

**China Airlines, Ltd.**

**Financial Statements for the Six Months Ended  
June 30, 2003 and 2002  
Together with Independent Auditors' Report**

Readers are advised that the original version of these financial statements is in Chinese. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

**CHINA AIRLINES, LTD.**

**CONTENTS**

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	<b><u>Page</u></b>
Independent auditors' report	1-2
Balance sheets	3
Statements of income	4-5
Statements of changes in stockholders' equity	6
Statements of cash flows	7-8
Notes to the financial statements	9-43

**English Translation of a Report Originally Issued in Chinese**

**INDEPENDENT AUDITORS' REPORT**

August 8, 2003

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, 2003 and 2002, 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 did not audit the financial statements as of and for the six months ended June 30, 2003 and 2002 of China Pacific Catering Services, Cal-Dynasty International, Taiwan Airport Services, Abacus Distribution Systems (Taiwan), and three other investees, which were accounted for by the equity method, as shown in the accompanying financial statements. In addition, we also did not audit the financial statements for the six months ended June 30, 2002, of Taiwan Air Cargo Terminal, Taoyuan International Airport Service, China Pacific Laundry Services and Hwa Hsia. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those investees, is based solely on the reports of the other auditors. The aggregate carrying values of those investments were 1% (NT\$2,593,130,000) and 3% (NT\$5,406,020,000) of the Company's total assets as of June 30, 2003 and 2002, respectively. The Company's shares in these investees' net income for the six months ended June 30, 2003 and 2002 were NT\$60,856,000 and NT\$410,935,000, respectively.

We conducted our audits in accordance with the Regulations for Audit of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Those 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of June 30, 2003 and 2002, and the results of its operation and its cash flows for the six months then ended, in conformity with Guidelines for Securities Issuers' Financial Reporting and generally accepted accounting principles in the Republic of China.

Deloitte & Touche  
(T N Soong & Co and Deloitte & Touche (Taiwan)  
Established Deloitte & Touche Effective June 1, 2003)  
Taipei, Taiwan  
The Republic of China

#### 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.

English Translation of Financial Statements Originally Issued in Chinese

CHINA AIRLINES, LTD.

BALANCE SHEETS

JUNE 30, 2003 AND 2002

(In Thousands of New Taiwan Dollars and Shares, Except Par Value)

ASSETS	2003		2002	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Note 3)	\$ 2,523,593	1	\$ 3,491,298	2
Short-term investments—net (Notes 2 and 4)	12,734,848	7	8,414,756	5
Receivables:				
Trade notes and accounts—net (Notes 2 and 5)	4,319,404	3	4,858,906	3
Related parties (Note 23)	322,211	-	135,088	-
Other receivables (Note 6)	2,678,981	2	793,179	1
Pledged certificate of deposit (Note 24)	276,817	-	269,360	-
Inventories—net (Notes 2 and 7)	5,488,759	3	5,732,104	4
Prepaid expenses (Note 8)	376,881	-	629,880	-
Deferred income tax assets—current (Notes 2 and 19)	251,743	-	430,604	1
Other current assets	938,439	1	407,905	-
Total current assets	<u>29,911,676</u>	<u>17</u>	<u>25,163,080</u>	<u>16</u>
<b>INVESTMENTS IN SHARES OF STOCK (Notes 2 and 9)</b>				
Accounted for by the equity method	6,274,171	3	6,992,759	4
Accounted for by the cost method	1,026,339	1	1,111,504	1
Advances for investments in shares of stock	1,631,944	1	-	-
Total investment in shares of stock	<u>8,932,454</u>	<u>5</u>	<u>8,104,263</u>	<u>5</u>
<b>OTHER FINANCIAL ASSETS—Noncurrent</b>	<u>21,456</u>	<u>-</u>	<u>225,534</u>	<u>-</u>
<b>PROPERTIES (Notes 2, 10 and 24)</b>				
Cost				
Land	2,153,583	1	2,153,583	1
Building	7,605,784	4	7,570,370	5
Machinery and equipment	3,169,221	2	2,977,580	2
Flight equipment	107,316,546	61	105,455,094	67
Furniture	858,000	1	785,236	1
Leased flight and other equipment	24,346,451	14	43,311,378	27
Leasehold improvements	416,410	-	422,596	-
Revaluation increment	185,464	-	218,095	-
Total cost and revaluation increment	146,051,459	83	162,893,932	103
Accumulated depreciation	( 36,016,526 )	( 21 )	( 50,245,951 )	( 32 )
Advances for equipment acquisition (Note 25)	<u>19,413,677</u>	<u>11</u>	<u>5,368,428</u>	<u>3</u>
Net properties	<u>129,448,610</u>	<u>73</u>	<u>118,016,409</u>	<u>74</u>
<b>INTANGIBLE ASSETS</b>				
Computer software (Note 2)	148,101	-	157,703	-
Prepaid pension cost (Note 2)	2,621,386	2	2,185,609	2
Net intangible assets	<u>2,769,487</u>	<u>2</u>	<u>2,343,312</u>	<u>2</u>
<b>OTHER ASSETS</b>				
Deposits (Note 25)	3,620,266	2	4,019,765	3
Idle properties—net	696,425	1	659,099	-
Deferred charges (Note 2)	147,766	-	195,177	-
Deferred income tax assets—noncurrent (Notes 2 and 19)	502,870	-	-	-
Net other assets	<u>4,967,327</u>	<u>3</u>	<u>4,874,041</u>	<u>3</u>
<b>TOTAL ASSETS</b>	<u>\$ 176,051,010</u>	<u>100</u>	<u>\$ 158,726,639</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2003		2002	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Short-term loans (Notes 11 and 24)	\$ 14,098,235	8	\$ 1,000,000	1
Commercial paper (Note 12)	4,386,425	3	449,503	-
Accounts payable	361,787	-	430,286	-
Payable to related parties (Note 23)	523,519	-	689,423	1
Accrued expenses (Note 2)	6,512,054	4	7,953,553	5
Advance ticket sales (Note 2)	1,399,459	1	3,663,964	2
Loans and debts—current portion (Notes 14 and 24)	8,651,269	5	8,754,874	6
Capital lease obligations—current portion (Notes 2 and 15)	1,192,166	1	2,042,851	1
Other current liabilities (Note 2)	602,514	-	1,332,407	1
Bonds issued—current portion (Notes 2 and 13)	3,433,300	2	-	-
Total current liabilities	<u>41,160,728</u>	<u>24</u>	<u>26,316,861</u>	<u>17</u>
<b>LONG-TERM DEBTS</b>				
Bonds issued—net of current portion (Notes 2 and 13)	9,000,000	5	8,436,200	5
Loans and debts—net of current portion (Notes 14 and 24)	60,769,928	34	51,489,628	32
Capital lease obligations—net of current portion (Notes 2 and 15)	13,617,238	8	21,770,301	14
Total long-term debts	<u>83,387,166</u>	<u>47</u>	<u>81,696,129</u>	<u>51</u>
<b>OTHER LIABILITIES</b>				
Accrued pension cost (Notes 2 and 16)	4,321,944	3	3,874,313	2
Deferred profit on sale—leaseback (Note 2)	800,634	-	1,001,104	1
Deferred income taxes—noncurrent (Notes 2 and 19)	-	-	573,106	-
Others	725,193	-	788,805	1
Total other liabilities	<u>5,847,771</u>	<u>3</u>	<u>6,237,328</u>	<u>4</u>
Total liabilities	<u>130,395,665</u>	<u>74</u>	<u>114,250,318</u>	<u>72</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock, \$10 par value				
Authorized—3,970,000 shares in 2003 and 2,960,000 shares in 2002				
Issued and outstanding—2,542,796 shares in 2003 and 2,423,899 shares in 2002	25,427,956	14	24,238,993	15
Capital increment	2,711,718	2	1,187,152	1
Total capital stock	<u>28,139,674</u>	<u>16</u>	<u>25,426,145</u>	<u>16</u>
Capital surplus				
Paid-in capital in excess of par value	7,105,062	4	7,104,445	4
Revaluation increment on properties	830,471	1	830,471	1
Share in capital surplus reported by equity-accounted investees	660	-	16,820	-
Gain on sale of treasury shares	22,858	-	5,247	-
Others	5,044	-	5,044	-
Total capital surplus	<u>7,964,095</u>	<u>5</u>	<u>7,962,027</u>	<u>5</u>
Retained earnings				
Legal reserve	3,994,172	2	3,572,557	2
Unappropriated earnings	5,366,055	3	7,603,027	5
Total retained earnings	<u>9,360,227</u>	<u>5</u>	<u>11,175,584</u>	<u>7</u>
Unrealized loss on investments in shares of stock	( 83,979 )	-	( 11,358 )	-
Cumulative translation adjustments	462,592	-	171,694	-
Shares of the Company held by subsidiaries reclassified as treasury stock	( 187,264 )	-	( 247,771 )	-
Total stockholders' equity	<u>45,655,345</u>	<u>26</u>	<u>44,476,321</u>	<u>28</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 176,051,010</u>	<u>100</u>	<u>\$ 158,726,639</u>	<u>100</u>

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

(With Deloitte & Touche report dated August 8, 2003)

**English Translation of Financial Statements Originally Issued in Chinese**

**CHINA AIRLINES, LTD.**

**STATEMENTS OF INCOME**

**For the Six Months Ended June 30, 2003 and 2002**

**(In Thousands of New Taiwan Dollars and Shares, Except Earnings Per Share)**

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
REVENUES (Notes 2 and 23)				
Passenger	\$ 15,044,730	46	\$ 21,943,569	56
Cargo	15,955,297	48	14,992,944	39
Others	<u>2,046,146</u>	<u>6</u>	<u>1,970,840</u>	<u>5</u>
Total operating revenues	<u>33,046,173</u>	<u>100</u>	<u>38,907,353</u>	<u>100</u>
COSTS (Notes 21 and 23)				
Flying operations	14,377,434	44	15,647,369	40
Terminal and landing fees	6,313,884	19	6,764,466	18
Passenger services	3,132,159	9	3,186,261	8
Aircraft maintenance	2,662,082	8	3,371,740	9
Others	<u>1,323,893</u>	<u>4</u>	<u>1,218,098</u>	<u>3</u>
Total operating costs	<u>27,809,452</u>	<u>84</u>	<u>30,187,934</u>	<u>78</u>
GROSS PROFIT	<u>5,236,721</u>	<u>16</u>	<u>8,719,419</u>	<u>22</u>
OPERATING EXPENSES (Note 21)				
Marketing and selling	4,754,142	15	4,992,021	13
General and administrative	<u>1,059,959</u>	<u>3</u>	<u>1,067,301</u>	<u>2</u>
Total operating expenses	<u>5,814,101</u>	<u>18</u>	<u>6,059,322</u>	<u>15</u>
OPERATING INCOME (LOSS)	( <u>577,380</u> )	( <u>2</u> )	<u>2,660,097</u>	<u>7</u>
NONOPERATING INCOME				
Interest	37,902	-	84,789	-
Equity in investees' net income—net (Notes 2 and 9)	-	-	239,702	1
Dividend income	9,313	-	118,721	-
Gain on disposal of properties—net (Note 2)	1,791	-	1,269	-
Gain on disposal of investments—net	33,316	-	46,317	-
Gain on physical inventory	1,337	-	2,357	-
Foreign exchange gain—net (Note 2)	73,549	-	-	-
Others	<u>849,384</u>	<u>3</u>	<u>274,540</u>	<u>1</u>
Total nonoperating income	<u>1,006,592</u>	<u>3</u>	<u>767,695</u>	<u>2</u>

(Continued)

**English Translation of Financial Statements Originally Issued in Chinese**

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>NONOPERATING EXPENSES</b>				
Interest	\$ 1,263,644	4	\$ 1,572,662	4
Equity in investees' net loss—net (Notes 2 and 9)	122,958	-	-	-
Foreign exchange loss—net (Note 2)	-	-	420,973	1
Others	<u>137,274</u>	<u>-</u>	<u>140,409</u>	<u>1</u>
Total nonoperating expenses	<u>1,523,876</u>	<u>4</u>	<u>2,134,044</u>	<u>6</u>
<b>PRETAX INCOME (LOSS) AND EXTRAORDINARY ITEM</b>				
	( 1,094,664 )	( 3 )	1,293,748	3
<b>INCOME TAX BENEFIT</b> (Notes 2 and 19)	<u>189,641</u>	<u>-</u>	<u>58,450</u>	<u>-</u>
<b>INCOME (LOSS) BEFORE EXTRAORDINARY LOSS</b>	( 905,023 )	( 3 )	1,352,198	3
<b>EXTRAORDINARY LOSS</b> —Net of tax effects of \$5,615 (Notes 19 and 20)	<u>-</u>	<u>-</u>	<u>16,846</u>	<u>-</u>
<b>NET INCOME (LOSS)</b>	( <u>\$ 905,023</u> )	( <u>3</u> )	\$ <u>1,335,352</u>	<u>3</u>
	<u>2003</u>		<u>2002</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
<b>EARNINGS PER SHARE</b> (Note 22)				
Basic earnings per share				
Income (loss) before extraordinary loss	( \$ 0.39 )	( \$ 0.32 )	\$ 0.48	\$ 0.51
Extraordinary loss	<u>-</u>	<u>-</u>	( <u>0.01</u> )	( <u>0.01</u> )
Net income (loss)	( <u>\$ 0.39</u> )	( <u>\$ 0.32</u> )	<u>\$ 0.47</u>	<u>\$ 0.50</u>
Diluted earnings per share				
Income (loss) before extraordinary loss	( \$ 0.39 )	( \$ 0.32 )	\$ 0.48	\$ 0.50
Extraordinary loss	<u>-</u>	<u>-</u>	( <u>0.01</u> )	( <u>0.01</u> )
Net income	( <u>\$ 0.39</u> )	( <u>\$ 0.32</u> )	<u>\$ 0.47</u>	<u>\$ 0.49</u>

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

(With Deloitte & Touche report dated August 8, 2003)

(Concluded)

CHINA AIRLINES, LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002  
(Dollars and Shares in Thousands, Except Dividend Per Share)

	Capital Stock		Capital Increment (Note 17)	Paid-in capital in excess of par value	Revaluation increment on properties	Gain on disposal of property and equipment	Capital Surplus (Notes 2 And 17)			Retained Earnings (Notes 2 And 17)			Shares of the Company Held by Subsidiaries (Notes 2 and 18)	Unrealized Loss on Investments in Shares of Stock (Note 2)	Cumulative Translation Adjustments (Note 2)	Total Stockholders' Equity	
	Issued						Share in capital surplus reported by equity- accounted investees	Gain on sale of treasury shares	Others	Total	Legal reserve	Unappropriated earnings					Total
	Shares	Amount															
BALANCE, JANUARY 1, 2003	2,542,796	\$25,427,956	\$ -	\$ 7,104,934	\$ 830,471	\$ -	\$ -	\$ 21,951	\$5,044	\$ 7,962,400	\$ 3,572,557	\$ 9,403,939	\$12,976,496	(\$ 189,738)	(\$ 26,746)	\$ 637,791	\$46,788,159
Appropriations and distributions of 2002 earnings:																	
Legal reserve	-	-	-	-	-	-	-	-	-	-	421,615	( 421,615)	-	-	-	-	-
Bonus to employees	-	-	168,450	-	-	-	-	-	-	-	-	( 168,450)	( 168,450)	-	-	-	-
Stock dividends—10%	-	-	2,542,796	-	-	-	-	-	-	-	-	( 2,542,796)	( 2,542,796)	-	-	-	-
Share in capital surplus reported by equity-accounted investees	-	-	-	-	-	-	660	-	-	660	-	-	-	-	-	-	660
Translation adjustments of foreign investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 12,320)	( 12,320)	( 12,320)
Translation adjustments from foreign entity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 162,879)	( 162,879)	( 162,879)
Conversion of bonds to capital stock	-	-	472	128	-	-	-	-	-	128	-	-	-	-	-	-	600
Net loss in 2003	-	-	-	-	-	-	-	-	-	-	-	( 905,023)	( 905,023)	-	-	-	( 905,023)
Unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	( 57,223)	-	-	( 57,223)
Capital surplus from sale of shares of the Company held by subsidiaries	-	-	-	-	-	-	-	907	-	907	-	-	-	2,474	-	-	3,381
BALANCE, JUNE 30, 2003	<u>2,542,796</u>	<u>\$25,427,956</u>	<u>\$ 2,711,718</u>	<u>\$ 7,105,062</u>	<u>\$ 830,471</u>	<u>\$ -</u>	<u>\$ 660</u>	<u>\$ 22,858</u>	<u>\$5,044</u>	<u>\$ 7,964,095</u>	<u>\$ 3,994,172</u>	<u>\$ 5,366,055</u>	<u>\$ 9,360,227</u>	<u>(\$ 187,264)</u>	<u>(\$ 83,979)</u>	<u>\$ 462,592</u>	<u>\$45,655,345</u>
BALANCE, JANUARY 1, 2002	2,423,899	\$24,238,993	\$ -	\$ 7,104,445	\$ 830,471	\$ 1,062,895	\$ 20,113	\$ -	\$5,009	\$ 9,022,933	\$ 3,394,044	\$ 6,930,736	\$10,324,780	\$ -	(\$ 11,358)	\$ 1,045,011	\$44,620,359
Appropriations and distributions of 2001 earnings:																	
Legal reserve	-	-	-	-	-	-	-	-	-	-	178,513	( 178,513)	-	-	-	-	-
Bonus to employees	-	-	96,397	-	-	-	-	-	-	-	-	( 96,397)	( 96,397)	-	-	-	-
Stock dividends—4.5%	-	-	1,090,755	-	-	-	-	-	-	-	-	( 1,090,755)	( 1,090,755)	-	-	-	-
Cash dividends—\$0.15 per share	-	-	-	-	-	-	-	-	-	-	-	( 363,584)	( 363,584)	-	-	-	( 363,584)
Share in capital surplus reported by equity-accounted investees	-	-	-	-	-	-	( 3,293)	-	-	( 3,293)	-	3,293	3,293	-	-	-	-
Capital surplus from sale of shares of the Company held by subsidiaries	-	-	-	-	-	-	-	5,247	-	5,247	-	-	-	-	-	-	5,247
Stocks of the Company held by subsidiaries presented as treasury stock—19,115 shares	-	-	-	-	-	-	-	-	-	-	-	-	-	( 247,771)	-	-	( 247,771)
Translation adjustments of foreign investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 873,317)	( 873,317)	( 873,317)
Forfeited of overdue dividends	-	-	-	-	-	-	-	-	35	35	-	-	-	-	-	-	35
Net income in 2002	-	-	-	-	-	-	-	-	-	-	-	1,335,352	1,335,352	-	-	-	1,335,352
Reclassification of gain on disposal of properties	-	-	-	-	-	( 1,062,895)	-	-	-	( 1,062,895)	-	1,062,895	1,062,895	-	-	-	-
BALANCE, JUNE 30, 2002	<u>2,423,899</u>	<u>\$24,238,993</u>	<u>\$ 1,187,152</u>	<u>\$ 7,104,445</u>	<u>\$ 830,471</u>	<u>\$ -</u>	<u>\$ 16,820</u>	<u>\$ 5,247</u>	<u>\$5,044</u>	<u>\$ 7,962,027</u>	<u>\$ 3,572,557</u>	<u>\$ 7,603,027</u>	<u>\$11,175,584</u>	<u>(\$ 247,771)</u>	<u>(\$ 11,358)</u>	<u>\$ 171,694</u>	<u>\$44,476,321</u>

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

(With Deloitte & Touche report dated August 8, 2003)

**English Translation of Financial Statements Originally Issued in Chinese**

**CHINA AIRLINES, LTD.**

**STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002  
(In Thousands of New Taiwan Dollars)**

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	(\$ 905,023)	\$ 1,335,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision of allowance for doubtful receivables	-	40,000
Reversal of allowance for losses on short-term investments	( 12,445)	( 580)
Depreciation and amortization	3,515,647	3,405,221
Gain on disposal of properties—net	( 1,791)	( 1,269)
Gain on disposal of idle properties—net	( 145,352)	-
Gain (loss) on disposal of investments in shares of stock	( 20)	10,165
Net loss on inventories, properties and idle properties	16,350	125,759
Equity in investees' net gain less cash dividends received	122,958	556,565
Amortization of deferred profit on sale—leaseback	( 100,235)	( 100,235)
Amortization of deferred credits	( 33,235)	( 28,983)
Deferred income taxes	( 779,573)	( 80,461)
Reversal of capital lease obligations	( 981,738)	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Trade notes and accounts—third parties	716,762	52,297
Trade notes and accounts—related parties	( 51,006)	( 8,365)
Other receivables	( 709,141)	353,105
Inventories	( 94,300)	( 547,524)
Prepaid expenses	( 248,973)	( 174,196)
Other current assets	18,818	120,601
Increase (decrease) in:		
Accounts payable	( 200,610)	( 257,428)
Payable to related parties	( 299,654)	71,751
Accrued expenses	( 1,600,769)	1,680,967
Advance ticket sales	( 1,850,622)	907,665
Other current liabilities	( 234,022)	387,691
Accrued pension cost	78,381	79,826
Net cash provided by (used in) operating activities	( <u>3,779,593</u> )	<u>7,927,924</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in pledged certificate of deposits	1,930	-
Increase in short-term investments	( 12,534,205)	( 7,820,000)
Addition to investments in shares of stock	( 1,631,944)	( 35)
Proceeds from disposal of investments in shares of stock	296	26,292
Proceeds from disposal of properties	1,794	1,269
Proceeds from disposal of idle properties	183,241	-
Additions to properties	( 7,012,174)	( 7,221,396)
Decrease in other financial assets—noncurrent	-	590,365
Increase in intangible assets	( 11,025)	( 8,872)

(Continued)

**English Translation of Financial Statements Originally Issued in Chinese**

	<u>2003</u>	<u>2002</u>
Decrease (increase) in deposits made	\$ 84,854	(\$ 183,860)
Decrease (increase) in other assets	( <u>23,519</u> )	<u>51,760</u>
Net cash used in investing activities	( <u>20,940,752</u> )	( <u>14,564,477</u> )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term loans	11,278,723	800,000
Proceeds from (repayments of) commercial paper	2,817,249	( 1,373,889 )
Proceeds from long-term debts	12,471,149	11,362,943
Payments of long-term debts	( 5,201,816 )	( 3,606,630 )
Proceeds from bonds issued	4,000,000	2,000,000
Increase in deposits-in	<u>7,319</u>	<u>1,024</u>
Net cash provided by financing activities	<u>25,372,624</u>	<u>9,183,448</u>
INCREASE IN CASH	652,279	2,546,895
EFFECTS OF EXCHANGE RATE CHANGES	22,180	( 308,522 )
CASH, BEGINNING OF PERIOD	<u>1,849,134</u>	<u>1,252,925</u>
CASH, END OF PERIOD	<u>\$ 2,523,593</u>	<u>\$ 3,491,298</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ 1,375,394	\$ 1,677,467
Less: Capitalized interest	<u>139,132</u>	<u>91,741</u>
Interest paid (excluding capitalized interest)	<u>\$ 1,236,262</u>	<u>\$ 1,585,726</u>
Income taxes paid	<u>\$ 20,825</u>	<u>\$ 18,125</u>
Noncash investing and financing activities:		
Current portion of long-term debts	<u>\$ 8,651,269</u>	<u>\$ 8,754,874</u>
Current portion of capital lease obligations	<u>\$ 1,192,166</u>	<u>\$ 2,042,851</u>
Current portion of bonds issued	<u>\$ 3,433,300</u>	<u>\$ -</u>

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

(With Deloitte & Touche report dated August 8, 2003)

(Concluded)

**CHINA AIRLINES, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**(Amounts in New Taiwan Dollars, Unless Specified Otherwise)**

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**1. GENERAL**

China Airlines, Ltd. (“the Company”) was founded in 1959 and its stocks are traded 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 services; (c) major maintenance services for flight equipment; (d) communications and data processing services to other airlines; (e) sale of aircraft parts and equipment or the entire aircraft; and (f) lease of aircraft.

The Company is the subsidiary of China Aviation Development Foundation, which held 71.35% and 71.62% of the shares of the Company as of June 30, 2003 and 2002, respectively. The Company’s employees numbered 9,208 and 9,352 as of June 30, 2003 and 2002, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company’s significant accounting policies, which conform to Guidelines for Securities Issuers’ Financial Reporting and generally accepted accounting principles in the Republic of China, are summarized below.

**Current or Noncurrent Assets and Liabilities**

Assets to be realized, received or used up within a year are classified as current. Liabilities to be paid off or settled within a year are classified as current. Other assets and liabilities are classified as noncurrent.

**Short-term Investments**

These are investments in marketable equity securities and mutual funds. Domestic and foreign investments are stated at cost less allowance for losses from decline in the market value or the net asset value, respectively. The allowance is reversed when the market value and/or net asset value recovers. Costs of marketable equity securities and mutual fund beneficiary certificates sold are determined using the weighted-average method and the specific identification method, respectively.

**Allowances for Doubtful Receivables**

Allowances for doubtful notes and accounts receivable are provided on the basis of an evaluation of their collectibility.

**Inventories**

Inventories consist primarily of expendable and nonexpendable parts and materials, supplies used in operation and items for in-flight sale. These are valued using the weighted-average cost less allowance for obsolescence. Items for in-flight sale are stated at the lower of weighted-average cost or market (replacement cost or net realizable value). The costs of inventories sold or consumed are determined using the weighted-average cost.

## **Investments in Shares of Stock**

Investments in shares of stock in which the Company exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Under the equity method, investments are stated at cost on the acquisition date and subsequently adjusted for the Company's proportionate share or equity in the net income or net loss of the investees. When a stock is acquired or when the equity method is initially adopted, the difference between the investment acquisition cost and the Company's equity in the net assets of the investees is amortized over five years. The unrealized loss on cost-accounted investments is also recognized at the Company's equity in the investee and shown as part of the stockholders' equity. Cash dividends received are accounted for as a reduction in the carrying values of the investments. When a Company subscribes to additional shares of stock issued by an investee at a rate not equal to the Company's original equity, the increase in the Company's equity in the investee's net assets is credited to capital surplus. Any decrease in the Company's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the remaining difference is debited to unappropriated earnings.

Other investments in shares of stocks are stated at cost. An allowance is recognized for a decline in market value of listed stocks, with a debit either made to stockholders' equity if the decline is considered temporary or charged to income if the decline is other than temporary. The carrying amount of the investment in an unlisted stock is reduced to reflect other than temporary decline in its value. Dividend income declared is recognized as investment income.

For both equity-accounted and cost-accounted investments, stock dividends received are recorded only as an increase in the number of shares held and not as investment income.

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

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

The Company adopted a new accounting principle, which took effect on January 1, 2002, that requires the Company to reclassify the Company's shares held by its subsidiaries as treasury stock at the carrying value as shown in the subsidiaries' books on January 1, 2002. This accounting change had no material impact on the Company's financial statements as of December 31, 2002.

## **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 before the date the equipment is used in operations and to construct facilities 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 its 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 income or expenses.

### **Leased Flight and Other Equipment**

The amounts capitalized on flight and other equipment leased under agreements qualifying as capital leases are the lower of the present value of all payments required under the lease agreements or 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 agreements classified as operating leases 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 terms.

### **Other Assets—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 of the bond or loan terms.

### **Frequent-flyer Program**

Passengers who are members of the Dynasty Club may accumulate mileage points that 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**

Redemption price in excess of the face value of the bonds is accrued over the period from the issue date up to the redemption date using the effective interest rate method.

The net carrying amount of the bonds (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**

Pension costs 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.

### **Unearned Gain on Sale-Leasebacks**

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**

Deferred tax assets are recognized for the tax effects of deductible temporary differences, loss carryforwards and unused investment credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. 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, such as the deferred tax assets related to net loss carryforward, 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, R&D expenses, personnel training expenses and investments in shares of stock are recognized in the period those acquisitions or expenses are paid.

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.

## **Revenues**

Passenger fares and cargo revenues are recognized when transportation 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 foreign-currency 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 period of settlement.

The year-end balances of foreign-currency assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as follows:

- a. Cost-accounted investments in shares of stock—as translation adjustment if the translated New Taiwan dollar amounts results in a lower amount; otherwise, no adjustment is made.
- b. Other assets and liabilities—as credits or charges to income.

Equity-accounted investments in foreign subsidiaries/affiliates are recorded in New Taiwan dollars using the rates of exchange in effect on acquisition dates. On balance sheet dates, 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 Commission, the carrying amount of an aircraft acquired and the related US 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 US 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.

## Derivative Financial Instruments

The Company uses derivative financial instruments for hedging purposes, as follows:

a. Forward exchange contracts

Forward exchange contracts are recorded in New Taiwan dollars as receivables and/or payables at spot rates on the starting dates of the contracts. The premium or discount, computed by multiplying the contract amount by the difference between the contracted forward rate and the starting date spot rates, is also recognized. The premium or discount is amortized using the straight-line method over the term of the forward contract, with the amortization charged to income. On the balance sheet dates, the gains or losses on the contracts, computed by multiplying the contract amounts by the difference between the starting date spot rates and the balance sheet date spot rates (or the spot rates last used to measure a gain or loss on that contract for an earlier period), are charged to income or adjusted "advances for equipment acquisition" in the properties section of the balance sheets. Also, the receivables and payables related to the forward contracts are netted out, and the resulting amount is presented as either an asset or a liability.

b. Foreign-currency options

Premiums paid or received for options are recorded as assets or liabilities, respectively, and are recognized as revenue or expense upon each settlement. Gain or loss on the exercise of the options is credited or charged to current income of the item being hedged.

c. Interest rate swaps

The notional amounts of interest rate swap agreements entered into as hedges against interest rate fluctuations on existing obligations are not recognized as assets or liabilities since the agreements do not require the exchange of such amounts. The net amounts paid or received under the agreements as of the balance sheet dates and on the settlement dates are recognized as adjustments to the interest income or expense of the hedged obligations.

d. Cross-currency swap

Cross-currency swap agreements are entered into as hedges against interest rate fluctuations on existing obligations. Assets and liabilities arising from these agreements are recorded at the contracted forward rates. The net interest upon each settlement is recorded as an adjustment to the revenue or expense associated with the item being hedged. On the balance sheet dates, the forward currency receivables or payables are restated at the prevailing spot rates, and the resulting differences are credited or charged to current income.

The net receivables and payables on cross-currency swap agreements are recorded either as assets or liabilities.

e. Foreign currency swap

Foreign-currency spot-position assets or liabilities arising from currency swap contracts are recorded at spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates. The difference between the spot rate on the contract date and contracted forward rate is amortized using the straight-line method over the term of the contract and recorded as interest income or expense. Receivables arising from outstanding contracts are offset against the related payables as of the balance sheet dates.

f. Fuel price hedging contracts

The Company enters into fuel price hedging contracts to manage its exposures to increases in jet fuel prices. The receivables or payables under these contracts are calculated on the basis of the difference between the agreed price and the market price of fuel products as of the settlement date or the balance sheet date and are recognized as a component of jet fuel expense.

**Reclassifications**

Certain accounts for 2002 have been reclassified to conform to the 2003 presentation.

**3. CASH**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Cash on hand	\$ 957,680	\$ 6,679,535
Revolving fund	344,516,461	958,074,272
Cash in banks	2,108,118,473	2,160,854,047
Certificates of deposit	<u>70,000,000</u>	<u>365,690,236</u>
	<u>\$ 2,523,592,614</u>	<u>\$ 3,491,298,090</u>

**4. SHORT-TERM INVESTMENTS**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Domestic marketable equity securities	\$ 114,755,878	\$ 114,755,878
Foreign marketable equity securities	88,962,451	-
Bond type mutual funds	<u>12,534,204,700</u>	<u>8,300,000,000</u>
	12,737,923,029	8,414,755,878
Less: Allowance for losses	<u>3,074,762</u>	<u>-</u>
	<u>\$ 12,734,848,267</u>	<u>\$ 8,414,755,878</u>
Market value		
Domestic marketable equity securities and bond type mutual funds	\$ 12,645,885,816	\$ 8,427,969,515
Foreign marketable equity securities	<u>162,035,084</u>	<u>-</u>
	<u>\$ 12,807,920,900</u>	<u>\$ 8,427,969,515</u>

The total market values of the marketable equity securities and the open-end mutual funds are calculated at the average closing prices for June and the net asset values on June 30, respectively.

**5. TRADE NOTES AND ACCOUNTS—THIRD PARTIES**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Notes receivable	\$ 202,995,261	\$ 356,941,541
Accounts receivable	<u>4,168,677,360</u>	<u>4,633,438,855</u>
	4,371,672,621	4,990,380,396
Less: Allowance for doubtful receivables	<u>52,268,788</u>	<u>131,474,980</u>
	<u>\$ 4,319,403,833</u>	<u>\$ 4,858,905,416</u>

**6. OTHER RECEIVABLES**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Disposal of securities receivable	\$ 1,352,996,236	\$ -
Dividends	746,819,904	12,254,557
Interest and others	372,999,307	544,130,471
Tax refunds	206,104,684	213,487,998
Forward contract receivable	60,825	-
Others	-	23,305,813
	<u>\$ 2,678,980,956</u>	<u>\$ 793,178,839</u>

**7. INVENTORIES**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Aircraft spare parts	\$ 4,997,734,511	\$ 5,303,804,981
Items for in-flight sale	373,610,666	352,785,892
Work in process—maintenance services	175,984,083	134,083,591
	<u>5,547,329,260</u>	<u>5,790,674,464</u>
Less: Allowance for losses	58,570,596	58,570,596
	<u>\$ 5,488,758,664</u>	<u>\$ 5,732,103,868</u>

**8. PREPAID EXPENSES**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Insurance	\$ 272,041,308	\$ 494,386,321
Aircraft rentals	49,698,897	50,511,732
Others	55,141,357	84,982,172
	<u>\$ 376,881,562</u>	<u>\$ 629,880,225</u>

**9. INVESTMENTS IN SHARES OF STOCK**

	<b>June 30</b>			
	<b>2003</b>		<b>2002</b>	
	<b>Carrying Value</b>	<b>% of Ownership</b>	<b>Carrying Value</b>	<b>% of Ownership</b>
<u>Equity method</u>				
Taiwan Air Cargo Terminal	\$1,559,212,740	54.00	\$1,786,387,405	54.00
China Pacific Catering Services	818,664,165	51.00	834,576,562	51.00
Cal-Dynasty International	810,629,238	100.00	766,193,737	100.00
Taoyuan International Airport Services	748,010,139	49.00	769,448,262	49.00
Mandarin Airlines	701,339,104	90.05	1,206,211,064	90.05
Abacus Distribution Systems (Taiwan)	342,623,260	93.93	419,908,014	93.93
Taiwan Airport Service	327,466,441	47.35	345,924,350	47.35
Hwa Sheng Investment	312,532,188	100.00	227,070,703	100.00
Asian Compressor Technology Service	147,000,642	24.50	134,433,186	24.50
Kaohsiung Catering Services	141,094,819	31.76	123,695,439	33.00
Cal-Asia Investment	139,420,088	100.00	143,457,325	100.00
China Pacific Laundry Services	100,890,711	55.00	102,138,392	55.00

(Continued)

	<b>June 30</b>			
	<b>2003</b>		<b>2002</b>	
	<b>Carrying Value</b>	<b>% of Ownership</b>	<b>Carrying Value</b>	<b>% of Ownership</b>
Hwa Hsia	\$ 83,344,491	100.00	\$ 86,008,573	100.00
Dynasty Holidays	25,125,497	51.00	29,600,030	51.00
Spacehab Taiwan	6,559,143	21.62	5,907,101	21.62
ICAS Co., Ltd.	5,651,202	25.00	7,706,367	25.00
Global Sky Express	4,504,201	25.00	3,989,483	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>6,274,170,654</u>		<u>6,992,758,578</u>	
<u>Cost method</u>				
Over-the-counter				
Far Eastern Air Transport	422,556,470	8.56	422,832,792	8.57
Trade-Van Information Services	92,320,048	6.01	92,320,048	5.90
Unlisted				
ABACUS International Holdings Ltd.	297,946,451	13.59	297,946,451	12.91
Fat Capital Management	150,000,000	10.00	150,000,000	10.00
Jardine Air Terminal Services	56,022,929	15.00	56,022,929	15.00
Science Park Logistics Co., Ltd.	44,310,000	14.77	44,310,000	14.77
Chung Hwa Express Co.	22,000,000	11.00	22,000,000	11.00
Changi International Airport Services Pte.	18,764,706	4.40	18,764,706	4.40
Regal International Advertising	5,925,000	6.58	5,925,000	6.60
E'com International Inc.	-	-	910,000	3.00
Unlisted preferred stocks				
ABACUS International Holdings Ltd.	<u>472,522</u>		<u>472,522</u>	
	1,110,318,126		1,111,504,448	
Less—allowance for losses	<u>83,979,102</u>		<u>-</u>	
Sub-total	<u>1,026,339,024</u>		<u>1,111,504,448</u>	
Deposit on subscriptions-				
Cal-Asia Investment	<u>1,631,944,444</u>		<u>-</u>	
	<u>\$8,932,454,122</u>		<u>\$8,104,263,026</u>	

The market values of investments in shares of OTC stocks were \$430,897,000 in 2003 and \$627,868,000 in 2002 based on the average closing prices in June 2003 and 2002, respectively.

Under the approval of the Investment Commission of the Ministry of Economic Affairs, the Company intends to invest US\$47,000,000 in Cal-Asia Investment which, in turn, has investments in China Cargo Airlines, Ltd.

Information on equity-accounted investments in shares of stock is summarized as follows:

- a. The accounting period of Dynasty Holidays ends every June 30. Each year, the Company recognizes its equity in this investee's net income or net loss using the audited June 30 financial statements.
- b. The equity in net income or loss of Spacehab Taiwan, Freighter Princess Ltd., Freighter queen Ltd. and Freighter Prince Ltd. was calculated on the basis of the current period's unaudited financial statements. The Company believes that there will be no material effect on the presentation of the financial statements as a whole had those statements been audited.

**10. PROPERTIES**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Revaluation increase—cost		
Building	\$ 50,335,009	\$ 50,335,009
Flight equipment	<u>135,129,355</u>	<u>167,759,715</u>
	<u>\$ 185,464,364</u>	<u>\$ 218,094,724</u>
Accumulated depreciation		
Buildings	\$ 2,379,707,887	\$ 2,173,777,493
Machinery and equipment	2,472,434,752	2,367,557,220
Flight equipment	26,266,477,355	29,203,108,543
Furniture	642,532,690	605,775,601
Leased flight and other equipment	3,913,145,234	15,585,887,729
Leasehold improvement	<u>342,228,092</u>	<u>309,844,495</u>
	<u>\$ 36,016,526,010</u>	<u>\$ 50,245,951,081</u>

Inventory and property insurance as of June 30, 2003 and 2002 amounted to \$193,610,382,000 and \$180,431,266,000, respectively.

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

Capitalized interest for the periods ended June 30, 2003 and 2002 amounted to \$139,132,000 and \$91,741,000, respectively. These interests were calculated at rates ranging from 1.645% to 1.884% in 2003 and from 2.578% to 2.990% in 2002.

**11. SHORT-TERM LOANS**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Unsecured loans. Interest—1.48% to 1.90% in 2003 and 2.46% to 2.65% in 2002	<u>\$ 14,098,235,294</u>	<u>\$ 1,000,000,000</u>

The unused credit line that is available for short-term loans amounted to \$651,765,000 as of June 30, 2003.

**12. COMMERCIAL PAPER**

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Face value—discounted interest: 1.38% to 2.00% in 2003 and 2.45% to 2.53% in 2002	\$ 4,400,000,000	\$ 450,000,000
Less: Unamortized discount	<u>13,574,942</u>	<u>496,711</u>
	<u>\$ 4,386,425,058</u>	<u>\$ 449,503,289</u>

As of June 30, 2003, the Company had no unused credit line that is available for the issuance of commercial paper.

### 13. BONDS

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Current		
Convertible bonds		
Type A	\$ 427,200,000	\$ -
Type B	6,100,000	-
First tranche of unsecured bonds in 2001	<u>3,000,000,000</u>	<u>-</u>
	<u>\$ 3,433,300,000</u>	<u>\$ -</u>
Noncurrent		
Convertible bonds		
Type A	\$ -	\$ 429,900,000
Type B	-	6,300,000
First tranche of unsecured bonds in 2001	-	3,000,000,000
Second tranche of unsecured bonds in 2001	3,000,000,000	3,000,000,000
First tranche of secured bonds in 2002	2,000,000,000	2,000,000,000
First tranche of secured bonds in 2003	<u>4,000,000,000</u>	<u>-</u>
	<u>\$ 9,000,000,000</u>	<u>\$ 8,436,200,000</u>

The first tranche of secured bonds with aggregate face value of \$1,200,000,000, \$1,200,000,000 and \$1,600,000,000 was issued in Type A, B and C bonds with maturities of 3, 4 and 5 years on May 20, 21 and 22, 2003, respectively. The bonds are repayable in one lump sum payment on maturity. The interest rates for Type A bonds and Type B bonds are 1.45% and 1.6%, respectively, and the interests are calculated and payable annually. The interest rate for Type C bonds is 4% minus floating interest rate, and the interests is calculated semiannually and payable annually.

The first tranche of secured bonds with aggregate face value of \$2,000,000,000 was issued on May 28, 2002. The bonds will mature on May 28, 2007 at an annual interest rate of 2.84%. Consecutive annual repayments of the principal are due from May 28, 2005 at these percentages: 30%, 30% and 40%.

The first tranche and second tranche of unsecured bonds, both with an aggregate face value of \$3,000,000,000, were issued on January 5, 2001 and August 6, 2001, respectively. The bonds will mature on January 5, 2004 and August 6, 2006 at annual interest rates of 5.526% and 4.900%, respectively. The interests are payable annually. The bonds are repayable as follows: (i) first tranche—one lump sum payment on maturity, and (ii) second tranche—three consecutive annual payments from August 6, 2004 at 30%, 30% and 40% of the principal.

The unsecured domestic convertible bonds (consisting of Type A Bonds and Type B Bonds) with an aggregate face value of \$3,500,000,000 were issued on December 12, 1996 and will mature on December 11, 2003. Type A Bonds have an aggregate face value of \$1,000,000,000, with annual interest rate at 5% payable annually from issuance date. Type B Bonds have an aggregate face value of \$2,500,000,000. The repayment terms, conversion features and other conditions of both bonds are summarized as follows:

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. Starting from December 12, 2000, the holders can require the Company to redeem their bonds at the following agreed price:
  - 1) Type A—the aggregate face value and accrued interests up to the time of redemption;
  - 2) Type B—the aggregate face value plus redemption premium equivalent to 28.6% of face value on December 12, 2000 and 49.7% of face value on December 12, 2001.

As of June 30, 2003, the Company had redeemed Type A bonds with aggregate face value of \$67,500,000 and Type B bonds with aggregate face value of \$1,153,200,000.

- c. The Company may redeem the bonds from December 12, 1998 to November 2, 2003 under certain conditions.
- d. From January 12, 1997 to December 1, 2003 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders can convert the bonds to common stock of the Company. As of June 30, 2003, bonds with aggregate face value of \$715,700,000 had been converted into 32,440 thousand shares of the Company's common stock. Also, in November 2001, the Company redeemed from the open market Type B bonds with an aggregate face value of \$1,130,300,000.

#### 14. LOANS

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Bank loans	\$ 58,717,048,804	\$ 46,648,663,558
Commercial paper—net of unamortized discount of \$28,851,055 in 2003 and \$79,161,994 in 2002	10,704,148,945	13,595,838,006
Less: Current portion	<u>8,651,269,208</u>	<u>8,754,873,788</u>
	<u>\$ 60,769,928,541</u>	<u>\$ 51,489,627,776</u>

Bank loans (in New Taiwan dollars, Japanese yen, Singapore dollars and U.S. dollars) had interest ranging from 0.5873% to 2.8560% in 2003 and 0.6317% to 3.4250% in 2002. They are repayable either quarterly or semiannually or through a lump-sum payment upon maturity in October 2014.

The Company has notes issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with maturity until October 2014, were used by the Company to guarantee issued commercial paper. The commercial paper was issued at discount rates of 1.4570% to 2.0246% in 2003 and 2.6265% to 3.2975% in 2002.

#### 15. CAPITAL LEASE OBLIGATIONS

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Capital lease obligations	\$ 14,809,403,541	\$ 23,813,151,892
Less: Current portion	<u>1,192,165,799</u>	<u>2,042,850,876</u>
	<u>\$ 13,617,237,742</u>	<u>\$ 21,770,301,016</u>

As of June 30, 2003, the Company was leasing certain aircraft and related parts from certain foreign companies under capital lease agreements expiring on various dates until February 2019.

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

<u>Period</u>	<u>Amount</u>
July to December 2003	\$ 585,238,693
2004	1,236,347,732
2005	1,329,693,026
2006	1,430,098,217
2007	1,538,098,137
2008	1,654,268,197
2009 and onwards	7,035,660,000

The present value of total rentals after 2009, based on the 1% discount rate for a one-year time deposit, is \$6,694,189,000.

## 16. PENSION PLAN

The Company has a pension plan for regular employees. Benefits are based on service years and average of the six months' basic pay before retirement.

The Company makes monthly contributions to a pension fund. The fund is administered by a pension fund committee and deposited in the committee's name in the Central Trust of China. The monthly contribution was formerly equal to 10% of salaries and was changed to 6% of salaries in April 2003.

	<u>January 1 to June 30</u>	
	<u>2003</u>	<u>2002</u>
Contributions	<u>\$ 305,782,529</u>	<u>\$ 274,890,196</u>
Payment of benefits	<u>\$ 248,930,864</u>	<u>\$ 333,703,579</u>

As of June 30, 2003 and 2002, the contributions deposited in the Central Trust of China amounted to \$1,728,475,000 and \$1,495,008,000, respectively.

## 17. STOCKHOLDERS' EQUITY

As of May 30, 2003 and June 28, 2002, the appropriation of earnings in 2002 and 2001 had been resolved by the stockholders, respectively, as follows:

	<u>Appropriations</u>		<u>Dividend per Share</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Legal reserve	\$ 421,615	\$ 178,513		
Cash dividends	-	363,584	\$ -	\$ 0.15
Stock dividends	2,542,796	1,090,755	1.00	0.45
Stock bonus for employees	<u>168,450</u>	<u>96,397</u>		
	<u>\$3,132,861</u>	<u>\$1,729,249</u>		

The above appropriations, which were the same as those proposed by the board of directors, had been approved by the Securities and Futures Commission and will be effected on July 28, 2003.

Paid-in surplus in excess of par value or capital surplus from stock issuance to effect a merger and capital surplus from reissuance of treasury stock and from donation may be distributed as stock dividend or used to offset a deficit. But capital surplus from equity-accounted investees cannot 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% bonus to employees. Of the final remainder, at least 50% should be distributed to stockholders as both cash and stock dividends (cash dividend should be no more than 30% of the total dividend) or stock dividend only. In determining the amount of cash dividends to be distributed, the board of director should take into account future cash requirements of the Company, including, primarily, cash requirements related to future aircraft acquisitions. Distribution of earnings generated in prior years should also comply with the foregoing guidelines. All earnings appropriations should be made and approved by the stockholders in the following year and given effect to in the financial statements of that year.

The Company's special reserve appropriation from the current year's net income or the unappropriated earnings should be equal to the debit balance of any stockholders' equity account (other than deficit), such as the debit balances of unrealized loss on investments in shares of stock and cumulative translation adjustments, but not the balance of treasury stocks. When the sum of the debit balances decreases, an equal portion of the special reserve becomes available for distribution.

Under the regulations of the Securities and Futures Commission, 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. At the end of 2002, the market value of the treasury stock held by subsidiaries was higher than its carrying value. Thus, a special reserve was not be appropriated.

Under the Company Law, legal reserve should be appropriated until the reserve equals the aggregate par value of the Company's outstanding capital stock. This reserve may be used to offset a deficit. Also, when the reserve has reached 50% of the aggregate par value of the Company's outstanding capital stock, up to 50% thereof may be declared as stock dividend.

Under the Income Tax Law, ROC resident stockholders are entitled to income tax credit upon the distribution of dividend arising from earnings generated since January 1, 1998. The income tax credit is based on a creditable tax ratio determined on the date of dividend distribution.

## 18. TREASURY STOCK

(In Thousands of Shares)

Reason	Shares at Beginning of Period	Shares Decrease During the Period	Shares at Ending of Period
<u>2003</u>			
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>15,501</u>	<u>200</u>	<u>15,301</u>
<u>2002</u>			
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>20,481</u>	<u>1,366</u>	<u>19,115</u>

Proceeds from treasury stock reissuance were \$3,381,000 and \$22,907,000 for the periods ended June 30, 2003 and 2002, respectively. The shares reclassified as treasury stock amounted to \$187,264,000 and \$247,771,000 for the periods ended June 30, 2003 and 2002, respectively. The market values of the treasury stocks as of June 30, 2003 and 2002 were \$210,176,000 and \$245,182,000, respectively.

The shares of the Company held by its subsidiaries were treated as treasury stock. However, the subsidiaries can exercise stockholders' rights on these treasury stocks.

## 19. INCOME TAXES

- a. The reconciliation of the income tax expense on income before income tax expense at statutory income tax rate and income tax expense-current is as follows:

	<b>January 1 to June 30</b>	
	<b>2003</b>	<b>2002</b>
Income tax expense on income before income tax at statutory rate (25%)	(\$ 273,675,876)	\$ 333,828,082
Add (less) tax effects of:		
Permanent differences	( 43,622,861 )	( 117,520,178 )
Temporary differences	<u>1,348,023,055</u>	<u>352,546,346</u>
Income tax expense—current	<u>\$ 1,030,724,318</u>	<u>\$ 568,854,250</u>

- b. Income tax consisted of the following:

Income tax expense—current	\$ 1,030,724,318	\$ 568,854,250
Tax on unappropriated retained earnings	119,019,468	151,968,872
Investment income tax credit	( 888,084,176 )	( 704,427,558 )
Net changes in deferred income tax expense (benefit):		
Allowance for doubtful receivables	( 893,734 )	39,111,979
Allowance for loss on inventories	-	11,987,076
Equity in net loss in equity-accounted domestic investees	( 65,568,380 )	( 47,829,264 )
Equity in net income of foreign investees	2,350,706	521,103
Difference between accounting and tax depreciation on properties	( 1,302,917,777 )	( 91,052,749 )
Allowance for loss on idle properties	-	( 35,297,217 )
Provision for pension cost	( 19,595,281 )	( 19,956,474 )
Accrued expense for frequent flyer program	( 4,253,304 )	-
Unrealized foreign exchange gain (loss)	33,973,013	( 229,052,226 )
Difference between accounting and tax on interest	9,335,092	19,021,428
Investment income tax credits	839,743,823	183,934,008
Provision (reversal) of valuation allowance	( 271,746,536 )	88,151,823
Adjustment of prior year's tax	<u>328,272,117</u>	<u>-</u>
Income tax benefit	( 189,640,651 )	( 64,064,949 )
Extraordinary loss income tax benefit	<u>-</u>	<u>( 5,615,084 )</u>
Income tax benefit before extraordinary loss	<u>( \$ 189,640,651 )</u>	<u>( \$ 58,449,865 )</u>

- c. Deferred income tax assets (liabilities) as of June 30, 2003 and 2002 consisted of the following:

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Current		
Allowance for doubtful receivables	\$ 1,332,487	\$ 17,921,476
Allowance for loss on inventories	10,849,126	10,849,126
Accrued expenses for frequent flyer program	33,974,396	22,713,688
Unrealized foreign exchange loss	<u>205,587,301</u>	<u>379,120,257</u>
Deferred income tax assets	<u>\$ 251,743,310</u>	<u>\$ 430,604,547</u>

(Continued)

	<b>June 30</b>	
	<u>2003</u>	<u>2002</u>
Noncurrent		
Cumulative equity in the net loss of domestic equity-accounted investees	\$ 277,380,282	\$ 152,042,764
Cumulative equity in the net loss of foreign equity-accounted investees	-	2,873,422
Provision for pension cost	424,992,680	422,029,007
Difference between accounting and tax on interest	239,990,448	251,015,706
Allowance for loss on idle properties	160,810,144	60,810,143
Investment income tax credit	<u>752,953,483</u>	<u>1,413,826,985</u>
Deferred income tax assets	1,856,127,037	2,302,598,027
Less: Valuation allowance	( <u>636,090,928</u> )	( <u>918,987,540</u> )
Deferred income tax assets—net	1,220,036,109	1,383,610,487
Depreciation difference between accounting and tax on properties	( 716,318,733 )	( 1,956,716,536 )
Cumulative equity in net gain of foreign equity-accounted investees	( <u>847,789</u> )	-
Deferred income tax assets (liabilities)—noncurrent, net	<u>\$ 502,869,587</u>	( <u>\$ 573,106,049</u> )

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

	<b>June 30</b>	
	<u>2003</u>	<u>2002</u>
Balance of ICA	<u>\$ 134,963,795</u>	<u>\$ 195,608,667</u>

The expected and actual creditable tax ratios for dividend distribution to each qualified stockholder of earnings generated up to December 31, 2002 and 2001 were 3.70% and 8.88%, respectively.

The actual creditable tax ratio to be used in distributing earnings generated as of December 31, 2002 will be determined on the date of dividend distribution. Thus, the expected creditable tax ratio may change depending on the ICA balance on the dividend distribution date.

- e. The unappropriated retained earnings as of June 30, 2003 and 2002 included earnings of \$4,669,938,000 generated as of December 31, 1997.

The above deferred income taxes were computed at a tax rate of 25%.

- f. Unused investment income tax credits as of June 30, 2003 were as follows:

<u>Basis of the Tax Credit</u>	<u>Description of the Source of the Tax Credit</u>	<u>Total Amount of the Tax Credits</u>	<u>Remaining Tax Credits</u>	<u>Expiry Year</u>
Article 6 of the Statute for Upgrading Industries	R&D expenses, personnel	\$ 458,104,699	\$ 400,988,639	2004
	training expenses and purchases of eligible equipment	855,754,412	351,964,844	2005

The income tax returns through 1998, except for the following, had been examined and cleared by the tax authorities.

On the Company's 1997 income tax return, the tax authorities assessed the Company an additional income tax of \$25,498,000. The tax authorities contended that a portion of the interest expense claimed as income tax deduction by the Company should have been capitalized. In addition, the tax authorities reduced the portion of the income that the Company considered tax-exempt. Further, the Company is claiming that, under the Income Tax Law, an income tax of \$27,211,000 paid in foreign tax jurisdictions in 1997 should be credited against its income tax obligations. For the Company's 1998 income tax return, the tax authorities calculated an additional gain of \$1,313,088,000 from the securities trade of foreign investees and assessed a fine for the Company. The tax authorities contended that transfers from reorganization of foreign investees as securities trade. The Company has appealed these assessments and expects a favorable outcome on those appeals. But for conservative purpose, the Company has recognized the additional income tax on the 1998 income tax return in 2003.

## 20. EXTRAORDINARY LOSS

On May 25, 2002, one of the Company's planes (with fuselage number B18255) crashed in the vicinity of the Peng-Hu Islands in Taiwan. The Company received from an insurance company an indemnification of \$661,512,000 for the destroyed fuselage. The estimate of the costs of salvaging parts of the aircraft and compensation to surviving relatives of passengers and other expenditures was \$683,973,000. Thus, an extraordinary loss of \$16,845,000 (net of income tax effects of \$5,615,000) was recognized.

## 21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<u>January 1 to June 30, 2003</u>		
	<u>Included in Operating Costs</u>	<u>Included in Operating Expenses</u>	<u>Total</u>
Personnel			
Salaries	\$ 3,337,633,191	\$ 977,493,336	\$ 4,315,126,527
Labor and health insurance	180,770,903	98,162,224	278,933,127
Pension cost	313,696,820	147,689,938	461,386,758
Others	844,910,207	120,270,951	965,181,158
Depreciation	3,276,186,994	170,148,149	3,446,335,143
Amortization	57,139,117	6,999,709	64,138,826
	<u>January 1 to June 30, 2002</u>		
	<u>Included in Operating Costs</u>	<u>Included in Operating Expenses</u>	<u>Total</u>
Personnel			
Salaries	\$ 3,422,301,572	\$ 1,039,968,897	\$ 4,462,270,469
Labor and health insurance	168,554,929	87,682,295	256,237,224
Pension cost	311,027,638	119,622,942	430,650,580
Others	833,603,497	116,212,087	949,815,584
Depreciation	3,179,095,266	182,138,531	3,361,233,797
Amortization	57,139,117	12,186,533	69,325,650

## 22. EARNINGS PER SHARE

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

	Amount (as Numerator) (Thousands)		Shares (as Denominator) (Thousands)	Earnings Per Share	
	Pretax	After Tax		Pretax	After Tax
	<u>For the period ended June 30, 2003</u>				
Basic and fully diluted EPS					
Net income attributable to common stock	<u>(\$ 1,094,664)</u>	<u>(\$ 905,023)</u>	<u>2,798,747</u>	<u>(\$ 0.39)</u>	<u>(\$ 0.32)</u>
<u>For the period ended June 30, 2002</u>					
Basic EPS					
Net income before extraordinary item attributable to common stock	\$ 1,293,748	\$ 1,352,198	<u>2,675,008</u>	\$ 0.48	\$ 0.51
Extraordinary items	<u>( 22,461)</u>	<u>( 16,846)</u>		<u>( 0.01)</u>	<u>( 0.01)</u>
Basic EPS	<u>\$ 1,271,287</u>	<u>\$ 1,335,352</u>		<u>\$ 0.47</u>	<u>\$ 0.50</u>
Dilutive effect of potential common stock					
Convertible bonds—Type A	<u>\$ 10,748</u>	<u>\$ 8,061</u>	<u>32,323</u>		
Convertible bonds—Type B	<u>\$ -</u>	<u>\$ -</u>	<u>474</u>		
Fully diluted EPS					
Net income before extraordinary item attributable to common stock and potential common stock	\$ 1,304,496	\$ 1,360,259	<u>2,707,805</u>	\$ 0.48	\$ 0.50
Extraordinary items	<u>( 22,461)</u>	<u>( 16,846)</u>		<u>( 0.01)</u>	<u>( 0.01)</u>
Diluted EPS	<u>\$ 1,282,035</u>	<u>\$ 1,343,413</u>		<u>\$ 0.47</u>	<u>\$ 0.49</u>

The number of shares outstanding should be retroactively adjusted to reflect the effects of the distribution of stock dividends and the bonus for employees that were appropriated from the earnings in 2002. Thus, the 2002 basic EPS and diluted EPS for net income were retroactively adjusted to decrease from \$0.56 and \$0.55 to \$0.50 and \$0.49, respectively.

## 23. RELATED-PARTY TRANSACTIONS

- a. Name and relationship of the related parties

<u>Name</u>	<u>Relationship with the Company</u>
Taiwan Air Cargo Terminal	Equity-accounted investee
China Pacific Catering Services	Equity-accounted investee
Cal-Dynasty International	Equity-accounted investee
Taoyuan International Airport Services	Equity-accounted investee
Mandarin Airlines	Equity-accounted investee
Abacus Distribution Systems (Taiwan)	Equity-accounted investee
Taiwan Airport Service	Equity-accounted investee
Hwa Sheng Investment	Equity-accounted investee
Asian Compressor Technology Service	Equity-accounted investee
Kaohsiung Catering Services	Equity-accounted investee

(Continued)

Name	Relationship with the Company
Cal-Asia Investment	Equity-accounted investee
China Pacific Laundry Services	Equity-accounted investee
Hwa Hsia	Equity-accounted investee
Dynasty Holidays	Equity-accounted investee
Spacehab Taiwan	Equity-accounted investee
ICAS Co., Ltd.	Equity-accounted investee
Global Sky Express	Equity-accounted investee
Freighter Princess Ltd.	Equity-accounted investee
Freighter Prince Ltd.	Equity-accounted investee
Freighter Queen Ltd.	Equity-accounted investee
China Aviation Development Foundation	Major stockholder

b. Significant transactions with related parties:

	January 1 to June 30			
	2003		2002	
	Amount	%	Amount	%
1) Operating revenues				
Mandarin Airlines	\$ 356,550,548	1.08	\$ 43,066,709	0.12
Global Sky Express	101,307,939	0.31	132,661,749	0.37
Taiwan Air Cargo Terminal	10,755,670	0.03	11,855,742	0.03
China Aviation Development Foundation	6,192,448	0.02	25,668,229	0.07
Cal-Dynasty International	2,006,920	-	2,951,389	0.01
Others	<u>2,760,440</u>	<u>0.01</u>	<u>3,886,905</u>	<u>0.01</u>
	<u>\$ 479,573,965</u>	<u>1.45</u>	<u>\$ 220,090,723</u>	<u>0.61</u>
2) Operating costs				
China Pacific Catering Services	\$ 337,583,578	1.21	\$ 410,843,262	1.36
Taoyuan International Airport Services	315,217,142	1.13	342,793,947	1.13
Taiwan Airport Service	111,392,538	0.40	122,326,509	0.40
Hwa Hsia	100,984,149	0.36	104,650,179	0.35
Taiwan Air Cargo Terminal	79,201,279	0.28	62,643,560	0.21
Dynasty Holidays	33,937,073	0.12	41,368,400	0.14
Mandarin Airlines	33,009,427	0.12	4,669,851	0.02
Kaohsiung Catering Services	27,390,394	0.10	40,924,948	0.14
China Pacific Laundry Services	25,986,556	0.10	30,205,017	0.10
Cal-Dynasty International	14,813,149	0.06	16,548,611	0.05
China Aviation Development Foundation	13,437,863	0.05	54,319,386	0.18
Cal-Asia Investment	8,235,571	0.03	7,574,407	0.03
Asian Compressor Technology Service	4,574,490	0.02	49,456,500	0.16
Others	<u>297,140</u>	<u>-</u>	<u>358,065</u>	<u>-</u>
	<u>\$ 1,106,060,349</u>	<u>3.98</u>	<u>\$ 1,288,682,642</u>	<u>4.27</u>

	<b>June 30</b>			
	<b>2003</b>		<b>2002</b>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
3) Receivables—related party				
Mandarin Airlines	\$ 300,693,892	93.32	\$ 88,931,876	65.83
Global Sky Express	15,111,604	4.69	27,932,232	20.68
Taiwan Air Cargo Terminal	4,836,269	1.50	4,179,475	3.09
China Aviation Development Foundation	-	-	10,473,797	7.75
Others	<u>1,569,687</u>	<u>0.49</u>	<u>3,570,847</u>	<u>2.65</u>
	<u>\$ 322,211,452</u>	<u>100.00</u>	<u>\$ 135,088,227</u>	<u>100.00</u>
4) Payable—related party				
Mandarin Airlines	\$ 175,909,053	33.60	\$ 136,839,836	19.85
Taoyuan International Airport Services	151,991,778	29.03	206,727,542	29.99
China Pacific Catering Services	127,295,691	24.32	207,306,771	30.07
Taiwan Airport Service	22,427,787	4.28	45,602,563	6.61
Taiwan Air Cargo Terminal	19,876,255	3.80	31,329,083	4.54
Hwa Hsia	15,128,814	2.89	19,558,997	2.84
Others	<u>10,889,973</u>	<u>2.08</u>	<u>42,058,328</u>	<u>6.10</u>
	<u>\$ 523,519,351</u>	<u>100.00</u>	<u>\$ 689,423,120</u>	<u>100.00</u>

5) Financing provided

	<b>Maximum Balance for the Period</b>	<b>Ending Balance</b>	<b>Interest Rate</b>	<b>Interest Revenue</b>
For the period ended <u>June 30, 2002</u>				
Mandarin Airlines	<u>\$ 1,775,000,000</u>	<u>\$ -</u>	2.639%-2.877%	<u>\$ 11,931,144</u>

6) Lease of property and equipment

In September 2002, for the needs of Mandarin Airlines to ply the passenger and cargo routes between Kaohsiung and Hong Kong, the Company rented out planes to Mandarin Airlines under an operating lease agreement. For passenger fares, the revenue and the cost of the routes were recognized at the percentages of seats sold every month; for cargo, the rent received is based on actual block times. For the period ended June 30, 2003, the lease amounts received were \$339,194,000.

7) Endorsement and guarantee

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Mandarin Airlines—bank loans	\$ 1,655,000,000	\$ 1,850,000,000
China Pacific laundry service—bank loans	120,000,000	-
Asian Compressor Technology Service—bank loans	22,041,522	21,890,034
Freighter Queen Ltd.—bank loans	440,928,356	396,205,716
Freighter Prince Ltd.—bank loans	536,085,048	425,272,131
Freighter Princess Ltd.—bank loans	378,798,844	4,800,000,000

These related party transactions were conducted under normal terms.

## 24. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collateral for short-term loans and long-term debts:

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Certificates of deposit	\$ 276,816,549	\$ 269,360,269
Properties—building and flight equipment (net)	<u>74,197,803,025</u>	<u>73,051,498,748</u>
	<u>\$ 74,474,619,574</u>	<u>\$ 73,320,859,017</u>

## 25. COMMITMENTS AND CONTINGENT LIABILITIES

- a. The Company leased certain flight equipment and hangar under various operating lease agreements expiring before November 2023. Lease deposits aggregated \$3,343,729,000 (recorded as deposits).

Minimum rentals for future years are summarized as follows:

<u>Year</u>	<u>Amount</u>
July to December in 2003	\$ 2,555,794,539
2004	4,181,658,282
2005	1,609,514,541
2006	1,227,615,348
2007	939,864,714
2008	241,068,461

Rentals from 2009 and thereafter will aggregate \$2,139,024,000. The present value of these rentals, discounted using the 1% interest rate for one-year time deposits, is \$2,025,083,000.

- b. The Company had options to acquire five 737-800 aircraft under a contract with Boeing Co. entered into in September 1999, which were all exercised by the Company. As of June 30, 2003, the Company had received three 737-800 planes, with the cost of the remaining two planes amounting to US\$122,994,000. As of June 30, 2003, the Company had paid about US\$1,481,000, which is included in the “Advances for aircraft and other equipment acquired” in the properties section of the balance sheets.

- c. In July 1999, the Company acquired thirteen 747-400F aircraft from Boeing Co., which had delivered 10 planes as of June 30, 2003. The aggregate purchase price of the remaining three aircraft is US\$611,065,000. As of June 30, 2003, the Company had paid about US\$83,362,000, which was included in “advances for aircraft and other equipment acquired” in the properties section of the balance sheets.

On October 31, 2002, the Company acquired four more 747-400F aircraft. The aggregate purchase price is US\$859,868,000. As of June 30, 2003, the Company had paid about US\$236,274,000, included in “advances for aircraft and other equipment acquired” in the properties section of the balance sheets.

- d. The Company entered into a contract with Airbus in November 1999 for the purchase of seven A340-300 aircraft. As of June 30, 2003, the Company had received five A340-300 aircraft. But in December 2002, the Company canceled the order for one plane, scheduled for delivery in 2004. The cost of the remaining aircraft for delivery to the Company amounted to US\$160,831,000. As of June 30, 2003, the Company paid US\$42,412,000, which is included in “advances for aircraft and other equipment acquired” in the properties section of the balance sheets.
- e. The Company entered into a contract with Boeing Co. in November 2002 for the purchase of six 747-400 aircraft. The aggregate purchase price is US\$1,351,756,000. As of June 30, 2003, the Company had paid about US\$83,137,000 which is included in “advances for aircraft and other equipment acquired” in the properties section of the balance sheets.
- f. In December 2002, the Company entered into a contract with Airbus for the purchase of twelve A330 aircraft. The aggregate purchase price is US\$2,007,652,000. As of June 30, 2003, the Company had paid about US\$117,313,000, which is included in “advances for aircraft and other equipment acquired” in the properties section of the balance sheets.
- g. A case involving a dispute between the Company and the Civil Aeronautics Administration (CAA) on certain lease payments and interests incurred on advances on leased aircraft was filed by the CAA with the Taipei District Court. CAA repudiated the terms of the original contracts and claimed additional interests on rentals and on prepayments for six planes under capital lease as well as three other planes, that were originally leased but were later acquired by the Company. The amount claimed amounted to about \$1,100,000,000. The district court ruled that the Company pay the additional interest, but the Company appealed this decision. On April 8, 2003, the Taiwan high court ruled that the Company should pay CAA only \$2,874,000 plus interest at 5% from May 21, 1997 to the payment date. In addition, the Company has to pay 3% of the lawsuit fees. CAA has the right to appeal the decision, but the Company expects a favorable outcome on this case.

## 26. FINANCIAL INSTRUMENTS

- a. Derivative financial instruments

The Company uses derivative financial instruments solely for nontrading purposes.

Forward exchange contracts and foreign-currency options are intended to hedge the Company's exposure to the adverse effect of exchange rate fluctuations on foreign-currency-assets and liabilities. Currency swap contracts are intended to help the Company manage its currency positions. Interest rate swaps and cross-currency swaps are used to hedge the risk arising from adverse movements of interest rates and exchange rates. The fuel swap contracts are to hedge against the volatility in fuel prices. The hedging strategy is to protect the Company from market risk by using instruments that offset the fluctuations in their fair values with the changes in the fair values of the underlying exposures. The Company also periodically evaluates the effectiveness of the instruments.

The Company is exposed to credit risk if a counter-party defaults on its obligations. To manage this risk, the Company enters into derivative transactions only with known international and domestic financial institutions with good credit ratings. Contracts were also entered into with different financial institutions to minimize concentration. Thus, no material losses resulting from counter-party defaults are anticipated.

The following table summarizes the aggregate notional or contractual amounts, credit risk and fair value of the Company's derivative financial instruments as of June 30, 2003 and 2002.

	<b>June 30</b>					
	<b>2003</b>			<b>2002</b>		
	<b>Notional or Contractual Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>	<b>Notional or Contractual Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>
Interest rate swap	\$ 47,587,041,031	\$ 382,497,505	(\$ 2,022,350,195)	\$ 46,538,023,004	\$ 186,056,364	(\$ 1,142,412,896)
Forward exchange contract	1,038,062,284	1,425,031	1,425,031	538,720,539	-	( 12,109,823)
Foreign-currency option	4,559,199,585	11,055,903	1,247,145	2,722,148,956	12,765,825	( 59,159,528)
Fuel swap contract	15,388,027,682	221,818,665	( 189,892,740)	7,587,373,737	198,712,338	203,692,118
Cross-currency swap	-	-	-	2,693,602,694	43,622,616	43,622,616
Currency swaps	-	-	-	2,121,212,121	-	( 26,445,667)

The fair value of each contract is calculated by using quotes from financial institutions.

The contract amount is used to calculate the amounts to be settled by the counter-parties, so 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. Thus, the Company does not expect significant cash flow requirements upon contract maturity.

The gain or loss from derivative financial instrument transactions is listed below.

	<b>January 1 to June 30</b>	
	<b>2003</b>	<b>2002</b>
Forward exchange contracts		
Reported as foreign exchange gain (loss)	\$ 16,976,397	(\$ 22,330,123)
Reported as deduction of advance payments on equipment purchase contracts	7,118,389	-
Interest rate swaps—reported as additional interest expense	278,126,057	206,621,779
Foreign-currency options		
Reported as foreign exchange gain (loss)	( 10,497,461 )	28,637,524
Reported as additional advances for aircraft and other equipment acquired	( 713,027 )	-
Fuel swap contracts—reported as reduction of fuel cost	812,791,852	11,433,486
Cross-currency swaps		
Reported as foreign exchange loss	-	( 149,587,756 )
Reported as deduction of interest expense	-	22,015,673
Currency swaps		
Reported as interest revenue	-	7,012,071
Reported as foreign-exchange gain	-	( 85,994,230 )

b. Fair value of financial instruments as of June 30, 2003 and 2002

	<b>June 30</b>			
	<b>2003</b>		<b>2002</b>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets				
Fair value equal to carrying amount	\$ 13,762,727,647	\$ 13,762,727,647	\$ 13,793,129,310	\$ 13,793,129,310
Short-term investments	12,734,848,267	12,807,920,900	8,414,755,878	8,427,969,515
Investments in shares of stock	8,932,454,121	8,932,454,121	8,104,263,026	8,216,978,638
Financial liabilities				
Fair value equal to carrying amount	110,757,578,260	110,757,578,260	95,861,910,635	95,861,910,635
Bonds	12,433,300,000	12,616,392,000	8,436,200,000	8,550,969,300
Derivative financial instruments				
Foreign exchange contracts	60,825	1,425,031	( 12,890,042 )	( 12,109,823 )
Cross-currency swaps	-	-	201,303,694	43,622,616
Currency swaps	-	-	( 71,607,785 )	( 26,445,667 )

The methods and assumptions used in estimating fair values are as follows:

- 1) The carrying values of some financial instruments reported in the balance sheets approximate the fair values because of the short-term maturity of these instruments or the present receipts and payments approximate their book value. The method applies to cash, receivables, other receivables, pledged certificates of deposit, deposits in and out, other financial assets—noncurrent, short-term loans, commercial paper, accounts payable, accrued expenses, other current liabilities, and capital lease obligations.
- 2) Fair values of short-term investments and investment in shares of stock are based on quoted market prices, or on carrying amounts if quoted market prices are not available.
- 3) Fair values of bonds payable are based on quoted market prices.
- 4) Long-term loans are financial liabilities with floating interest. Thus, their carrying values represent current fair values.
- 5) Fair value of the derivative financial instruments is based on the assumption that the Company would make or receive payments on the balance sheet date if it discontinues the contract. Usually, the fair value includes the unrealized income or loss on the existing contracts. Most fair values of the derivative financial instruments owned by the Company are quoted from financial institutions.

Only the fair values of financial instruments were listed above; thus, the total of fair values listed above does not represent the Company's fair value.

## 27. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Commission for the Company and its investees:
  - 1) Financing provided: None.
  - 2) Endorsement/guarantee provided: Please see Table 1 (attached).
  - 3) Marketable securities held: Please see 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: Please see Table 3 (attached).
  - 5) Acquisition of individual real estates at costs of at least NT\$100 million or 20% of the paid-in capital: None.

- 6) Disposal of individual real estates at 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: Please see Table 4 (attached).
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 (attached).
  - 9) Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 6 (attached).
  - 10) Derivative financial transactions (please see Note 27).
- b. Investment in Mainland China: please see Table 7 (attached).

**CHINA AIRLINES, LTD. AND INVESTEEES**

**ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE PERIOD ENDED JUNE 30, 2003**

(Amounts in New Taiwan Dollars, Unless Otherwise Noted)

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	Mandarin Airlines	Subsidiary (through 90.05% of common stockholding)	\$ 9,433,797,771	\$ 1,705,000,000	\$ 1,655,000,000	\$ -	4	\$ 23,584,494,428
		China Pacific Laundry Services	Subsidiary (through 55% of common stockholding)	9,433,797,771	120,000,000	120,000,000	-	-	23,584,494,428
		Asian Compressor Technology Service	Subsidiaries held by each subscribing stockholder proportionately endorse/guarantee within mutual investment relation	9,433,797,771	22,118,056	22,041,522	-	-	23,584,494,428
		Freighter Queen Ltd.	Subsidiary (through 100% of common stockholding)	9,433,797,771	442,459,358	440,928,356 (Note 3)	-	1	23,584,494,428
		Freighter Prince Ltd.	Subsidiary (through 100% of common stockholding)	9,433,797,771	537,946,455	536,085,048 (Note 3)	-	1	23,584,494,428
		Freighter Princess Ltd.	Subsidiary (through 100% of common stockholding)	9,433,797,771	380,114,118	378,798,844 (Note 3)	-	1	23,584,494,428

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 guarantee is up to 50% of the Company's stockholders' equity.

Note 3: The guarantee provided to subsidiaries by the Company would not be counted in the allowable aggregate amount of collateral guarantee if it is for the Company's financing demand and the Company had recognized an equal amount of liability.

TABLE 2

## CHINA AIRLINES, LTD. AND INVESTEEES

## MARKETABLE SECURITIES HELD

JUNE 30, 2003

(Amounts in New Taiwan Dollars, Unless Specified Otherwise)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines	<u>Stock</u>							
	Taiwan Air Cargo Terminal	Investee under equity method	Investments in shares of stock	135,000,000	\$1,559,212,740	54.00%	\$1,559,212,740	-
	China Pacific Catering Services	Investee under equity method	Investments in shares of stock	74,460,000	818,664,165	51.00%	818,664,165	-
	Cal-Dynasty International	Investee under equity method	Investments in shares of stock	2,614,500	810,629,238	100.00%	810,629,238	-
	Taoyuan International Airport Services	Investee under equity method	Investments in shares of stock	34,300,000	748,010,139	49.00%	748,010,139	-
	Mandarin Airlines	Investee under equity method	Investments in shares of stock	216,441,585	701,339,104	90.05%	1,122,764,550	Note 1
	Abacus Distribution Systems (Taiwan)	Investee under equity method	Investments in shares of stock	22,450,008	342,623,260	93.93%	342,623,260	-
	Taiwan Airport Service	Investee under equity method	Investments in shares of stock	17,188,870	327,466,441	47.35%	327,466,441	-
	Hwa Sheng Investment	Investee under equity method	Investments in shares of stock	50,000,000	312,532,188	100.00%	464,303,459	Note 1
	Asian Compressor Technology Service	Investee under equity method	Investments in shares of stock	7,732,200	147,000,642	24.50%	147,000,642	-
	Kaohsiung Catering Services	Investee under equity method	Investments in shares of stock	12,705,000	141,094,819	31.76%	141,094,819	-
	Cal-Asia Investment	Investee under equity method	Investments in shares of stock	4,000,000	1,771,364,532	100.00%	1,771,364,532	Note 3
	China Pacific Laundry Services	Investee under equity method	Investments in shares of stock	13,750,000	100,890,711	55.00%	100,890,711	-
	Hwa Hsia	Investee under equity method	Investments in shares of stock	50,000	83,344,491	100.00%	94,570,381	Note 1
	Dynasty Holidays	Investee under equity method	Investments in shares of stock	408	25,125,497	51.00%	25,125,497	-
	Spacehab Taiwan	Investee under equity method	Investments in shares of stock	5,400,000	6,559,143	21.62%	6,559,143	-
	ICAS Co., Ltd.	Investee under equity method	Investments in shares of stock	850,000	5,651,202	25.00%	5,651,202	-
	Global Sky Express	Investee under equity method	Investments in shares of stock	250,000	4,504,201	25.00%	4,504,201	-
	Freighter Princess Ltd.	Investee under equity method	Investments in shares of stock	1,000	35,088	100.00%	35,088	-
	Freighter Prince Ltd.	Investee under equity method	Investments in shares of stock	1,000	34,602	100.00%	34,602	-
	Freighter Queen Ltd.	Investee under equity method	Investments in shares of stock	1,000	32,895	100.00%	32,895	-
	Far Eastern Air Transport	-	Investments in shares of stock	50,464,017	422,556,470	8.56%	283,607,776	-
	Trade-Van Information Services	-	Investments in shares of stock	11,825,925	92,320,048	6.01%	147,289,640	-
	Abacus International Holding, Ltd.—unlisted common stock	-	Investments in shares of stock	1,359,368	297,946,451	13.59%	1,857,753,090	-
	Fat Capital Management	-	Investments in shares of stock	15,000,000	150,000,000	10.00%	106,649,204	-
	Jardine Air Terminal Services	-	Investments in shares of stock	12,000,000	56,022,929	15.00%	51,501,109	-
	Science Park Logistics Co., Ltd.	-	Investments in shares of stock	4,431,000	44,310,000	14.77%	41,580,209	-
	Chung Hua Express Co.	-	Investments in shares of stock	2,200,000	22,000,000	11.00%	19,186,608	-
	Changi International Airport Services Pte.	-	Investments in shares of stock	2,640,000	18,764,706	4.40%	102,574,560	-
	Regal International Advertising	-	Investments in shares of stock	592,500	5,925,000	6.58%	3,868,432	-
	Abacus International Holding, Ltd.—unlisted preferred stock	-	Investments in shares of stock	135,937	472,522	-	185,775,582	-
	Chunghwa Telecom	-	Short-term investments	2,000,000	114,755,878	-	102,200,000	-
	France Telecom	-	Short-term investments	195,587	88,962,451	-	162,035,084	-
	<u>Mutual funds</u>							
	Ta Chong Gallop Bond Fund	-	Short-term investments	9,683,448.10	100,000,000	-	100,212,068	-
	Grand Cathay Bond Fund	-	Short-term investments	32,476,790.10	400,000,000	-	400,455,060	-
	Central Diamond Bond Fund	-	Short-term investments	64,195,337.76	700,000,000	-	700,544,462	-
	Chung Hsing Ping-An Fund	-	Short-term investments	59,093,561.84	600,000,000	-	600,514,685	-
	The First Global Investment Trust Duo Li-2 Bond Fund	-	Short-term investments	14,401,855.00	200,000,000	-	200,423,415	-
	Jih Sun Bond Fund	-	Short-term investments	15,457,488.67	200,000,000	-	200,468,171	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Tlam Solomon Bond Fund	-	Short-term investments	49,661,399.54	\$ 550,000,000	-	\$ 550,000,000	-
	Phoenix Bond Fund	-	Short-term investments	45,419,289.90	650,000,000	-	650,000,000	-
	Fu-Hwa Bond Fund	-	Short-term investments	24,812,220.30	300,000,000	-	300,726,591	-
	Tiim Bond Fund	-	Short-term investments	14,876,524.84	200,000,000	-	200,148,765	-
	Prudential Financial Fund	-	Short-term investments	50,371,505.00	700,000,000	-	700,521,557	-
	Nite Taiwan Bond Fund	-	Short-term investments	7,487,636.10	100,000,000	-	100,225,004	-
	Nite Bond Fund	-	Short-term investments	1,918,199.60	300,000,000	-	300,096,573	-
	Barits Bond Fund	-	Short-term investments	4,321,035.70	50,000,000	-	50,067,408	-
	Cathay Capital Income Growth Bond Fund	-	Short-term investments	14,485,914.20	150,000,000	-	150,146,501	-
	The Incerement Fund	-	Short-term investments	34,588,432.24	500,000,000	-	500,000,000	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	17,031,422.98	200,000,000	-	200,529,677	-
	Sheng Hua 5599 Bond Fund	-	Short-term investments	28,233,803.08	300,000,000	-	300,379,431	-
	President Home Run Bond Fund	-	Short-term investments	52,545,865.40	700,000,000	-	700,541,478	-
	Kgi Victory Fund	-	Short-term investments	34,186,377.77	350,000,000	-	350,150,556	-
	Fubon Ju-I II fund	-	Short-term investments	7,234,214.90	100,000,000	-	100,203,281	-
	Truswell Bond Fund	-	Short-term investments	49,463,322.90	600,000,000	-	600,000,000	-
	Fuh-Hwa Bond Fund	-	Short-term investments	27,863,234.90	350,000,000	-	350,742,401	-
	Invesco GP Aggressive Income Fund	-	Short-term investments	73,641,769.61	800,000,000	-	800,169,376	-
	Transcend Fortune Fund	-	Short-term investments	17,329,074.50	200,000,000	-	200,530,317	-
	Shinkong NT\$ High Yield Fund	-	Short-term investments	74,961,947.55	1,184,204,700	-	1,184,233,855	-
	United Taiwan Bond Fund	-	Short-term investments	35,235,336.81	500,000,000	-	500,070,471	-
	Soaring Eagle Bond Fund	-	Short-term investments	19,352,279.21	200,000,000	-	200,419,944	-
	Citc Safe Income Fund	-	Short-term investments	17,856,122.50	250,000,000	-	250,044,640	-
	The Forever Fund	-	Short-term investments	14,557,947.91	200,000,000	-	200,305,717	-
	Weili Bond Fund	-	Short-term investments	24,902,878.77	250,000,000	-	250,617,591	-
	Union Bond Fund	-	Short-term investments	51,886,955.62	600,000,000	-	600,098,585	-
	Polaris De-Bao Fund	-	Short-term investments	4,745,679.10	50,000,000	-	50,098,236	-
<u>Taiwan Air Cargo Terminal</u>	<u>Mutual funds</u>							
	Grand Cathay Bond Fund	-	Short-term investments	19,847,474.20	244,691,570	-	244,729,281	-
	Prudential Financial Fund	-	Short-term investments	7,023,786.70	97,663,647	-	97,680,504	-
	Hsbc NTD Money Management Fund	-	Short-term investments	613,623.60	8,695,415	-	8,696,519	-
	Jih Sun Bond Fund	-	Short-term investments	36,199,863.34	469,392,768	-	469,476,028	-
	Shinkong Chi-Shin Fund	-	Short-term investments	8,504,868.58	116,053,184	-	116,070,194	-
	Shinkong NT\$ High Yield Fund	-	Short-term investments	3,539,749.17	55,911,400	-	55,920,249	-
	Abn Amro Bond Fund	-	Short-term investments	8,464,695.60	121,537,792	-	121,555,568	-
	NITC Bond Fund	-	Short-term investments	79,361.50	12,414,043	-	12,415,869	-
	NITC Taiwan Bond Fund	-	Short-term investments	12,453,948.10	166,672,433	-	166,701,077	-
	The Wan Pao Fund	-	Short-term investments	9,990,467.14	144,038,559	-	144,063,535	-
	The Incerement Fund	-	Short-term investments	12,245,899.11	176,992,429	-	177,023,044	-
	James Bond Fund	-	Short-term investments	26,349,883.20	386,895,335	-	386,958,575	-
	President Home Run Bond Fund	-	Short-term investments	13,257,553.80	176,719,215	-	176,749,707	-
	Fuh-Hwa Bond Fund	-	Short-term investments	9,452,615.90	118,967,788	-	118,989,529	-
	Fuh-Hwa Albatross Fund	-	Short-term investments	2,825,843.30	30,037,019	-	30,042,388	-
	Fuh-Hwa Heirloom Balance Fund	-	Short-term investments	1,739,463.20	20,000,000	-	20,368,766	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	21,871,681.36	257,473,433	-	257,519,364	-
	United Taiwan Bond Fund	-	Short-term investments	9,706,403.46	137,736,777	-	137,756,190	-
	Prudential Bond Fund	-	Short-term investments	14,037,276.80	207,525,696	-	207,559,386	-
	Prudential Unit-Link Fund	-	Short-term investments	5,000,000.00	50,000,000	-	49,998,000	-
<u>China Pacific Catering Services</u>	<u>Mutual funds</u>							
	Sheng Hua 1699 Bond Fund	-	Short-term investments	3,476,980.14	40,000,000	-	40,938,312	-
	Long-River	-	Short-term investments	3,775,008.00	42,000,000	-	42,348,040	-
	Tlam Solomon Bond Fund	-	Short-term investments	832,169.33	9,099,522	-	9,216,275	-
	Union Bond Fund	-	Short-term investments	1,895,386.50	21,292,988	-	21,921,093	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Fu-Hwa Bond Fund	-	Short-term investments	2,164,526.79	\$ 25,625,992	-	\$ 26,234,281	-
	Cash Reserves	-	Short-term investments	4,969,238.90	54,249,535	-	55,082,522	-
	Prudential Financial Fund	-	Short-term investments	1,477,815.00	20,194,925	-	20,552,121	-
	NITC Taiwan Bond Fund	-	Short-term investments	763,825.20	10,000,000	-	10,224,106	-
	CITC Safe Income Fund	-	Short-term investments	1,679,593.60	23,000,000	-	23,519,853	-
	Transcend Fortune Fund	-	Short-term investments	4,107,705.40	46,500,000	-	47,533,956	-
	Truswell Bond Fund	-	Short-term investments	1,675,252.30	20,000,000	-	20,321,145	-
	Chung Hsing Ping-An Fund	-	Short-term investments	1,496,856.60	15,000,000	-	15,211,206	-
	Ta Chong Gallop Bond Fund	-	Short-term investments	1,469,608.50	15,000,000	-	15,208,684	-
Mandarin Airlines	<u>Stock</u>							
	Orichid Aircraft Trading Co., Ltd.	Investee under equity method	Investments in shares of stock	30,000	-	100.00%	-	-
	Mandarin Airlines Sweden AB	Investee under equity method	Investments in shares of stock	1,000	-	100.00%	-	-
	Mandarin Aircraft Trading Co.,Ltd	Investee under equity method	Investments in shares of stock	1,000	-	100.00%	-	-
	France Telecom	-	Short-term investments	8,274	3,894,546	-	6,854,639	-
	China Airlines	Parent company	Short-term investments	2,178,268	47,377,914	-	29,929,402	-
	<u>Mutual Funds</u>							
	ABN Amro Bond Fund	-	Short-term investments	3,489,451.39	50,000,000	-	50,109,569	-
	Shinkong NT\$ High Yield Fund	-	Short-term investments	5,711,376.29	90,000,000	-	90,227,180	-
	Shinkong Chi-Shun Fund	-	Short-term investments	6,459,459.04	90,000,000	-	90,326,492	-
Abacus Distribution Systems (Taiwan)	<u>Stock</u>							
	Yestrip Co., Ltd.	Investee under equity method	Investments in shares of stock	2,600,000	22,425,943	100.00%	22,425,943	-
	<u>Mutual Funds</u>							
	The Increment Fund	-	Short-term investments	589,003.92	8,005,660	-	8,082,488	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	138,326.51	1,622,418	-	1,628,670	-
	NSM Short Term Fixed Income Fund	-	Short-term investments	208,716.40	92,079,015	-	92,338,849	-
Hwa Sheng Investment	<u>Stock</u>							
	China Airlines	Parent company	Short-term investments	12,268,000	192,242,951	0.48%	168,500,980	-
	Investec	-	Short-term investments	52,800	2,712,193	-	1,154,472	-
	Chunghwa Telecom	-	Short-term investments	200,000	11,457,970	-	10,219,000	-
	MEGA Holding	-	Short-term investments	146,954	5,732,627	-	2,443,845	-
	SinoPac Holdings	-	Short-term investments	13,123	221,597	-	166,990	-
	<u>Mutual Funds</u>							
	Polaris De-Bao Fund	-	Short-term investments	193,304.90	2,040,643	-	2,040,643	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	1,249,437.07	14,710,997	-	14,710,997	-
	Long-River	-	Short-term investments	5,475,679.30	61,426,170	-	61,426,170	-
	Fuh-Hwa Albatross Fund	-	Short-term investments	10,692,727.20	113,677,591	-	113,677,591	-
	The Wan Pao Fund	-	Short-term investments	1,310,899.58	18,903,303	-	18,903,303	-
	Phoenix	-	Short-term investments	2,771,872.10	39,668,539	-	39,668,539	-
	Fuh-Hwa Bond Fund	-	Short-term investments	593,982.40	7,477,050	-	7,477,050	-
	NITC Taiwan Bond Fund	-	Short-term investments	757,782.40	10,143,221	-	10,143,221	-
	Chung Hsing Ping-An Fund	-	Short-term investments	2,545,757.08	25,870,238	-	25,870,238	-
	Waterland Vision Fund	-	Short-term investments	500,000.00	5,000,000	-	4,780,000	-
Cal-Asia Investment	<u>Stock</u>							
	Taiwan Airport Service (Macau)	Investee under equity method	Investments in shares of stock	-	107,846,505	25%	107,846,505	(Note 2)
	Eastern United International Logistics	Investee under equity method	Investments in shares of stock	600,000	9,465,744	20%	9,465,744	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2003				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Hwa Hsia	<u>Stock</u> China Airlines	Parent company	Short-term investments	854,825	\$ 18,023,440	-	\$ 11,745,296	-
	<u>Mutual Funds</u> Truswell Bond Fund	-	Short-term investments	3,561,991.40	42,376,947	-	43,207,688	-

Note 1: According to a newly adopted accounting pronouncement, shares of the Company held by its subsidiaries are reclassified from investment in shares of stocks to treasury stocks.

Note 2: Limited company.

Note 3: Amounts of \$139,420,088 were included in "investments in shares of stock" and \$1,631,944,444 in "advance for investments in shares of stock".

## CHINA AIRLINES, LTD. AND INVESTEEES

## MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE PERIOD ENDED JUNE 30, 2003

(Amounts in New Taiwan Dollars, Unless Specified Otherwise)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Gain (Loss) on Disposal	Ending Balance		
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value		Shares/Units	Amount	
China Airlines	<u>Mutual funds</u>														
	Ta Chong Gallop Bond Fund	Short-term investments	-	-	-	\$ -	19,432,697.40	\$ 200,000,000	9,749,249.30	\$ 100,184,261	\$ 100,000,000	\$ 184,261	9,683,448.10	\$ 100,000,000	
	Grand Cathay Bond Fund	Short-term investments	-	-	-	-	73,278,938.30	900,000,000	40,802,148.20	501,005,938	500,000,000	1,005,938	32,476,790.10	400,000,000	
	Central Diamond Bond Fund	Short-term investments	-	-	-	-	248,748,371.61	2,700,000,000	184,553,033.85	2,002,845,170	2,000,000,000	2,845,170	64,195,337.76	700,000,000	
	Chung Hsing Ping-An Fund	Short-term investments	-	-	-	-	118,491,009.15	1,200,000,000	59,397,447.31	601,428,822	600,000,000	1,428,822	59,093,561.84	600,000,000	
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	-	-	6,354,491.70	100,000,000	6,354,491.70	100,121,371	100,000,000	121,371	-	-	
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-	28,840,628.80	400,000,000	14,438,773.80	200,228,072	200,000,000	228,072	14,401,855.00	200,000,000	
	JiH Sun Bond Fund	Short-term investments	-	-	-	-	46,508,951.46	600,000,000	31,051,462.79	400,641,007	400,000,000	641,007	15,457,488.67	200,000,000	
	Long-River	Short-term investments	-	-	-	-	58,175,742.20	650,000,000	58,175,742.20	651,133,907	650,000,000	1,133,908	-	-	
	TIAM Solomon Bond Fund	Short-term investments	-	-	-	-	176,633,328.30	1,950,000,000	126,971,928.76	1,402,701,361	1,400,000,000	2,701,361	49,661,399.54	550,000,000	
	Phoenix	Short-term investments	-	-	-	-	90,954,398.30	1,300,000,000	45,535,108.40	651,657,490	650,000,000	1,657,489	45,419,289.90	650,000,000	
	JF (Taiwan) Bond Fund	Short-term investments	-	-	-	-	6,925,687.40	100,000,000	6,925,687.40	100,132,281	100,000,000	132,281	-	-	
	Fu-Hwa Bond Fund	Short-term investments	-	-	-	-	62,264,817.95	750,000,000	37,452,597.65	450,323,538	450,000,000	323,538	24,812,220.30	300,000,000	
	TIM Bond Fund	Short-term investments	-	-	-	-	44,761,162.08	600,000,000	29,884,637.24	400,902,596	400,000,000	902,596	14,876,524.84	200,000,000	
	Prudential Well Pool Fund	Short-term investments	-	-	-	-	16,822,112.20	200,000,000	16,822,112.20	200,255,446	200,000,000	255,446	-	-	
	Prudential Financial Fund	Short-term investments	-	-	-	-	108,149,454.70	1,500,000,000	57,777,949.70	801,352,165	800,000,000	1,352,165	50,371,505.00	700,000,000	
	NITC Taiwan Bond Fund	Short-term investments	-	-	-	-	7,487,636.10	100,000,000	-	-	-	-	7,487,636.10	100,000,000	
	NITC Bond Fund	Short-term investments	-	-	-	-	2,884,174.40	450,000,000	965,974.80	150,146,236	150,000,000	146,236	1,918,199.60	300,000,000	
	Barits Bond Fund	Short-term investments	-	-	-	-	13,020,924.30	150,000,000	8,699,888.60	100,180,087	100,000,000	180,088	4,321,035.70	50,000,000	
	Cathay Capital Income Growth Bond Fund	Short-term investments	-	-	-	-	14,485,914.20	150,000,000	-	-	-	-	14,485,914.20	150,000,000	
	The Increment Fund	Short-term investments	-	-	-	-	121,275,998.16	1,750,000,000	86,687,565.92	1,252,150,703	1,250,000,000	2,150,703	34,588,432.24	500,000,000	
	The Wan Pao Fund	Short-term investments	-	-	-	-	10,446,991.96	150,000,000	10,446,991.96	150,102,380	150,000,000	102,381	-	-	
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	-	-	76,808,429.54	900,000,000	59,777,006.56	701,193,237	700,000,000	1,193,237	17,031,422.98	200,000,000	
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	-	-	37,731,381.20	400,000,000	9,497,578.12	100,076,930	100,000,000	76,930	28,233,803.08	300,000,000	
	President Home Run Bond Fund	Short-term investments	-	-	-	-	52,545,865.40	700,000,000	-	-	-	-	52,545,865.40	700,000,000	
	James Bond Fund	Short-term investments	-	-	-	-	13,720,314.30	200,000,000	-	-	200,304,019	200,000,000	304,019	-	-
	ABN Amro Bond Fund	Short-term investments	-	-	-	-	7,002,997.28	100,000,000	7,002,997.28	100,044,819	100,000,000	44,819	-	-	
	KGI Victory Fund	Short-term investments	-	-	-	-	58,800,175.76	600,000,000	24,613,797.99	250,213,106	250,000,000	213,106	34,186,377.77	350,000,000	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	9,951,646.60	150,000,000	9,951,646.60	150,122,449	150,000,000	122,448	-	-	
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-	7,234,214.90	100,000,000	-	-	-	-	7,234,214.90	100,000,000	
	Truswell Bond Fund	Short-term investments	-	-	-	-	219,285,331.00	2,650,000,000	169,822,008.10	2,052,827,830	2,050,000,000	2,827,830	49,463,322.90	600,000,000	
	Fuh-hwa Bond Fund	Short-term investments	-	-	-	-	27,863,234.90	350,000,000	-	-	-	-	27,863,234.90	350,000,000	
	Invesco GP Aggressive Income Fund	Short-term investments	-	-	-	-	161,591,546.23	1,750,000,000	87,949,776.62	952,908,320	950,000,000	2,908,320	73,641,769.61	800,000,000	
	Transcend Fortune Fund	Short-term investments	-	-	-	-	52,159,277.00	600,000,000	34,830,202.50	400,687,270	400,000,000	687,270	17,329,074.50	200,000,000	
	Shinkong NT\$ High Yield Fund	Short-term investments	-	-	-	-	142,633,306.77	2,250,000,000	67,671,359.22	1,068,785,460	1,065,795,300	2,990,160	74,961,947.55	1,184,204,700	
	Shinkong Chi-Shin Fund	Short-term investments	-	-	-	-	7,389,836.02	100,000,000	7,389,836.02	100,079,071	100,000,000	79,071	-	-	
	United Taiwan Bond Fund	Short-term investments	-	-	-	-	35,235,336.81	500,000,000	-	-	-	-	35,235,336.81	500,000,000	
	Soaring Eagle Bond Fund	Short-term investments	-	-	-	-	67,891,662.66	700,000,000	48,539,383.45	500,438,415	500,000,000	438,415	19,352,279.21	200,000,000	
	Citic Safe Income Fund	Short-term investments	-	-	-	-	17,856,122.50	250,000,000	-	-	-	-	17,856,122.50	250,000,000	
	The Forever Fund	Short-term investments	-	-	-	-	47,446,480.47	650,000,000	32,888,532.56	450,390,553	450,000,000	390,553	14,557,947.91	200,000,000	
	Weili Bond Fund	Short-term investments	-	-	-	-	29,884,248.45	300,000,000	4,981,369.68	50,046,327	50,000,000	46,327	24,902,878.77	250,000,000	
	United Bond Fund	Short-term investments	-	-	-	-	16,226,298.33	200,000,000	16,226,298.33	200,301,658	200,000,000	301,658	-	-	
	Union Bond Fund	Short-term investments	-	-	-	-	269,055,967.08	3,100,000,000	217,169,011.46	2,502,999,233	2,500,000,000	2,999,233	51,886,955.62	600,000,000	
	Polaris De-Li Fund	Short-term investments	-	-	-	-	6,998,096.50	100,000,000	6,998,096.50	100,104,971	100,000,000	104,971	-	-	
		<u>Advances</u>													
		Cal-Asia Investment	Investments in shares of stock	-	Investee under equity method	-	-	-	1,631,944,444	-	-	-	-	-	1,631,944,444
	Taiwan Air Cargo Terminal	<u>Mutual funds</u>													
		Grand Cathay Bond Fund	Short-term investments	-	-	21,077,326.90	257,223,482	22,708,404.20	279,691,570	23,938,256.90	294,691,571	292,223,482	2,468,089	19,847,474.20	244,691,570
		Prudential Financial Fund	Short-term investments	-	-	5,212,953.60	71,745,359	8,834,619.80	122,663,647	7,023,786.70	97,663,647	96,745,359	918,288	7,023,786.70	97,663,647
		Jih Sun Bond Fund	Short-term investments	-	-	36,580,896.20	469,402,402	38,140,811.92	494,392,768	38,521,844.78	499,392,768	494,402,402	4,990,366	36,199,863.34	469,392,768
Shinkong Chi-Shin Fund		Short-term investments	-	-	8,504,868.58	114,973,916	8,504,868.58	116,053,184	8,504,868.58	116,053,184	114,973,916	1,079,268	8,504,868.58	116,053,184	
ABN Amro Bond Fund		Short-term investments	-	-	13,142,230.01	187,062,559	8,464,695.60	121,537,792	13,142,230.01	188,537,792	187,062,559	1,475,233	8,464,695.60	121,537,792	
NITC Taiwan Bond Fund		Short-term investments	-	-	974,456.40	151,004,352	79,361.50	12,414,043	974,456.40	152,414,046	151,004,352	1,409,694	79,361.50	12,414,043	
NITC Bond Fund		Short-term investments	-	-	25,168.20	333,401	24,882,728.00	331,672,433	12,453,948.10	166,672,433	165,333,401	1,339,032	12,453,948.10	166,672,433	
The Wan Pao Fund		Short-term investments	-	-	13,491,794.17	192,484,729	9,990,467.14	144,038,559	13,491,794.17	194,038,559	192,484,729	1,553,830	9,990,467.14	144,038,559	
The Increment Fund		Short-term investments	-	-	7,031,303.59	100,561,704	17,460,494.63	251,992,429	12,245,899.11	176,992,429	175,561,704	1,430,725	12,245,899.11	176,992,429	
President Home Run Bond Fund		Short-term investments	-	-	42,395,785.60	616,583,108	26,349,883.20	386,895,335	42,395,785.60	621,895,336	616,583,108	5,312,228	26,349,883.20	386,895,335	
James Bond Fund		Short-term investments	-	-	1,910,336.50	25,220,454	24,604,771.10	326,719,215	13,257,553.80	176,719,215	175,220,454	1,498,761	13,257,553.80	176,719,215	
Fuh-Hwa Bond Fund		Short-term investments	-	-	7,542,320.20	93,855,878	11,362,911.60	142,967,788	9,452,615.90	118,967,788	117,855,878	1,111,910	9,452,615.90	118,967,788	
Sheng Hua 1699 Bond Fund		Short-term investments	-	-	18,035,660.22	210,059,531	25,707,702.50	302,473,433	21,871,681.36	257,473,433	255,059,531	2,413,902	21,871,681.36	257,473,433	
United Taiwan Bond Fund		Short-term investments	-	-	6,166,448.91	86,689,172	13,246,357.98	187,736,777	9,706,403.43	137,736,777	136,689,172	1,047,605	9,706,403.46	137,736,777	
Prudential Bond Fund	Short-term investments	-	-	15,728,969.30	230,162,008	14,037,276.80	207,525,696	15,728,969.30	232,525,697	230,162,008	2,363,689	14,037,276.80	207,525,696		

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
Mandarine Airlines	<u>Mutual Funds</u>													
	ABN Amro Bond Fund	Short-term investments	-	-	-	\$ -	6,978,902.77	\$ 100,000,000	3,489,451.38	\$ 50,091,005	\$ 50,000,000	\$ 91,005	\$ 3,489,451.39	\$ 50,000,000
	Shinkong NTS High Yield Fund	Short-term investments	-	-	1,598,404.15	25,000,000	14,949,866.95	235,000,000	10,836,894.81	170,100,613	170,000,000	100,613	5,711,376.29	90,000,000
	Shinkong Chi-Shun Fund	Short-term investments	-	-	-	-	7,894,642.56	110,000,000	1,435,183.52	20,020,236	20,000,000	20,236	6,459,459.04	90,000,000
Hwa Hsia	<u>Mutual Funds</u>													
	Truswell Bond Fund	Short-term investments	-	-	4,220,209.90	49,973,060	1,158,595.10	14,000,000	1,816,813.60	22,000,002	21,596,113	418,069	3,561,991.40	42,376,947

## 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  
FOR THE PERIOD ENDED JUNE 30, 2003  
(Amounts in New Taiwan Dollars, Unless Specified Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines	China Pacific Catering Services	Investee under equity method	Purchase	\$ 337,583,578	1.21%	60 days	\$ -	-	(\$ 127,295,691)	( 14.38%)	-
	Taoyuan International Airport Services	Investee under equity method	Purchase	315,217,142	1.13%	40 days	-	-	( 151,991,778)	( 17.17%)	-
	Mandarin Airlines	Investee under equity method	Sales	( 356,550,548)	( 1.08%)	45 days	-	-	300,693,892	6.47%	-
	Taiwan Airport Service	Investee under equity method	Purchase	111,392,538	0.40%	40 days	-	-	( 22,427,787)	( 2.53%)	-
	Hwa Hsia	Investee under equity method	Purchase	100,984,149	0.36%	2 months	-	-	( 15,128,814)	( 1.71%)	-
	Global Sky Express	Investee under equity method	Sales	( 101,307,939)	( 0.31%)	30 days	-	-	15,111,604	3.26%	-

**CHINA AIRLINES, LTD. AND INVESTEES**

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

**JUNE 30, 2003**

**(Amounts in New Taiwan Dollars, Unless Specified 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	Mandarin Airlines	Investee under equity method	\$300,693,892	1.38	\$ -	-	\$153,223,582	\$ -

## CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE PERIOD ENDED JUNE 30, 2003

(Amounts in New Taiwan Dollars, Unless Specified Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2003			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2003	December 31, 2002	Shares	Percentage of Ownership	Carrying Value			
China Airlines	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	\$ 1,350,000,000	\$ 1,350,000,000	135,000,000	54.00%	\$ 1,559,212,740	\$ 132,514,000	\$ 65,544,660	
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	744,600,000	744,600,000	74,460,000	51.00%	818,664,165	40,783,178	20,700,291	
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate, hotel service, lease of aircraft and serving as cargo agent	US\$ 26,145,000	US\$ 26,145,000	2,614,500	100.00%	810,629,238	15,419,408	15,419,408	1
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport service	147,000,000	147,000,000	34,300,000	49.00%	748,010,139	46,514,843	21,662,652	
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,916,250,274	2,916,250,274	216,441,585	90.05%	701,339,104	( 309,513,000 )	( 262,273,523 )	2
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	90,000,000	90,000,000	22,450,008	93.93%	342,623,260	10,682,770	8,646,157	
	Taiwan Airport Service	Taipei, Taiwan	Airport services	12,289,100	12,289,100	17,188,870	47.35%	327,466,441	( 6,751,000 )	( 3,316,079 )	
	Hwa Sheng Investment	Taipei, Taiwan	General investment	500,000,000	500,000,000	50,000,000	100.00%	312,532,188	6,764,640	5,857,865	2
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50%	147,000,642	72,380,974	17,645,140	
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	115,500,000	115,500,000	12,705,000	31.76%	141,094,819	23,257,338	6,600,760	
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	US\$ 51,000,000	US\$ 4,000,000	4,000,000	100.00%	1,771,364,532	( 389,809 )	( 389,809 )	4
	China Pacific Laundry Services	Taipei, Taiwan	Cleaning and leasing of the tower of airlines company, hotel, restaurant, and health club	137,500,000	137,500,000	13,750,000	55.00%	100,890,711	( 3,403,538 )	( 1,871,945 )	
	Hwa Hsia	Taipei, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00%	83,344,491	1,327,502	3,128,036	2
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00%	25,125,497	( 11,032,899 )	( 5,626,779 )	
	Spacehab Taiwan	Taipei, Taiwan	Sourcing domestic capital to invest in Spacehab U.S.A.	54,000,000	54,000,000	5,400,000	21.62%	6,559,143	( 49,479,941 )	( 10,698,366 )	
	ICAS Co., Ltd.	Taoyuan, Taiwan	Manufacture and retail of aircraft and its related parts	8,500,000	8,500,000	850,000	25.00%	5,651,202	( 19,359,784 )	( 4,839,945 )	
Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00%	4,504,201	3,591,509	853,492		
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 Service	Tao Yao Co., Ltd.	Taoyuan, Taiwan	Manpower placement and machine installation	9,999,400	9,999,400	999,994	100.00%	11,478,849	430,105	430,142	
	Taiwan Whi Lin Industry Co., Ltd.	Taichung, Taiwan	Other machine manufacturing	42,750,000	42,750,000	4,275,000	39.00%	43,948,965	1,841,873	94,327	
Mandarin Airlines	Orchid Aircraft Trading Co., Ltd.	Tortola British Virgin Islands	Aircraft leasing agency	US\$ 30,000	US\$ 30,000	30,000	100.00%	-	-	-	
	Mandarin Airlines Sweden AB	Sweden	Aircraft leasing agency	337,000	337,000	1,000	100.00%	-	-	-	
	Mandarin Aircraft Trading Co.,Ltd	Cyprus	Aircraft leasing agency	60,000	60,000	1,000	100.00%	-	-	-	
Abacus Distribution System (Taiwan)	Yestrip Co., Ltd.	Taipei	Travel business	26,000,000	26,000,000	2,600,000	100.00%	22,425,943	( 721,885 )	( 721,885 )	
Taiwan Airport Service	Taiwan Airport Service (Macau)	Macau	Airport service and investment	US\$ 3,525,726	US\$ 1,050,000	-	26.53%	116,864,441	( 5,342,604 )	( 1,390,680 )	3
Cal Asia Investment	Taiwan Airport Service (Macau)	Macau	Airport service and investment	US\$ 3,254,526	US\$ 1,700,000	-	24.49%	107,846,505	( 5,342,604 )	( 1,320,069 )	3
	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK\$ 1,500,000	HK\$ 1,500,000	600,000	20.00%	9,465,744	9,498,611	1,523,958	

Note 1: Represents the consolidated financial information of the foreign holding company disclosed in accordance with local regulations.

Note 2: Adopted the treasury stock method in recognizing investment income or loss.

Note 3: The Company was established as a limited company.

Note 4: Amount of \$139,420,088 were included in "investments in shares of stock" and \$1,631,944,444 in "advance for investments in shares of stock".

## CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA  
FOR THE PERIOD ENDED JUNE 30, 2003

(Amounts in New Taiwan Dollars, Unless Otherwise Noted)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2003	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2003	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of June 30, 2003	Accumulated Inward Remittance of Earnings as of June 30, 2003	Accumulated Investment in Mainland China as of June 30, 2003	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Siamen International Air Cargo Terminal Ltd.	Air cargo and storage	\$941,610,728	(Note 1)	\$59,233,450 (Note 3)	\$53,379,906 (Note 4)	\$ -	\$112,613,356 (Note 5)	12%	(\$1,320,069)	\$107,846,505	\$ -	\$112,613,356 (Note 5)	\$117,647,059 (Note 6)	\$10,631,069,006

Note 1: The Company has invested in Cal-Asia Investment, which, in turn, invested in Taiwan Airport Service (Macau) (TAS Macau). TAS Macau then invested in Mainland China.

Note 2: The accrual basis is based on the financial statements audited by the international accounting firms with cooperative with R.O.C. accounting firms.

Note 3: US\$1,700,000.

Note 4: US\$1,554,526.

Note 5: US\$3,254,526.

Note 6: US\$3,400,000.