonds issued	30,115,600,000	32,009,081,685	23,415,600,000	25,668,326,128
Loans and debts	92,695,232,096	92,992,629,614	103,922,463,874	105,273,312,825

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

- 1) The carrying amounts of cash and cash equivalents, receivables, other receivables, other financial assets - noncurrent, accounts deposit, restricted asset - noncurrent, short-term loans, short-term bills payable, accounts payable, accounts payable to related parties, accrued expenses, and deposits-in (included in "other liabilities - others"), approximate their fair values because of the short maturities of these instruments.

- 2) For financial assets at fair value through profit or loss, available-for-sale financial assets, and derivative financial assets for hedging, fair value is best determined at quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. If quoted market prices are not available, fair values are based on estimates using indirect data and appropriate valuation methodologies. Fair values of derivatives are determined using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) If the Company does not have significant influence over the investees and these investees' shares do not have a quoted market price in an active market, their fair value, which cannot be reliably measured, are measured at cost.
- 4) Fair value of bonds issued is based on their quoted market price.
- 5) Some long-term debts and capital lease obligations are floating rate financial liabilities, so their carrying value are their fair value. The fair values of long-term debts and private bonds with fixed interest rates are estimated the present value of expected cash flows discounted at rates of 0.99%-2.094% and 1.38%-3.522% as of June 30, 2010 and 2009 for long-term debts the Company can acquire in the market.

The total amount of fair value listed above is not equal to the total value of the Company because it is not necessary to disclose their fair value for partial financial and non-financial instruments.

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

	Quoted Market Prices		Fair Value Based on Estimates	
	June 30		June 30	
	2010	2009	2010	2009
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 1,100,370,035	\$ -	\$ 374,044,385	\$ 351,612,500
Available-for-sale financial assets	110,432,332	329,469,161	-	-
Derivative financial assets for hedging	-	-	14,686,499	31,448,912
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	353,284,687	8,500,197,491
Derivative financial liabilities for hedging	-	-	276,137,116	863,830,944
Bonds issued	12,192,855,500	10,514,908,700	19,816,226,185	15,153,417,428
Loans and debts	-	-	92,992,629,614	105,273,312,825

- d. As of June 30, 2010 and 2009, loans, bonds issued and capital lease obligations at fixed rate exposed to fair value interest rate risk were \$30,116,561,000 and \$33,003,523,000, respectively, and those at floating rate exposed to cash flow interest rate risk were \$99,628,445,000 and \$106,941,518,000, respectively.
- e. For the six months ended June 30, 2010 and 2009, the adjustments of stockholders' equity credited and debited directly from the available-for-sale financial assets amounted to \$271,064,000 and \$18,476,000, respectively. As of June 30, 2010, the gain recognized and deducted from the adjustments of stockholders' equity amounted to \$118,139,000.

24. RISK MANAGEMENT AND HEDGING STRATEGIES

a. Risk management strategy

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

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

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

The Company enters into derivative instruments just described above to evade major market risks. Partial derivative instruments are classified as financial assets or liabilities held for trading and measured at fair value for not meeting the criteria for hedge accounting, even if they can meet the financial hedge strategy.

The following table summarizes the aggregate contractual (notional) amounts, credit risk and fair value of the derivative financial instruments of the Company and its subsidiaries, Mandarin Airlines and Dynasty Holidays, as of June 30, 2010 and 2009.

	June 30					
	2010			2009		
	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
<u>Hedge</u>						
<u>The Company</u>						
Forward exchange	\$ 578,778,135	\$ 13,480,669	\$ 13,480,669	\$ 937,500,000	\$ 30,856,310	\$ 30,856,310
Interest rate swaps	19,340,803,859	-	(272,302,412)	30,351,473,684	-	(771,516,116)
Currency options						
- Call	257,234,727	236,846	(1,090,317)	131,578,947	20,167	(374,010)
- Put	257,234,727	968,984	(1,538,557)	131,578,947	-	(1,265,888)
Cross-currency swaps						
- Currency swaps	-	-	-	694,661,875	572,435	(1,015,603)
- Interest swaps	-	-	-	1,177,039,005	-	(89,066,725)
<u>Dynasty Holidays</u>						
Forward exchange	-	-	-	19,736,842	-	(3,412,984)
<u>Trade</u>						
<u>The Company</u>						
Fuel swap	353,284,687 (Note)		(353,284,687)	8,500,197,491 (Note)	-	(8,500,197,491)
<u>Mandarin Airlines</u>						
Fuel swap	9,181,622 (Note)		(9,181,622)	143,789,151 (Note)	-	(143,789,151)

Note: According to Taiwan Stock Exchange regulation for the public company of monthly declaration about trading of derivatives financial instruments, the contractual amounts are shown by absolute values of fair values because fuel swap contracts only have nominal quantity.

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

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

The calculation of the fair value of each derivative contract is based on quotes from financial institutions, except that for fuel swap contracts, which is based on amounts estimated by an external appraisal institution, in accordance with the Statement of Financial Accounting Standards and Statements of Valuation Standards.

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

b. Cash flow hedge

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

Hedged Items	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period	
	Financial Instruments Designated as Hedging Instruments	June 30, 2010			
		Nominal Amount			Fair Value
<u>The Company</u>					
Floating-interest long-term debts	Interest rate swaps	\$ 19,340,803,859	\$ (272,302,412)	2006 to 2013	2006 to 2013
Fuel cost in U.S. dollars	Currency options				
	- Call	257,234,727	(1,090,317)	2010	2010
	- Put	257,234,727	(1,538,557)	2010	2010
Lease cost in U.S. dollars	Forward exchange contracts	96,463,022	1,980,483	2007 to 2010	2007 to 2010
Repayment and interest of loans and debts in U.S. dollars	Forward exchange contracts	482,315,113	11,500,186	2007 to 2010	2007 to 2010
			<u>\$ (261,450,617)</u>		

Hedged Items	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period	
	Financial Instruments Designated as Hedging Instruments	June 30, 2009			
		Nominal Amount			Fair Value
<u>The Company</u>					
Floating-interest long-term debts	Interest rate swaps	\$ 30,351,473,684	\$ (771,516,116)	2006 to 2013	2006 to 2013
	Cross-currency swaps - interest swaps	1,177,039,005	(89,066,725)	2007 to 2009	2007 to 2009
Fuel cost in U.S. dollars	Forward exchange contracts	197,368,421	8,718,092	2007 to 2009	2007 to 2009
	Currency options				
	- Call	131,578,947	(374,010)	2009	2009
	- Put	131,578,947	(1,265,888)	2009	2009
Lease cost in U.S. dollars	Forward exchange contracts	690,789,474	20,612,626	2007 to 2010	2007 to 2010
Repayment and interest of loans and debts in U.S. dollars	Forward exchange contracts	49,342,105	1,525,592	2007 to 2009	2007 to 2009
	Cross-currency swaps - currency swaps	694,661,875	(1,015,603)	2007 to 2009	2007 to 2009
			<u>\$ (832,382,032)</u>		
<u>Dynasty Holidays</u>					
Operation cost in U.S. dollars	Forward exchange contracts	19,736,842	\$ (3,412,984)	2007 to 2009	2007 to 2009

The information of the profit or loss generated from cash flow hedging instruments was recognized as adjustments to stockholders' equity is summarized as follows:

Adjustment Items	Six Months Ended June 30	
	2010	2009
Amount recognized in equity during the period	\$ (34,318,299)	\$ (57,820,679)
Amount removed from equity and included in profit or loss for the period	208,295,272	262,545,477

25. RELATED-PARTY TRANSACTIONS

a. The Company's related parties

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

(Continued)

Related Party	Relationship with the Company
Dynasty Holidays	Subsidiary
Yestrip	Subsidiary
Global Sky Express	Subsidiary
Freighter Princess Ltd.	Subsidiary
Freighter Prince Ltd.	Subsidiary
Freighter Queen Ltd.	Subsidiary
Yangtze River Express Airlines	Subsidiary's equity-method investee
China Aviation Development Foundation	Major stockholder (39.61%)

(Concluded)

b. Significant transactions with related parties except for the Note 14 were summarized as follows:

	Six Months Ended June 30			
	2010		2009	
	Amount	%	Amount	%
1) Revenues				
Mandarin Airlines	\$ 935,644,486	1.40	\$ 717,085,598	1.67
Yangtze River Express Airlines	331,551,822	0.50	458,287,327	1.07
Global Sky Express	75,444,706	0.12	59,416,587	0.14
China Aviation Development Foundation	14,987,099	0.02	10,527,567	0.02
Taiwan Air Cargo Terminal	9,696,825	0.01	7,673,010	0.02
Others	<u>25,258,983</u>	<u>0.04</u>	<u>23,081,381</u>	<u>0.05</u>
	<u>\$ 1,392,583,921</u>	<u>2.09</u>	<u>\$ 1,276,071,470</u>	<u>2.97</u>
2) Costs				
Taoyuan International Airport Services	\$ 509,498,751	0.93	\$ 402,205,395	1.00
China Pacific Catering Services	484,119,160	0.88	422,492,423	1.05
Taiwan Air Cargo Terminal	183,690,969	0.34	90,252,992	0.22
Mandarin Airlines	123,460,709	0.23	300,158,041	0.74
Hwa Hsia	121,308,311	0.22	119,241,634	0.29
Taiwan Airport Services	111,714,520	0.20	121,770,860	0.30
China Aircraft Services	100,552,503	0.18	107,255,976	0.27
Cal Park	59,171,998	0.11	-	-
Kaohsiung Catering Services	45,832,872	0.08	31,310,471	0.08
Dynasty Holidays	41,100,309	0.08	40,654,395	0.10
China Pacific Laundry Services	33,559,769	0.06	30,365,424	0.08
Yangtze River Express Airlines.	24,027,312	0.04	89,600	-
Cal Hotel	23,901,845	0.04	-	-
China Aviation Development Foundation	20,771,743	0.04	9,545,722	0.02
Cal-Dynasty International	19,233,227	0.04	21,637,949	0.05
Others	<u>26,096,993</u>	<u>0.05</u>	<u>16,750,677</u>	<u>0.04</u>
	<u>\$ 1,928,040,991</u>	<u>3.52</u>	<u>\$ 1,713,731,559</u>	<u>4.24</u>
3) Notes and accounts receivables - related parties				
Mandarin Airlines	\$ 432,641,823	83.92	\$ 277,904,205	71.88
Yangtze River Express Airlines	48,226,992	9.35	76,388,504	19.76
Yestrip	11,943,173	2.32	9,770,260	2.53
Global Sky Express	8,752,219	1.70	5,437,451	1.41
Taiwan Air Cargo Terminal	6,436,034	1.25	8,054,934	2.08
China Aviation Development Foundation	5,451,680	1.06	5,548,738	1.43
Others	<u>2,089,964</u>	<u>0.40</u>	<u>3,519,184</u>	<u>0.91</u>
	<u>\$ 515,541,885</u>	<u>100.00</u>	<u>\$ 386,623,276</u>	<u>100.00</u>

Six Months Ended June 30				
	2010		2009	
	Amount	%	Amount	%
4) Accounts payable to related parties				
Mandarin Airlines	\$ 368,710,205	31.65	\$ 343,987,420	33.46
Taoyuan International Airport Services	275,560,686	23.66	220,575,067	21.46
China Pacific Catering Services	256,704,306	22.04	216,658,341	21.08
Yangtze River Express Airlines	47,390,815	4.07	41,846,850	4.07
Hwa Hsia	43,804,292	3.76	63,477,615	6.18
Taiwan Air Cargo Terminal	42,747,295	3.67	30,698,319	2.99
Taiwan Airport Services	37,254,509	3.20	42,134,473	4.10
China Aircraft Services	34,641,840	2.97	35,604,503	3.46
Kaohsiung Catering Services	15,832,655	1.36	11,035,442	1.07
Cal Hotel	15,428,368	1.32	-	-
China Pacific Laundry Services	11,849,001	1.02	11,251,346	1.09
China Aviation Development Foundation	7,274,185	0.63	4,290,722	0.42
Others	7,579,190	0.65	6,390,662	0.62
	<u>\$ 1,164,777,347</u>	<u>100.00</u>	<u>\$ 1,027,950,760</u>	<u>100.00</u>

5) Lease of property and equipment

In September 2002, the Company rented out planes to Mandarin Airlines under a joint operation service contract in which Mandarin Airlines, in cooperation with the Company, would ply passenger and cargo routes between Kaohsiung and Hong Kong. In December 2008, the Company replaced this contract with another cooperation agreement to develop the routes between Taiwan and Mainland China. The rent received is based on this contract. As of June 30, 2010 and 2009, the rentals received amounted to \$267,993,000 and \$620,506,000, respectively.

The Company rented planes from Mandarin Airlines under an operating lease agreement. The Company paid the rental by flight hours, except for the rentals of the 737-800 aircraft, which were at a fixed US\$282,000 monthly. However, the 737-800 contract was terminated in February 2009. In the six months ended June 30, 2010 and 2009, the Company paid hourly flight rentals of about \$131,004,000 and \$241,279,000, respectively.

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. As of June 30, 2010 and 2009, the Company had paid usage rentals of about \$20,772,000 and \$9,546,000, respectively.

From August 2007 to October 2009, the Company rented out a plane to Yangtze River Express Airlines Co., Ltd. ("Yangtze") to develop further the Company's international cargo services. The rent received was a fixed US\$970,000 monthly. As of June 30, 2009, the rentals received amounted to \$195,712,000. The Company entered into a joint operation cargo service contract with Yangtze to ply the routes between Shanghai and Luxembourg and an airport service contract. However, the joint operation cargo service contract was terminated in May 2008. The revenue received from the airport service contract was \$325,341,000 and \$231,490,000 for the six months ended June 30, 2010 and 2009, respectively.

From March 2010, the Company signed the building leased agreement of Operation Centre of aviation undertaking of Taoyuan International Airport of Taiwan with Cal Park at a fixed rental of \$14,793,000 monthly. For the six months ended June 30, 2010, the Company paid rentals of \$59,172,000.

6) Endorsements and guarantees

	June 30			
	2010		2009	
	Authorized Amount	Occupied Amount	Authorized Amount	Occupied Amount
<u>The Company</u>				
Cal Park	\$ 3,400,000,000	\$ 2,780,000,000	\$ 3,400,000,000	\$ 1,240,000,000
Freighter Prince Ltd.	393,981,341	393,981,341	822,368,421	418,190,859
Freighter Queen Ltd.	351,072,903	351,072,903	822,368,421	291,268,228
Freighter Princess Ltd.	126,029,872	126,029,872	142,676,352	142,676,352
Cal Hotel	180,000,000	167,000,000	-	-
Mandarin Airlines	300,000,000	-	-	-

Cal Asia

Taikoo Spirit Aerospace Systems (Jinjiang) Composite	17,533,762	-	-	-
---	------------	---	---	---

As of June 30, 2010, U.S. Treasury Bill US\$871,084,116 had been pledged as collateral for financing lease transaction of Freighter Prince Ltd., Freighter Queen Ltd. and Freighter Princess Ltd. and was included in restricted assets - noncurrent.

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

7) Bonds payable-related parties

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

Related Parties	June 30	
	Units	Par/Dollars
Taoyuan International Airport Services	300	\$ 300,000,000
Mandarin Airlines	300	300,000,000
Abacus Distribution Systems (Taiwan)	60	60,000,000
China Pacific Catering Services	40	40,000,000
Hwa Hsia	10	10,000,000

As of June 30, 2010, interest payable was \$2,627,000. The interest expense was \$2,627,000 for the six months ended June 30, 2010.

26. PLEDGED ASSETS

As of June 30, 2010, the following assets had been pledged or mortgaged as collateral for bank loans and business transactions:

	June 30	
	2010	2009
Pledged certificates of deposit (for bank loans)	\$ 257,234,727	\$ 263,157,895
U.S. Treasury Bill (for financing lease transaction of subsidiary)	871,084,116	142,676,352
Properties - land and flight equipment (net)	<u>122,775,249,804</u>	<u>132,088,057,472</u>
	<u>\$ 123,903,568,647</u>	<u>\$ 132,493,891,719</u>

27. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2010, the Company had commitments and contingent liabilities as follows:

- a. The Company leased certain flight equipment and hangar under various operating lease agreements expiring on various dates until January 2024. Lease deposits aggregated \$12,019,117,000.

Future lease payments are summarized as follows:

Period/Year	Amount
July to December in 2010	\$ 2,278,705,315
2011	4,361,744,946
2012	5,162,121,964
2013	5,085,213,712
2014	4,478,104,463
2015	3,480,104,463

Rentals from 2016 and on will aggregate \$12,107,551,000. The present value of these rentals, discounted using the 1% discount interest rate for one-year time deposits, is \$11,460,780,000.

- b. In January 2008, the Company entered into a contract to buy from Airbus fourteen A350-900 aircraft, with the option to buy six more A350-900 aircraft, with aggregate purchase prices of US\$3,933,235,000 and US\$1,802,645,000, respectively. As of June 30, 2010, the Company had paid about US\$119,197,000, which was included in "prepayments for equipment" in the properties section of the balance sheets.
- c. As of June 30, 2010, the Company had paid about US\$12,396,000 for constructing engine test cell equipment, which was included in "construction in progress" in the properties section of the balance sheets, and the unpaid payment is about US\$6,780,000.
- d. To balance the trade deficit between Taiwan and United States, the Executive Yuan ordered the Civil Aeronautics Operation Fund under the Ministry of Transportation and Communications to buy 10 long-haul aircraft from the United States, with 7 of these planes rented out to the Company through a financing lease with the Civil Aeronautics Administration (CAA) and 3 planes originally leased, also from the CAA, but were later acquired by the Company. But the CAA repudiated the terms of the original contracts and claimed additional imputed interests on both the rentals and prepayment for planes. The total amount claimed by CAA was about \$1,100,000,000. After deliberation by the Taipei District Court and then the Taiwan High Court (THC), the THC ruled on September 29, 2009 that the Company should pay 99.96% of the legal fees incurred for this case and pay CAA

\$1,111,891,000 plus overdue payment (imputed on the additional rental of \$897,773,000 from May 21, 1997 to the payment date, with an annual rate of 6.125%). The Company refused to accept the THC's sentence and filed an appeal with the supreme court in October 2009. On January 7, 2010, the supreme court rejected the appeal; thus, the Company lost the lawsuit and can't appeal. The supreme court also ruled that the Company should pay 99.96% of the legal fees and also pay CAA plus overdue payment, were totally amounted to \$1,839,589,000 (included in nonoperating expenses and losses - others for the year ended December 31, 2009). As of June 30, 2010, the payment to CAA plus overdue payment was estimated to \$1,861,362,000 (included in accrued expense) and paid in July 2010.

- e. The Department of Justice (DOJ) of the United States (U.S.) is investigating whether airlines jointly decided to raise fuel surcharges for air cargo services in the U.S. in violation of the Antitrust Law. The Company has been cooperating with the DOJ in its investigation. As of August 12, 2010, the date of the accompanying auditors' report, there had been no charges, complaint or indictment of any kind filed by the DOJ against the Company, and the Company was not in a position to assess any potential liabilities and could not make any related provisions.

28. 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 (attached)
 - 2) Endorsement/guarantee provided: Table 1 (attached)
 - 3) Marketable securities held: Table 2 (attached)
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
 - 5) Acquisition of individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None
 - 6) Disposal of individual real estates at cost or prices of at least NT\$100 million or 20% of the paid-in capital: None
 - 7) Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)
 - 9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 6 (attached)
 - 10) Derivative financial transactions (Note 24)
- b. Investment in Mainland China: Table 7 (attached)

TABLE 1

CHINA AIRLINES, LTD. AND INVESTEEES

**ENDORSEMENT/GUARANTEE PROVIDED
SIX MONTHS ENDED JUNE 30, 2010
(In New Taiwan Dollars, Unless Stated Otherwise)**

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship						
0	China Airlines	Cal Park	100% subsidiary	\$ 9,502,853,286	\$ 3,400,000,000	\$ 3,400,000,000	\$ -	7.16	\$ 23,757,133,215
		Freighter Prince Ltd.	100% subsidiary	9,502,853,286	395,252,251	393,981,341	393,981,341	0.83	23,757,133,215
		Freighter Queen Ltd.	100% subsidiary	9,502,853,286	352,205,399	351,072,903	351,072,903	0.74	23,757,133,215
		Freighter Princess Ltd.	100% subsidiary	9,502,853,286	801,282,051	126,029,872	126,029,872	0.27	23,757,133,215
		Cal Hotel	100% subsidiary	9,502,853,286	180,000,000	180,000,000	-	0.38	23,757,133,215
		Mandarin Airlines	93.99% subsidiary	9,502,853,286	300,000,000	300,000,000	-	0.63	23,757,133,215
1	Cal Asia	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	Investments accounted for by the cost method	9,502,853,286	17,533,762	17,533,762	-	0.04	23,757,133,215

Note 1: Based on the Company’s guidelines, the maximum 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 is up to 50% of the Company’s stockholders’ equity.

TABLE 2

CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES HELD

JUNE 30, 2010

(In New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2010				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines, Ltd.	<u>Stock</u>							
	Taiwan Air Cargo Terminal	Subsidiary	Investments accounted for by the equity method	135,000,000	\$ 1,658,599,569	54.00	\$ 1,658,599,569	-
	Cal Park	Subsidiary	Investments accounted for by the equity method	150,000,000	1,464,007,227	100.00	1,464,007,227	-
	Cal-Dynasty International	Subsidiary	Investments accounted for by the equity method	2,614,500	1,112,292,990	100.00	1,112,292,990	-
	Mandarin Airlines	Subsidiary	Investments accounted for by the equity method	188,154,025	759,065,569	93.99	1,019,666,397	Note 1
	Taoyuan International Airport Services	Subsidiary	Investments accounted for by the equity method	34,300,000	667,561,351	49.00	667,561,351	-
	China Pacific Catering Services	Subsidiary	Investments accounted for by the equity method	43,911,000	613,930,900	51.03	613,930,900	-
	China Aircraft Services	Equity-method investee	Investments accounted for by the equity method	28,400,000	389,510,702	20.00	342,753,539	Notes 2 and 5
	Cal-Asia Investment	Subsidiary	Investments accounted for by the equity method	45,476,200	369,016,206	100.00	369,016,206	-
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments accounted for by the equity method	13,021,042	333,200,687	93.93	333,200,687	-
	Taiwan Airport Services	Subsidiary	Investments accounted for by the equity method	20,626,644	294,658,419	47.35	294,658,419	-
	Kaohsiung Catering Services	Equity-method investee	Investments accounted for by the equity method	12,719,293	179,823,466	31.76	179,823,466	-
	Science Park Logistics	Equity-method investee	Investments accounted for by the equity method	13,293,000	165,920,828	28.48	158,834,290	Note 2
	Asian Compressor Technology Services	Equity-method investee	Investments accounted for by the equity method	7,732,200	148,881,571	24.50	148,881,571	-
	China Pacific Laundry Services	Subsidiary	Investments accounted for by the equity method	13,750,000	119,343,523	55.00	119,343,523	-
	Hwa Hsia	Subsidiary	Investments accounted for by the equity method	50,000	95,297,791	100.00	108,731,301	Note 1
	Cal Hotel	Subsidiary	Investments accounted for by the equity method	26,500,000	89,740,528	100.00	89,740,528	-
	Dynasty Holidays	Subsidiary	Investments accounted for by the equity method	408	40,907,303	51.00	40,907,303	-
	Yestrip	Subsidiary	Investments accounted for by the equity method	1,600,000	24,059,162	100.00	24,059,162	-
	Global Sky Express	Subsidiary	Investments accounted for by the equity method	250,000	6,587,044	25.00	6,587,044	-
	Freighter Princess Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	35,088	100.00	35,088	Note 5
	Freighter Prince Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	34,602	100.00	34,602	Note 5
	Freighter Queen Ltd.	Subsidiary	Investments accounted for by the equity method	1,000	32,895	100.00	32,895	Note 5
	France Telecom	-	Available-for-sale financial assets - current	195,587	110,432,332	-	110,432,332	-
	Abacus International Holdings Ltd. - unlisted common stock	-	Financial assets carried at cost - noncurrent	1,359,368	297,946,451	13.59	255,426,995	Notes 3 and 6
	Abacus International Holdings Ltd.- unlisted preferred stock	-	Financial assets carried at cost - noncurrent	135,937	472,522	-	255,426,995	Notes 3 and 6
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,022,929	15.00	72,171,145	Note 5
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000,000	11.00	13,360,951	Note 5
	Regal International Advertising	-	Financial assets carried at cost - noncurrent	592,500	5,925,000	6.58	1,473,741	Note 5
	Far Eastern Air Transport	-	Financial assets carried 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	374,044,385	-	374,044,385	-
	<u>Beneficiary certificates</u>							
	Bond Fund	-	Financial assets at fair value through profit or loss - current	31,694,465.37	400,193,336	-	400,193,336	-
	TIIM Bond Fund	-	Financial assets at fair value through profit or loss - current	20,759,809.01	300,035,292	-	300,035,292	-
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	16,741,095.03	200,086,220	-	200,086,220	-
	Jih Sun Bond Fund	-	Financial assets at fair value through profit or loss - current	14,150,476.16	200,055,187	-	200,055,187	-
Tawain Air Cargo Terminal	<u>Beneficiary certificates</u>							
	Fsitc Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	9,683,321.50	141,545,952	-	141,545,952	-
	Fsitc Bond Fund	-	Financial assets at fair value through profit or loss - current	334,296.26	57,043,311	-	57,043,311	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2010				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	PCA Well Pool Fund	-	Financial assets at fair value through profit or loss - current	6,127,921.00	\$ 79,651,943	-	\$ 79,651,943	-
	Bond Fund	-	Financial assets at fair value through profit or loss - current	7,997,528.72	100,981,596	-	100,981,596	-
	Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	3,315,803.80	50,242,385	-	50,242,385	-
	Jih Sun Bond Fund	-	Financial assets at fair value through profit or loss - current	3,550,178.22	50,191,355	-	50,191,355	-
	Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	10,865,737.30	130,028,105	-	130,028,105	-
	Fuh-Hwa Yuli Bond Fund	-	Financial assets at fair value through profit or loss - current	9,507,551.90	122,716,824	-	122,716,824	-
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	8,399,938.00	100,394,379	-	100,394,379	-
	Fuh Hwa Global Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	5,830,659.20	61,125,133	-	61,125,133	-
	Manulife Global Fund of Bond Funds	-	Financial assets at fair value through profit or loss - current	2,097,078.36	23,210,883	-	23,210,883	-
	Fuh Hwa Strategic High Income Fund of Funds	-	Financial assets at fair value through profit or loss - current	6,893,976.50	72,110,994	-	72,110,994	-
	Cathay Global Conservative Fund of Fund	-	Financial assets at fair value through profit or loss - current	4,186,074.70	49,461,822	-	49,461,822	-
	Fuh Hwa Global Fixed Income Fund of funds	-	Financial assets at fair value through profit or loss - current	5,113,285.40	63,864,935	-	63,864,935	-
	Fsitc Global High Yield Bond Fund	-	Financial assets at fair value through profit or loss - current	3,585,435.10	40,563,461	-	40,563,461	-
	JF (Taiwan) Wealth Management Fund	-	Financial assets at fair value through profit or loss - current	1,832,643.00	20,003,848	-	20,003,848	-
	Manulife Asia Pacific Bond Fund	-	Financial assets at fair value through profit or loss - current	2,000,000.00	20,380,000	-	20,380,000	-
	Cathay Global Bond Fund	-	Financial assets at fair value through profit or loss - current	2,052,334.50	19,660,749	-	19,660,749	-
	Polaris Global Active Allocation Fund of Bond Fund	-	Financial assets at fair value through profit or loss - current	1,251,029.50	12,685,439	-	12,685,439	-
	Cathay High Income Fund of Funds	-	Financial assets at fair value through profit or loss - current	6,000,000.00	60,208,800	-	60,208,800	-
	Allianz Global Investors Global Bond Fund	-	Financial assets at fair value through profit or loss - current	1,830,362.00	20,001,830	-	20,001,830	-
	Capital Multi-Income Allocation Fund	-	Financial assets at fair value through profit or loss - current	858,369.10	10,103,004	-	10,103,004	-
Taoyuan International Airport Services	<u>Stock</u>							
	Taiwan Whi Lin Industry	Equity-method investee	Investments accounted for by the equity method	4,275,000	48,366,839	24.29	48,366,839	Note 5
	Tao Yao	Subsidiary	Investments accounted for by the equity method	1,000,000	11,258,550	100.00	11,258,550	Note 5
	Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	76,787,017	-
China Pacific Catering Services	<u>Bond</u>							
	First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	300	300,000,000	-	300,000,000	-
	<u>Beneficiary certificates</u>							
	HSBC NTD Money Management Fund 2	-	Available-for-sale financial asset - current	4,959,336.60	72,061,145	-	72,061,145	-
	JF (Taiwan) Bond Fund	-	Available-for-sale financial asset - current	5,063,771.90	80,003,545	-	80,003,545	-
	Fsitc Bond Fund	-	Available-for-sale financial asset - current	293,100.42	50,013,776	-	50,013,776	-
	<u>Bond</u>							
	First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	40	40,000,000	-	40,000,000	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2010				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Mandarin Airlines	<u>Stock</u> China Airlines	Parent company	Available-for-sale financial asset - current	2,074,628	\$ 34,231,362	-	\$ 34,231,362	-
	France Telecom	-	Available-for-sale financial asset - current	8,274	4,671,703	-	4,671,703	-
	<u>Bond</u> First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	300	300,000,000	-	300,000,000	-
Cal-Asia Investment	<u>Stock</u> Xiamen International Airport Air Cargo Terminal	Equity-method investee	Investments accounted for by the equity method	-	204,987,331	14.00	202,940,540	Notes 2 and 4
	Xiamen International Airport Air Cargo Storage	Equity-method investee	Investments accounted for by the equity method	-	79,011,125	14.00	28,604,214	Notes 2 and 4
	Eastern United International Logistics	Equity-method investee	Investments accounted for by the equity method	600,000	16,266,463	20.00	16,266,463	Note 5
	Yangtze River Express Airlines	Equity-method investee	Investments accounted for by the equity method	-	-	25.00	(570,897,788)	Note 4
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	35,729,904	8.00	13,890,218	Notes 4 and 5
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	20,450,161	5.45	18,059,462	Notes 4 and 5
Abacus Distribution Systems (Taiwan)	<u>Beneficiary certificates</u> Tlam B.B. Bond Fund	-	Financial assets at fair value through profit or loss - current	274,456.35	3,214,131	-	3,214,131	-
	IBT 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	1,709,999.45	22,101,142	-	22,101,142	-
	IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	1,917,887.40	26,026,659	-	26,026,659	-
	<u>Bond</u> First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	60	60,000,000	-	60,000,000	-
Taiwan Airport Services	<u>Stock</u> Taiwan Airport Service (Samoa)	Subsidiary	Investments accounted for by the equity method	-	282,664,732	100.00	282,664,732	Note 4
	Titan V.C. Corp.	-	Financial assets carried at cost - noncurrent	4,056,500	28,148,500	5.30	25,362,150	Note 5
	Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	76,786,875	-
	TransAsia Airways	-	Financial assets carried at cost - noncurrent	2,265,182	22,487,967	0.50	22,625,144	Note 6
	<u>Beneficiary certificates</u> Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	1,164,761.70	16,115,759	-	16,115,759	-
	Prudential Financial Small & Medium Capital Fund	-	Financial assets at fair value through profit or loss - current	84,320.00	2,570,917	-	2,570,917	-
	Prudential Financial High-Tech Fund	-	Financial assets at fair value through profit or loss - current	118,970.00	1,836,897	-	1,836,897	-
	Prudential Financial Taiwan Enterprise Fnud	-	Financial assets at fair value through profit or loss - current	55,300.00	1,168,489	-	1,168,489	-
	IBT 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	930,113.15	12,012,411	-	12,012,411	-
	The Rsit Enhanced Bond Fund	-	Financial assets at fair value through profit or loss - current	1,048,827.91	12,010,128	-	12,010,128	-
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	65,091.20	1,004,611	-	1,004,611	-
Hwa Hsia	<u>Stock</u> Hwa Shin Building Safeguard	Subsidiary	Investments accounted for by the equity method	1,000,000	17,634,677	100.00	17,634,677	Note 5
	China Airlines	Parent company	Available-for-sale financial asset - current	814,152	13,433,508	-	13,433,508	-
	<u>Beneficiary certificates</u> IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	1,404,287.30	19,056,881	-	19,056,881	-
	IBT 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	1,125,378.09	14,534,258	-	14,534,258	-
	Polaris Global Active Allocation Fund of Bond Fund	-	Financial assets at fair value through profit or loss - current	900,000.00	9,135,000	-	9,135,000	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2010				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Yestrip	<u>Bond</u> First issue of private unsecured bonds in 2010 - China Airlines	Parent company	Bond investments with no active market - noncurrent	10	\$ 10,000,000	-	\$ 10,000,000	-
	<u>Beneficiary certificates</u> Franklin Templeton First Taiwan First Fund	-	Financial assets at fair value through profit or loss - current	19,391.73	4,049,216	-	4,049,216	-
Taiwan Airport Service (Samoa)	<u>Stock</u> Xiamen International Airport Air Cargo Terminal	Equity-method investee	Investments accounted for by the equity method	-	203,708,714	14.00	202,940,540	Notes 2 and 4
	Xiamen International Airport Air Cargo Storage	Equity-method investee	Investments accounted for by the equity method	-	78,475,788	14.00	28,604,214	Notes 2 and 4

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

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

Note 3: The subsidiary’s net asset value was \$255,426,995 which included common stock and preferred stock as of and for the six months ended June 30, 2010.

Note 4: The Company has not issue stocks.

Note 5: The net asset value was calculated using the investee's unaudited financial statements as of and for the six months ended June 30, 2010 because the investee’s audited financial statement as of and for the six months ended June 30, 2010 was not acquired.

Note 6: The net asset value was calculated using the investee's audited financial statements as of and for the year ended December 31, 2009 because the investee’s audited financial statement as of and for the six months ended June 30, 2010 was not acquired.

(Concluded)

TABLE 3

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
SIX MONTHS ENDED JUNE 30, 2010
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Issuer/Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount (Note)	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
China Airlines	<u>Beneficiary certificates</u> Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	\$ -	91,133,740.19	\$ 1,150,193,336	59,439,274.82	\$ 750,163,648	\$ 750,000,000	\$ 163,648	31,694,465.37	\$ 400,193,336
	TIIM Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	58,847,425.14	850,035,292	38,087,616.13	550,126,710	550,000,000	126,710	20,759,809.01	300,035,292
	Mega Diamond Bond Fund	Financial assets at fair value through profit or loss - current	-	-	16,774,020.40	200,000,000	37,677,119.82	650,086,220	37,710,045.19	450,210,026	450,000,000	210,026	16,741,095.03	200,086,220
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	109,721,896.88	1,550,055,187	95,571,420.72	1,350,335,526	1,350,000,000	335,526	14,150,476.16	200,055,187
	Jih Sun Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	14,166,914.59	200,000,000	14,166,914.59	200,025,500	200,000,000	25,500	-	-
	ING Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	25,635,359.53	400,000,000	25,635,359.53	400,060,239	400,000,000	60,239	-	-
	Yuanta Wan Tai Bond Fund	Financial assets at fair value through profit or loss - current	-	-	6,911,041.10	100,000,000	-	-	6,911,041.10	100,014,513	100,000,000	14,513	-	-
	Taishin Lucky Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	103,403,927.40	1,100,000,000	103,403,927.40	1,100,204,979	1,100,000,000	204,979	-	-
	TLG Solomon Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	41,421,760.77	500,000,000	41,421,760.77	500,128,409	500,000,000	128,409	-	-
	IBT 1699 Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	38,724,808.18	500,000,000	38,724,808.18	500,107,663	500,000,000	107,663	-	-
	IBT Ta Chong Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	36,855,001.30	500,000,000	36,855,001.30	500,114,997	500,000,000	114,997	-	-
	SinoPac Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	11,246,738.40	150,000,000	11,246,738.40	150,020,244	150,000,000	20,244	-	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	46,228,380.80	700,000,000	46,228,380.80	700,139,363	700,000,000	139,363	-	-
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	28,212,267.60	390,000,000	28,212,267.60	390,113,781	390,000,000	113,781	-	-
	Hua Nan Kirin Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	34,847,759.00	400,000,000	34,847,759.00	400,034,847	400,000,000	34,847	-	-
	Hua Nan Phoenix Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,839,442.80	200,000,000	12,839,442.80	200,017,976	200,000,000	17,976	-	-
	Paradigm Pion Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	63,337,858.47	700,000,000	63,337,858.47	700,150,208	700,000,000	150,208	-	-
	Shin Kong Chi-Shin Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	26,993,107.54	400,000,000	26,993,107.54	400,052,634	400,000,000	52,634	-	-
	The Rsit Enhanced Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	17,485,115.80	200,000,000	17,485,115.80	200,015,737	200,000,000	15,737	-	-
	Allianz Global Investors Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	33,363,222.72	400,000,000	33,363,222.72	400,030,027	400,000,000	30,027	-	-
	JF (Taiwan) Taiwan Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	25,331,527.90	400,000,000	25,331,527.90	400,058,265	400,000,000	58,265	-	-
	Polaris De-Li Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,815,091.10	200,000,000	12,815,091.10	200,026,912	200,000,000	26,912	-	-
	Polaris De-Bao Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	34,835,734.10	400,000,000	34,835,734.10	400,064,879	400,000,000	64,879	-	-
Tawain Air Cargo Terminal	<u>Beneficiary certificates</u> Upamc James Bond Fund	Financial assets at fair value through profit or loss - current	-	-	6,418,661.64	102,611,292	-	-	6,418,661.64	102,675,848	102,407,821	64,556	-	-

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

TABLE 4

CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2010
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines, Ltd. (“China Airlines”)	Taiwan Air Cargo Terminal Mandarin Airlines	Subsidiary	Purchase	\$ 183,690,969	0.34	30 days	\$ -	-	\$ (42,747,295)	(3.53)	-
		Subsidiary	Sale	(935,644,486)	(1.40)	2 months	-	-	432,641,823	2.91	-
			Purchase	123,460,709	0.23	2 months	-	-	(368,710,205)	(30.49)	-
	Taoyuan International Airport Services China Pacific Catering Services China Aircraft Services Limited Taiwan Airport Services Hwa Hsia Yangtze River Express Airlines	Subsidiary	Purchase	509,498,751	0.93	40 days	-	-	(275,560,686)	(22.78)	-
		Subsidiary	Purchase	484,119,160	0.88	60 days	-	-	(256,704,306)	(21.22)	-
		Equity-method investee	Purchase	100,552,503	0.18	30 days	-	-	(34,641,840)	(2.86)	-
		Subsidiary	Purchase	111,714,520	0.20	40 days	-	-	(37,254,509)	(3.08)	-
		Subsidiary	Purchase	121,308,811	0.22	2 months	-	-	(43,804,292)	(3.62)	-
		Subsidiary’s equity-method investee	Sale	(331,551,822)	(0.50)	2 months	-	-	48,226,992	0.32	-
Taiwan Air Cargo Terminal	China Airlines	Parent company	Sale	(183,690,969)	(23.91)	30 days	-	-	42,747,295	50.01	-
Mandarin Airlines	China Airlines	Parent company	Purchase	935,644,486	35.30	2 months	-	-	(432,641,823)	(72.33)	-
			Sale	(123,460,709)	(3.69)	2 months	-	-	368,410,205	51.27	-
Taoyuan International Airport Services	China Airlines	Parent company	Sale	(509,498,751)	(45.47)	30 days	-	-	275,560,686	68.76	-
China Pacific Catering Services	China Airlines	Parent company	Sale	(484,119,160)	(61.19)	60 days	-	-	256,704,306	72.10	-
China Aircraft Services Limited	China Airlines	Investor using equity method	Sale	(100,552,503)	(18.87)	30 days	-	-	34,641,840	15.84	-
Taiwan Airport Services	China Airlines	Parent company	Sale	(111,714,520)	(33.64)	45 days	-	-	37,254,509	35.07	-
Hwa Hsia	China Airlines	Parent company	Sale	(121,308,811)	(82.84)	2 months	-	-	43,804,292	88.98	-
Yangtze River Express Airlines	China Airlines	Parent company of stockholder using equity-method	Purchase	331,551,822	0.68	2 months	-	-	(48,226,992)	(2.04)	-

CHINA AIRLINES, LTD. AND INVESTEEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2010
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. (“China Airlines”)	Mandarin Airlines	Subsidiary	\$ 432,641,823	4.55	\$ -	-	\$ 171,710,539	\$ -
Mandarin Airlines	China Airlines	Parent company	368,710,205	0.65	-	-	64,469,113	-
Taoyuan International Airport Services	China Airlines	Parent company	275,560,686	4.01	-	-	141,069,932	-
China Pacific Catering Services	China Airlines	Parent company	256,704,306	3.99	-	-	86,512,272	-

TABLE 6

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2010
(In New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2010			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2010	December 31, 2009	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	\$ 1,658,599,569	\$ 64,882,388	\$ 35,036,490	-
	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	1,500,000,000	1,500,000,000	150,000,000	100.00	1,464,007,227	(11,988,797)	(11,988,797)	-
	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	1,112,292,990	(11,181,917)	(11,181,917)	Note 2
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368,252	2,042,368,252	188,154,025	93.99	759,065,569	261,660,902	262,372,453	Note 1
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000,000	147,000,000	34,300,000	49.00	667,561,351	51,610,371	25,289,082	-
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110,000	439,110,000	43,911,000	51.03	613,930,900	131,292,947	66,997,532	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK\$ 58,000,000	HK\$ 58,000,000	28,400,000	20.00	389,510,702	34,510,909	6,902,182	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 45,476,200	US\$ 45,476,200	45,476,200	100.00	369,016,206	16,876,422	16,876,422	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200,000	52,200,000	13,021,042	93.93	333,200,687	72,689,760	68,281,040	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289,100	12,289,100	20,626,644	47.35	294,658,419	318,333	150,738	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	115,642,930	115,642,930	12,719,293	31.76	179,823,466	73,252,092	23,263,791	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	150,654,000	150,654,000	13,293,000	28.48	165,920,828	23,029,273	6,559,888	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50	148,881,571	133,196,572	32,633,160	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the tower of airlines, hotels, restaurants, and health clubs	137,500,000	137,500,000	13,750,000	55.00	119,343,523	9,469,658	5,208,312	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00	95,297,791	16,369,774	16,369,774	Note 1
	Cal Hotel	Taoyuan, Taiwan	Hotel business	265,000,000	265,000,000	26,500,000	100.00	89,740,528	(60,746,624)	(60,746,624)	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00	40,907,303	2,394,195	1,221,039	-
	Yestrip	Taipei, Taiwan	Travel business	26,264,643	36,264,643	1,600,000	100.00	24,059,162	3,434,900	3,434,900	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00	6,587,044	3,996,640	999,160	-
	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	Taiwan Whi Lin Industry	Taichung, Taiwan	Other machine manufacturing	49,477,500	49,477,500	4,275,000	24.29	48,366,839	3,599,147	986,641	-
	Tao Yao	Taoyuan, Taiwan	Manpower placement and machine installation	10,000,000	10,000,000	1,000,000	100.00	11,258,550	144,343	146,491	-
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	204,987,331	65,764,019	9,206,933	Note 4
	Xiamen International Airport Air Cargo Storage	Xiamen International Airport	Airport cargo and storage of air cargo	US\$ 1,947,441	US\$ 1,947,441	-	14.00	79,011,125	29,312,407	4,103,737	Note 4
	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK\$ 1,500,000	HK\$ 1,500,000	600,000	20.00	16,266,463	(6,706,415)	4,307,697	-
	Yangtze River Express Airlines	Shanghai, China	Forwarding and storage of air cargo	US\$ 38,796,173	US\$ 38,796,173	-	25.00	-	(640,506)	-	Notes 3 and 4
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US\$ 5,858,058	US\$ 5,858,058	-	100.00	282,664,732	13,786,517	13,786,517	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	17,634,677	3,321,921	3,321,921	-
Taiwan Airport Service (Samoa)	Xiamen International Airport Air Cargo Terminal	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 3,750,226	US\$ 3,950,226	-	14.00	203,708,714	65,763,886	9,206,933	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	78,475,788	29,312,405	4,103,737	Note 4

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

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

Note 3: According to SFAS No. 5, the book value of investment was zero and the Company has no intention to hold afterwards. The Company has not recognize the investment income.

Note 4: The investee has not issue stocks

TABLE 7

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENT IN MAINLAND CHINA
SIX MONTHS ENDED JUNE 30, 2010
(In New Taiwan Dollars, RMB, and U.S. Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (Note 1)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2010	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2010	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of June 30, 2010	Accumulated Inward Remittance of Earnings as of June 30, 2010
					Outflow	Inflow					
Xiamen International Air Cargo Terminal	Forwarding and storage of air cargo	\$ 1,060,869,565 (RMB 224,480,000)	Indirect	\$ 132,406,624 (US\$ 4,117,846)	\$ -	\$ -	\$ 132,406,624 (US\$ 4,117,846)	14.00%	\$ 9,206,933 (US\$ 288,177)	\$ 204,987,331 (US\$ 6,375,106)	\$ 35,463,259 (US\$ 1,110,000) (Note 3)
Xiamen International Airport Air Cargo Storage	Forwarding and storage of air cargo	66,162,571 (RMB 14,000,000)	Indirect	62,618,682 (US\$ 1,947,441)	-	-	62,618,682 (US\$ 1,947,441)	14.00%	4,103,737 (US\$ 128,447)	79,011,125 (US\$ 2,457,247)	-
Taikoo (Xiamen) Landing Gear Services	Maintenance services of landing gear	446,623,794 (US\$ 13,890,000)	Indirect	35,729,904 (US\$ 1,111,200)	-	-	35,729,904 (US\$ 1,111,200)	8.00%	-	35,729,904 (US\$ 1,111,200)	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	390,744,423 (RMB 82,681,520)	Indirect	20,450,161 (US\$ 636,000)	-	-	20,450,161 (US\$ 636,000)	5.45%	-	20,450,161 (US\$ 636,000)	-
Yangtze River Express Airlines	Forwarding and storage of air cargo	2,362,948,960 (RMB 500,000,000)	Indirect	1,247,465,370 (US\$ 38,796,173)	-	-	1,247,465,370 (US\$ 38,796,173)	25.00%	-	-	-

Accumulated Investment in Mainland China as of June 30, 2010	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,498,670,741 (US\$46,608,660)	\$1,502,135,252 (Note 4)	\$32,222,364,105 (Note 5)

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

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

Note 3: Inward remittance of earnings of investees for the six months ended June 30, 2010 is US\$1,110,000.

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

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

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