

China Airlines, Ltd.

**Financial Statements for the Six Months Ended
June 30, 2004 and 2003
Together with Independent Auditors' Report**

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience. 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.

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English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

August 6, 2004

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, 2004 and 2003 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. However, we did not audit the financial statements as of and for the six months ended June 30, 2004 and 2003 of Cal-Dynasty International and four other investees, which were accounted for by the equity method, as shown in the accompanying financial statements. We also did not audit the financial statements as of and for the six months ended June 30, 2003 of China Pacific Catering Services, Abacus Distribution Systems (Taiwan) and Taiwan Airport Services, which are also equity-method investees. 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\$1,193,000,000) and 1% (NT\$2,593,130,000) of the Company's total assets as of June 30, 2004 and 2003, respectively. The Company's shares in these investees' net income for the six months ended June 30, 2004 and 2003 were NT\$45,881,000 and NT\$60,856,000, respectively.

We conducted our audits in accordance with the Rules Governing Auditing and Certification 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, 2004 and 2003 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.

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, 2004 AND 2003

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

ASSETS	2004		2003	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Note 3)	\$ 3,338,770	2	\$ 2,523,593	1
Short-term investments—net (Notes 2 and 4)	7,519,787	3	12,734,848	7
Receivables:				
Notes and accounts—net (Notes 2 and 5)	8,482,774	4	4,319,404	3
Related parties (Note 22)	532,703	-	322,211	-
Other receivables (Note 6)	1,673,370	1	2,678,981	2
Pledged certificates of deposit (Note 23)	-	-	276,817	-
Inventories—net (Notes 2 and 7)	5,626,346	3	5,488,759	3
Prepaid expenses (Note 8)	351,381	-	376,881	-
Deferred income tax assets (Notes 2 and 19)	230,962	-	251,743	-
Other current assets	446,811	-	938,439	1
Total current assets	<u>28,202,904</u>	<u>13</u>	<u>29,911,676</u>	<u>17</u>
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 9)				
Equity method	6,436,112	3	6,274,171	3
Cost method	1,012,979	1	1,026,339	1
Advances for investments in shares of stock	-	-	1,631,944	1
Total investment in shares of stock	<u>7,449,091</u>	<u>4</u>	<u>8,932,454</u>	<u>5</u>
OTHER FINANCIAL ASSETS—Noncurrent	<u>11,497</u>	<u>-</u>	<u>21,456</u>	<u>-</u>
PROPERTIES (Notes 2, 10 and 23)				
Cost				
Land	2,106,789	1	2,153,583	1
Buildings	7,390,155	4	7,605,784	4
Machinery and equipment	3,141,467	1	3,169,221	2
Flight equipment	140,263,842	66	107,316,546	61
Furniture	813,449	-	858,000	1
Leased flight and other equipment	23,225,190	11	24,346,451	14
Leasehold improvements	481,641	-	416,410	-
Revaluation increase	50,335	-	185,464	-
Total cost and revaluation increase	177,472,868	83	146,051,459	83
Accumulated depreciation	36,811,438	17	36,016,526	21
Advance payments on equipment purchase contracts (Note 24)	26,126,225	13	19,413,677	11
Net properties	<u>166,787,655</u>	<u>79</u>	<u>129,448,610</u>	<u>73</u>
INTANGIBLE ASSETS				
Computer software—net (Note 2)	165,016	-	148,101	-
Deferred pension cost (Note 2)	2,743,929	1	2,621,386	2
Net intangible assets	<u>2,908,945</u>	<u>1</u>	<u>2,769,487</u>	<u>2</u>
OTHER ASSETS				
Idle properties—net	634,128	-	696,425	1
Deposits (Note 24)	5,183,834	3	3,620,266	2
Deferred charges (Note 2)	68,592	-	147,766	-
Pledged certificates of deposit (Note 23)	269,360	-	-	-
Deferred income tax assets (Notes 2 and 19)	841,153	-	502,870	-
Net other assets	<u>6,997,067</u>	<u>3</u>	<u>4,967,327</u>	<u>3</u>
TOTAL ASSETS	<u>\$ 212,357,159</u>	<u>100</u>	<u>\$ 176,051,010</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans (Notes 11 and 23)	\$ 1,740,000	1	\$ 14,098,235	8
Commercial paper (Note 12)	2,773,733	1	4,386,425	3
Accounts payable	337,198	-	361,787	-
Payable to related parties (Note 22)	1,148,804	-	523,519	-
Accrued expenses (Note 2)	8,392,033	4	6,512,054	4
Bonds issued—current portion (Notes 2 and 13)	1,500,000	1	3,433,300	2
Advance ticket sales (Note 2)	5,867,744	3	1,399,459	1
Loans and debts—current portion (Notes 14 and 23)	13,733,216	6	8,651,269	5
Capital lease obligations—current portion (Notes 2 and 15)	1,247,633	1	1,192,166	1
Other current liabilities (Note 2)	1,316,414	1	602,514	-
Total current liabilities	<u>38,056,775</u>	<u>18</u>	<u>41,160,728</u>	<u>24</u>
LONG-TERM DEBTS—Net of current portion				
Bonds issued (Notes 2 and 13)	17,500,000	8	9,000,000	5
Loans and debts (Notes 14 and 23)	85,016,275	40	60,769,928	34
Capital lease obligations (Notes 2 and 15)	12,002,810	6	13,617,238	8
Total long-term debts	<u>114,519,085</u>	<u>54</u>	<u>83,387,166</u>	<u>47</u>
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	5,066,337	2	4,321,944	3
Deferred profit on sale—leaseback (Note 2)	5,130,907	3	800,634	-
Others	661,204	-	725,193	-
Total other liabilities	<u>10,858,448</u>	<u>5</u>	<u>5,847,771</u>	<u>3</u>
Total liabilities	<u>163,434,308</u>	<u>77</u>	<u>130,395,665</u>	<u>74</u>
STOCKHOLDERS' EQUITY				
Capital stock, \$10 par value				
Authorized—4,480,000 shares in 2004 and 3,970,000 shares in 2003				
Issued and outstanding—2,848,929 shares in 2004 and 2,542,796 shares in 2003	28,489,288	13	25,427,956	14
Capital increment	1,508,904	1	2,711,718	2
Total capital stock	<u>29,998,192</u>	<u>14</u>	<u>28,139,674</u>	<u>16</u>
Capital surplus				
Issue of stock in excess of par value	7,157,448	3	7,105,062	4
Revaluation increment on properties	830,471	1	830,471	1
Share in capital surplus reported by equity-method investees	-	-	660	-
Gain on sale of treasury shares held by subsidiaries	71,502	-	22,858	-
Others	5,044	-	5,044	-
Total capital surplus	<u>8,064,465</u>	<u>4</u>	<u>7,964,095</u>	<u>5</u>
Retained earnings				
Legal reserve	4,172,118	2	3,994,172	2
Special reserve	194,184	-	-	-
Unappropriated earnings	7,107,329	3	5,366,055	3
Total retained earnings	<u>11,473,631</u>	<u>5</u>	<u>9,360,227</u>	<u>5</u>
Unrealized loss on investments in shares of stock	(49,100)	-	(83,979)	-
Cumulative translation adjustments	(236,340)	-	462,592	-
Unrecognized pension cost	(292,504)	-	-	-
Company shares held by subsidiaries reclassified as treasury stock	(35,493)	-	(187,264)	-
Total stockholders' equity	<u>48,922,851</u>	<u>23</u>	<u>45,655,345</u>	<u>26</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 212,357,159</u>	<u>100</u>	<u>\$ 176,051,010</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated August 6, 2004)

English Translation of Financial Statements Originally Issued in Chinese

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

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

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
REVENUES (Notes 2 and 22)				
Passenger	\$22,358,693	51	\$15,044,730	46
Cargo	18,789,490	43	15,955,297	48
Others	<u>2,641,739</u>	<u>6</u>	<u>2,046,146</u>	<u>6</u>
Total revenues	<u>43,789,922</u>	<u>100</u>	<u>33,046,173</u>	<u>100</u>
COSTS (Notes 20 and 22)				
Flying operations	20,154,764	46	14,377,434	44
Terminal and landing fees	7,378,511	17	6,313,884	19
Passenger services	3,766,993	9	3,132,159	9
Aircraft maintenance	2,558,938	6	2,662,082	8
Others	<u>1,841,195</u>	<u>4</u>	<u>1,323,893</u>	<u>4</u>
Total costs	<u>35,700,401</u>	<u>82</u>	<u>27,809,452</u>	<u>84</u>
GROSS PROFIT	<u>8,089,521</u>	<u>18</u>	<u>5,236,721</u>	<u>16</u>
OPERATING EXPENSES (Note 20)				
Marketing and selling	5,498,093	13	4,754,142	15
General and administrative	<u>1,020,254</u>	<u>2</u>	<u>1,059,959</u>	<u>3</u>
Total operating expenses	<u>6,518,347</u>	<u>15</u>	<u>5,814,101</u>	<u>18</u>
OPERATING INCOME (LOSS)	<u>1,571,174</u>	<u>3</u>	<u>(577,380)</u>	<u>(2)</u>
NONOPERATING INCOME AND GAINS				
Interest	28,600	-	37,902	-
Equity in investees' net income—net (Notes 2 and 9)	312,829	1	-	-
Dividends income	36,165	-	9,313	-
Gain on disposal of properties—net (Note 2)	494,917	1	1,791	-
Gain on disposal of investments—net	62,314	-	33,316	-
Gain on physical inventory	-	-	1,337	-
Foreign exchange gain—net (Note 2)	-	-	73,549	-
Others	<u>207,504</u>	<u>1</u>	<u>849,384</u>	<u>3</u>
Total nonoperating income and gains	<u>1,142,329</u>	<u>3</u>	<u>1,006,592</u>	<u>3</u>

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	\$ 1,187,045	3	\$ 1,263,644	4
Equity in investees' net loss—net (Notes 2 and 9)	-	-	122,958	-
Loss on physical inventory	2,039	-	-	-
Foreign exchange loss—net (Note 2)	9,674	-	-	-
Others	<u>185,629</u>	<u>-</u>	<u>137,274</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,384,387</u>	<u>3</u>	<u>1,523,876</u>	<u>4</u>
PRETAX INCOME (LOSS)	1,329,116	3	(1,094,664)	(3)
INCOME TAX BENEFIT (EXPENSES) (Notes 2 and 19)	(<u>101,766</u>)	<u>-</u>	<u>189,641</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ 1,227,350</u>	<u>3</u>	(<u>\$ 905,023</u>)	(<u>3</u>)
	<u>2004</u>		<u>2003</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
EARNINGS (LOSS) PER SHARE (Note 21)				
Basic	<u>\$ 0.44</u>	<u>\$ 0.41</u>	(<u>\$ 0.37</u>)	(<u>\$ 0.31</u>)
Diluted	<u>\$ 0.39</u>	<u>\$ 0.36</u>	(<u>\$ 0.37</u>)	(<u>\$ 0.31</u>)

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

(With Deloitte & Touche auditors' report dated August 6, 2004)

(Concluded)

CHINA AIRLINES, LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(Dollars and Shares in Thousands, Except Dividend Per Share)

	Capital Stock Issued		Capital Increment (Note 17)	Issue of stock in excess of par value	Capital Surplus (Notes 2 And 17)					Retained Earnings (Notes 2 and 17)				Unrealized Loss on Investments in Shares of Stock (Note 2)	Cumulative Translation Adjustments (Note 2)	Unrecognized Pension Cost (Note 2)	Company Shares Held by Subsidiaries Reclassified as Treasury Stock (Notes 2 and 18)	Total Stockholders' Equity
	Shares	Amount			Revaluation increment on properties	Share in capital surplus reported by equity-method investees	Gain on sale of treasury shares held by subsidiaries	Others	Total	Legal reserve	Special reserve	Unappropriated earnings	Total					
BALANCE, JANUARY 1, 2004	2,848,929	\$ 28,489,288	\$ -	\$ 7,157,448	\$ 830,471	\$ 660	\$ 71,502	\$ 5,044	\$ 8,065,125	\$ 3,994,172	\$ -	\$ 8,050,544	\$ 12,044,716	(\$ 46,156)	\$ 144,476	(\$ 292,504)	(\$ 35,493)	\$ 48,369,452
Appropriation of 2003 earnings																		
Legal reserve	-	-	-	-	-	-	-	-	-	177,946	-	(177,946)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	194,184	(194,184)	-	-	-	-	-	-
Bonus to employees	-	-	84,440	-	-	-	-	-	-	-	-	(84,440)	(84,440)	-	-	-	-	-
Cash dividends—\$0.1 per share	-	-	-	-	-	-	-	-	-	-	-	(284,893)	(284,893)	-	-	-	-	(284,893)
Stock dividends—5%	-	-	1,424,464	-	-	-	-	-	-	-	-	(1,424,464)	(1,424,464)	-	-	-	-	-
Share in capital surplus reported by equity-method investees	-	-	-	-	-	(119)	-	-	(119)	-	-	(8)	(8)	-	-	-	-	(127)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,146)	-	-	-	(10,146)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	-	-	-	-	-	(370,670)	-	-	-	(370,670)
Net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	-	-	-	1,227,350	1,227,350	-	-	-	-	1,227,350
Unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	(2,944)	-	-	-	-	(2,944)
Adjustment from unproportionate subscription of new shares of investments in shares of stock	-	-	-	-	-	(541)	-	-	(541)	-	-	(4,630)	(4,630)	-	-	-	-	(5,171)
BALANCE, JUNE 30, 2004	<u>2,848,929</u>	<u>\$ 28,489,288</u>	<u>\$ 1,508,904</u>	<u>\$ 7,157,448</u>	<u>\$ 830,471</u>	<u>\$ -</u>	<u>\$ 71,502</u>	<u>\$ 5,044</u>	<u>\$ 8,064,465</u>	<u>\$ 4,172,118</u>	<u>\$ 194,184</u>	<u>\$ 7,107,329</u>	<u>\$ 11,473,631</u>	<u>(\$ 49,100)</u>	<u>(\$ 236,340)</u>	<u>(\$ 292,504)</u>	<u>(\$ 35,493)</u>	<u>\$ 48,922,851</u>
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	(\$ 26,746)	\$ 637,791	\$ -	(\$ 189,738)	\$ 46,788,159
Appropriation 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- method investees	-	-	-	-	-	660	-	-	660	-	-	-	-	-	-	-	-	660
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,320)	-	-	-	(12,320)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	-	-	-	-	-	(162,879)	-	-	-	(162,879)
Conversion of bonds to capital stock	-	-	472	128	-	-	-	-	128	-	-	-	-	-	-	-	-	600
Net loss for the six months ended June 30, 2003	-	-	-	-	-	-	-	-	-	-	-	(905,023)	(905,023)	-	-	-	-	(905,023)
Unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	(57,233)	-	-	-	(57,233)
Capital surplus from sale of Company shares 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>\$ 660</u>	<u>\$ 22,858</u>	<u>\$ 5,044</u>	<u>\$ 7,964,095</u>	<u>\$ 3,994,172</u>	<u>\$ -</u>	<u>\$ 5,366,055</u>	<u>\$ 9,360,227</u>	<u>(\$ 83,979)</u>	<u>\$ 462,592</u>	<u>\$ -</u>	<u>(\$ 187,264)</u>	<u>\$ 45,655,345</u>

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

(With Deloitte & Touche auditors' report dated August 6, 2004)

English Translation of Financial Statements Originally Issued in Chinese

CHINA AIRLINES, LTD.

**STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousands of New Taiwan Dollars)**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 1,227,350	(\$ 905,023)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Reversal of unrealized loss on short-term investments	-	(12,445)
Depreciation and amortization	3,824,642	3,515,647
Gain on disposal of properties—net	(494,917)	(1,791)
Gain on disposal of idle properties—net	(50,801)	(145,352)
Gain on disposal of investments in shares of stock—net	(9,406)	(20)
Net loss on inventories, properties and idle properties	38,556	16,350
Equity in investees' net gain less cash dividends received	(253,261)	122,958
Amortization of deferred profit on sale-leaseback	(385,236)	(100,235)
Amortization of deferred credits	(33,178)	(33,235)
Deferred income taxes	(42,051)	(779,573)
Reversal of capital lease obligations	-	(981,738)
Changes in operating assets and liabilities—net:		
Decrease (increase) in:		
Notes and accounts receivable—third parties	(2,741,968)	716,762
Notes and accounts receivable—related parties	(231,693)	(51,006)
Other receivables	285,154	(709,141)
Inventories	(862,538)	(94,300)
Prepaid expenses	(64,382)	(248,973)
Other current assets	344,873	18,818
Increase (decrease) in:		
Accounts payable	(339,179)	(200,610)
Payable to related parties	258,274	(299,654)
Accrued expenses	82,167	(1,600,769)
Advance ticket sales	2,569,492	(1,850,622)
Other current liabilities	171,613	(234,022)
Provision for pension cost	197,464	78,381
Net cash provided by (used in) operating activities	<u>3,490,975</u>	<u>(3,779,593)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in pledged certificates of deposit	11,099	1,930
Decrease (increase) in short-term investments	2,583,931	(12,534,205)
Addition to investments in shares of stock	(59,000)	(1,631,944)
Proceeds from disposal of investments in shares of stock	57,645	296
Refund from capital reducing of investments in shares of stock	306,000	-
Proceeds from disposal of properties	5,059,514	1,794
Proceeds from disposal of idle properties	82,632	183,241
Additions to properties	(30,828,383)	(7,012,174)
Increase in other financial assets—noncurrent	(46)	-
Decrease (increase) in intangible assets	13,073	(11,025)

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2004</u>	<u>2003</u>
Decrease (increase) in deposits made	(\$ 167,635)	\$ 84,854
Decrease (increase) in other assets	<u>1,483</u>	<u>(23,519)</u>
Net cash used in investing activities	(<u>22,939,687</u>)	(<u>20,940,752</u>)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (repayments of) short-term loans	(1,860,000)	11,278,723
Proceeds from commercial paper issuance	950,255	2,817,249
Proceeds from long-term loans	20,733,688	12,471,149
Repayments of long-term loans	(10,768,306)	(5,201,816)
Proceeds from bonds issued	10,000,000	4,000,000
Redemption of bonds issued	(3,000,000)	-
Increase in deposits-in	<u>916</u>	<u>7,319</u>
Net cash provided by financing activities	<u>16,056,553</u>	<u>25,372,624</u>
INCREASE (DECREASE) IN CASH	(3,392,159)	652,279
EFFECTS OF EXCHANGE RATE CHANGES	(28,887)	22,180
CASH, BEGINNING OF PERIOD	<u>6,759,816</u>	<u>1,849,134</u>
CASH, END OF PERIOD	<u>\$ 3,338,770</u>	<u>\$ 2,523,593</u>
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 1,567,225	\$ 1,375,394
Less: Capitalized interest	<u>168,746</u>	<u>139,132</u>
Interest paid (excluding capitalized interest)	<u>\$ 1,398,479</u>	<u>\$ 1,236,262</u>
Income taxes paid	<u>\$ 400,209</u>	<u>\$ 20,825</u>
Noncash investing and financing activities		
Current portion of loans and debts	<u>\$13,733,216</u>	<u>\$ 8,651,269</u>
Current portion of capital lease obligations	<u>\$ 1,247,633</u>	<u>\$ 1,192,166</u>
Current portion of bonds issued	<u>\$ 1,500,000</u>	<u>\$ 3,433,300</u>

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

(With Deloitte & Touche auditors' report dated August 6, 2004)

(Concluded)

CHINA AIRLINES, LTD.

**NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(Amounts in New Taiwan Dollars, Unless Specified Otherwise)**

1. ORGANIZATION AND OPERATIONS

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

The Company is a subsidiary of China Aviation Development Foundation, which held 70.05% and 71.35% of the Company’s shares as of June 30, 2004 and 2003, respectively. The Company had 9,345 and 9,208 employees as of June 30, 2004 and 2003, 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. Under these guidelines and principles, the Company has to estimate the allowance for doubtful receivables, loss on market decline of inventories, accrued expenses—frequent flyer program, property depreciation, prepaid pension cost and loss on pending lawsuits. Since operating circumstances are inherently uncertain, estimates may differ from actual results.

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 (a) aggregate cost less allowance for losses on decline in the market value below carrying value of securities or (b) the net asset value of mutual funds. 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 are primarily 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 method.

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. Cash dividends received are accounted for as a reduction of 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 current 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. Any unrealized loss on cost-method investments is also recognized at the Company's equity in the investee and shown as part of stockholders' equity. For stocks with quoted market prices, an allowance is recognized for a decline in market value below carrying value and is either debited to stockholders' equity if the decline is considered temporary or charged to income if the decline is other than temporary. For stocks with no quoted market prices, the carrying amount of the investment is reduced to reflect other than temporary decline of market value below carrying value. Cash dividends received a year after acquisition are recognized as investment income.

For both equity-method and cost-method 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-method 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.

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 still in use beyond the original estimates of their service lives are further depreciated over their newly estimated service lives.

Upon property sale or other disposal, the cost, revaluation increment (if any) and the related accumulated depreciation are removed from the accounts, and gain or loss is credited or charged to nonoperating 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 operating lease agreements are charged to income over the term of the agreements. The imputed interest on rental deposits, calculated at the interest rate for one-year time deposits, is recorded both as rental expense and interest income.

Computer Software Costs

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

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 or the terms of the bond or loan.

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.

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

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

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 (a) to income or (b) to adjusted "advances for equipment acquisition" in the properties section of the balance sheets since advance payment for equipment is a hedged item. 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. They are amortized equally over the term of the contract and recognized as revenue or expense. 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 contract (notional) amounts of interest rate swap agreements, which are 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 sheets 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 on 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 receivables and payables are netted out, and the result is recorded as an asset or liability.

e. Currency swap

Foreign-currency spot-position assets or liabilities on foreign-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. On the balance sheet dates, receivables and payables of open contracts are netted out, and the net amount is recorded as an asset or a liability. Gain or loss on contracts settled on or before the balance sheet date is credited or charged to current income.

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.

3. CASH

	June 30	
	2004	2003
Cash on hand	\$ 15,356,549	\$ 957,680
Revolving fund	32,626,759	344,516,461
Cash in banks	2,865,786,942	2,108,118,473
Certificates of deposit	<u>425,000,000</u>	<u>70,000,000</u>
	<u>\$ 3,338,770,250</u>	<u>\$ 2,523,592,614</u>

4. SHORT-TERM INVESTMENTS

	June 30	
	2004	2003
Domestic marketable equity securities	\$ 114,755,878	\$ 114,755,878
Foreign marketable equity securities	88,962,451	88,962,451
Mutual funds	<u>7,316,068,484</u>	<u>12,534,204,700</u>
	7,519,786,813	12,737,923,029
Less: Allowance for losses	<u>-</u>	<u>3,074,762</u>
	<u>\$ 7,519,786,813</u>	<u>\$ 12,734,848,267</u>
Market value		
Domestic marketable equity securities and mutual funds	\$ 7,469,623,334	\$ 12,645,885,816
Foreign marketable equity securities	<u>160,983,146</u>	<u>162,035,084</u>
	<u>\$ 7,630,606,480</u>	<u>\$ 12,807,920,900</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. NOTES AND ACCOUNTS RECEIVABLE—
THIRD PARTIES**

	June 30	
	2004	2003
Notes receivable	\$ 319,298,404	\$ 202,995,261
Accounts receivable	<u>8,207,504,204</u>	<u>4,168,677,360</u>
	8,526,802,608	4,371,672,621
Less: Allowance for doubtful accounts	<u>44,028,535</u>	<u>52,268,788</u>
	<u>\$ 8,482,774,073</u>	<u>\$ 4,319,403,833</u>

6. OTHER RECEIVABLES

	June 30	
	2004	2003
Credit note receivable for concessions from aircraft or engine manufacturer	\$ 709,403,154	\$ -
Dividends	334,167,331	746,819,904
Tax refunds	271,131,397	206,104,684
Gain from fuel price hedging	201,341,275	96,384,635
Disposal of securities receivable	-	1,352,996,236
Others	<u>157,327,064</u>	<u>276,675,497</u>
	<u>\$ 1,673,370,221</u>	<u>\$ 2,678,980,956</u>

Credit note receivable for concessions from aircraft or engine manufacturer on June 30, 2004 refers to aircraft acquisition. The related amount was received on July 1, 2004.

7. INVENTORIES

	June 30	
	2004	2003
Aircraft spare parts	\$ 4,749,764,212	\$ 4,997,734,511
Items for in-flight sale	355,326,705	373,610,666
Work in process—maintenance services	<u>570,254,393</u>	<u>175,984,083</u>
	5,675,345,310	5,547,329,260
Less: Allowance for losses	<u>48,999,194</u>	<u>58,570,596</u>
	<u>\$ 5,626,346,116</u>	<u>\$ 5,488,758,664</u>

8. PREPAID EXPENSES

	June 30	
	2004	2003
Prepaid aircraft rentals	\$ 163,270,729	\$ 49,698,897
Prepaid insurance	93,398,269	272,041,308
Others	<u>94,711,584</u>	<u>55,141,357</u>
	<u>\$ 351,380,582</u>	<u>\$ 376,881,562</u>

9. INVESTMENTS IN SHARES OF STOCK

	June 30			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Equity method</u>				
Taiwan Air Cargo Terminal	\$1,625,823,136	54.00	\$1,559,212,740	54.00
Cal-Dynasty International	843,330,370	100.00	810,629,238	100.00
Taoyuan International Airport Services	791,974,967	49.00	748,010,139	49.00
Mandarin Airlines	691,387,395	90.05	701,339,104	90.05
China Pacific Catering Services	554,911,194	51.00	818,664,165	51.00
Hwa Sheng Investment	517,935,309	100.00	312,532,188	100.00
Abacus Distribution Systems (Taiwan)	360,197,643	93.93	342,623,260	93.93
Taiwan Airport Services	343,512,723	47.35	327,466,441	47.35

(Continued)

	June 30			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Cal-Asia Investment	\$ 153,657,946	100.00	\$ 139,420,088	100.00
Kaohsiung Catering Services	150,532,142	31.76	141,094,819	31.76
Asian Compressor Technology Services	120,049,912	24.50	147,000,642	24.50
China Pacific Laundry Services	104,986,402	55.00	100,890,711	55.00
Hwa Hsia	93,551,458	100.00	83,344,491	100.00
ICAS Co., Ltd.	56,475,200	48.21	5,651,202	25.00
Dynasty Holidays	22,612,837	51.00	25,125,497	51.00
Global Sky Express	5,070,680	25.00	4,504,201	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
Spacehab Taiwan	-	-	<u>6,559,143</u>	21.62
Sub-total	<u>6,436,111,899</u>		<u>6,274,170,654</u>	

Cost method

<u>Over-the-counter</u>				
Far Eastern Air Transport	374,317,312	7.61	422,556,470	8.56
Trade-Van Information Services	92,320,048	5.98	92,320,048	6.01
<u>With quoted market prices</u>				
ABACUS International Holdings Ltd.	297,946,451	13.59	297,946,451	13.59
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	6.58
<u>Unlisted preferred stocks</u>				
ABACUS International Holdings Ltd.	<u>472,522</u>		<u>472,522</u>	
	1,062,078,968		1,110,318,126	
Less: Allowance for losses	<u>49,100,011</u>		<u>83,979,102</u>	
Subtotal	<u>1,012,978,957</u>		<u>1,026,339,024</u>	
<u>Deposit on subscriptions-</u>				
Cal-Asia Investment	<u>-</u>		<u>1,631,944,444</u>	
	<u>\$7,449,090,856</u>		<u>\$8,932,454,122</u>	

The market values of investments in shares of OTC stocks were \$417,537,000 and \$430,897,000 for the six months ended June 30, 2004 and 2003, respectively, based on the average closing prices in June 2004 and 2003, respectively.

On March 5, 2004, the stockholders of China Pacific Catering Services resolved to reduce their company's capital. Based on the percentage of ownership on the date of the approval of the authorities, the Company received a return of capital of \$306,000,000.

Under the approval of the Investment Commission of the Ministry of Economic Affairs, the Company intended to invest US\$47,000,000 in Cal-Asia Investment, which has investments in China Cargo Airlines, Ltd. However, because completion of the investment process took a long time, the Company withdrew in December 2003 the deposit on subscriptions to avoid idling of capital.

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

- a. The accounting period of Dynasty Holidays ends on June 30. Each year, the Company recognizes its equity in this investee's net income or net loss using the investee's audited financial statements as of and for the period ending June 30.
- b. The equity in net income or loss on all equity-method investments (except Freighter Princess Ltd., Freighter Queen Ltd. and Freighter Prince Ltd.) is calculated on the basis of the current year's audited financial statements. Since each of the total paid-in capital of Freighter Princess Ltd., Freighter Queen Ltd. and Freighter Prince Ltd. is less than \$30 million and each of their total operating revenue is less than \$50 million or less than 10% of the total operating revenues of the Company, the recognition of equity in net income is based on unaudited financial statements. The Company believes that there will be no material effect on the presentation of the its financial statements as a whole had those investees' statements been audited. Information on the equity in net income or loss on all equity-method investments is shown in Table 7.

10. PROPERTIES

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Revaluation increase—cost		
Building	\$ 50,335,009	\$ 50,335,009
Flight equipment	-	135,129,355
	<u>\$ 50,335,009</u>	<u>\$ 185,464,364</u>
Accumulated depreciation		
Building	\$ 2,438,583,979	\$ 2,379,707,887
Machinery and equipment	2,482,284,310	2,472,434,752
Flight equipment	26,426,120,073	26,266,477,355
Furniture	645,598,055	642,532,690
Leased flight and other equipment	4,443,938,182	3,913,145,234
Leasehold improvements	<u>374,913,937</u>	<u>342,228,092</u>
	<u>\$ 36,811,438,536</u>	<u>\$ 36,016,526,010</u>

Inventory and property insurance as of June 30, 2004 and 2003 amounted to \$186,563,635,000 and \$193,610,382,000, 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 interests for the six months ended June 30, 2004 and 2003 amounted to \$168,746,000 and \$139,132,000, respectively. These interests were calculated at rates ranging from 1.332% to 1.381% and from 1.645% to 1.884% in the six months ended June 30, 2004 and 2003, respectively.

11. SHORT-TERM LOANS

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Unsecured loans. Interest—1.30% to 1.32% in 2004 and 1.48% to 1.90% in 2003	<u>\$ 1,740,000,000</u>	<u>\$ 14,098,235,294</u>

The unused credit line that is available for short-term loans amounted to \$2,760,000,000 as of June 30, 2004.

12. COMMERCIAL PAPER

	June 30	
	2004	2003
Aggregate face value—discounted interest: 1.20% to 1.40% and 1.38% to 2.00% in the six months ended June 30, 2004 and 2003, respectively	\$ 2,780,000,000	\$ 4,400,000,000
Less: Unamortized discount	<u>6,267,442</u>	<u>13,574,942</u>
	<u>\$ 2,773,732,558</u>	<u>\$ 4,386,425,058</u>

The unused credit lines available for the issuance of commercial paper amounted to \$520,000,000 as of June 30, 2004.

13. BONDS

	June 30	
	2004	2003
Current		
First issue of unsecured domestic convertible bonds		
Type A	\$ -	\$ 427,200,000
Type B	-	6,100,000
First issue of unsecured bonds in 2001	-	3,000,000,000
Second issue of unsecured bonds in 2001	900,000,000	-
Issue of secured bonds in 2002	<u>600,000,000</u>	<u>-</u>
	<u>\$ 1,500,000,000</u>	<u>\$ 3,433,300,000</u>
Noncurrent		
Second issue of unsecured bonds in 2001	\$ 2,100,000,000	\$ 3,000,000,000
Issue of secured bonds in 2002	1,400,000,000	2,000,000,000
Issue of secured bonds in 2003	4,000,000,000	4,000,000,000
Second issue of unsecured domestic convertible bonds	<u>10,000,000,000</u>	<u>-</u>
	<u>\$ 17,500,000,000</u>	<u>\$ 9,000,000,000</u>

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. On February 23, 2007, the holders can require the Company to redeem their bonds at 99.70% of face value.
- c. The Company may redeem the bonds piecemeal between August 24, 2004 and January 14, 2009 under certain conditions.
- d. Between August 24, 2004 and February 13, 2009 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to common stock of the Company. The initial conversion price was set at \$17.5, and the conversion price will be subject to adjustment if there is capital injection by cash, stock dividend distribution, or issuance of stock as employee stock bonus. The conversion price was at \$17.5 on June 30, 2004.

e. As of June 30, 2004, there had been no bond conversion.

In 2003, secured bonds with aggregate face value of \$1,200,000,000, \$1,200,000,000 and \$1,600,000,000 were issued as Type A, B and C bonds, respectively, with maturities of 3, 4 and 5 years, respectively, on May 20 to 23, 2003 (four business days). The bonds are repayable in lump sum on maturity. The interest rates for Type A bonds and Type B bonds are 1.45% and 1.60%, respectively, and the interests are calculated and payable annually. The interest rate for Type C bonds is 4% minus floating interest rate, and the interest is calculated semiannually and payable annually. The guarantor institutions are the Bank of Taiwan and Chiaotung Bank.

In 2002, secured bonds with an aggregate face value of \$2,000,000,000 were issued on May 15 to 28, 2002 (10 business days). The bonds will mature on May 28, 2007 at an annual interest rate of 2.84%. Three consecutive annual repayments of the principal are start on May 28, 2005 at these percentages: 30%, 30% and 40%. The guarantor institutions are Land Bank and Taipei Bank.

In 2001, the first and second issue of unsecured bonds, with an aggregate face value of \$3,000,000,000 each, were made on January 5, 2001 and between July 18, 2001 and August 6, 2001 (14 business days), 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 issue—lump sum payment on maturity, and (ii) second issue—three consecutive annual payments from August 6, 2004 at 30%, 30% and 40% of the principal.

The first issue of unsecured domestic convertible bonds (consisting of Types A and B bonds), with an aggregate face value of \$3,500,000,000, was on December 12, 1996. These bonds matured 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, with zero interest rate. 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 at 28.6% of face value on December 12, 2000 and 49.7% of face value on December 12, 2001.
- c. The Company may redeem the bonds piecemeal between December 12, 1998 and November 2, 2003 under certain conditions.
- d. Between January 12, 1997 and December 1, 2003 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to common stock of the Company.

As of December 31, 2003, the unsecured domestic convertible bonds had all been repaid, and bonds with aggregate face value of \$1,117,700,000 had been converted into 66,976,000 common shares of the Company.

14. LONG-TERM LOANS

	June 30	
	2004	2003
Bank loans	\$ 84,185,588,526	\$ 58,717,048,804
Commercial paper—net of unamortized discounts of \$35,097,042 and \$28,851,055 in the six months ended June 30, 2004 and 2003, respectively	14,563,902,958	10,704,148,945
Less: Current portion	<u>13,733,216,048</u>	<u>8,651,269,208</u>
	<u>\$ 85,016,275,436</u>	<u>\$ 60,769,928,541</u>

Bank loans (in New Taiwan dollars, Japanese yen and U.S. dollars) had interests ranging from 0.5827% to 2.5580% and from 0.5873% to 2.8560% in the six months ended June 30, 2004 and 2003, respectively. They are repayable either quarterly or semiannually or through a lump-sum payment upon maturity in September 2016.

The Company has notes issuance facilities (NIF) obtained from certain financial institutions. The NIFs, with the latest maturity in October 2014, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 1.2198% to 2.0920% and 1.4570% to 2.0246% in the six months ended June 30, 2004 and 2003, respectively.

15. LONG-TERM CAPITAL LEASE OBLIGATIONS

	June 30	
	2004	2003
Capital lease obligations	\$ 13,250,443,460	\$ 14,809,403,541
Less: Current portion	<u>1,247,633,253</u>	<u>1,192,165,799</u>
	<u>\$ 12,002,810,207</u>	<u>\$ 13,617,237,742</u>

As of June 30, 2004, 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 2004	\$ 612,466,535
2005	1,293,876,379
2006	1,391,577,053
2007	1,496,667,884
2008	1,609,708,785
2009	1,731,302,154
2010 and onwards	5,114,845,000

The present value of total rentals after 2010, based on the 1% discount rate for a one-year time deposit, is \$4,866,599,000.

16. PENSION PLAN

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

	<u>January 1 to June 30</u>	
	<u>2004</u>	<u>2003</u>
Contributions	\$ 236,273,697	\$ 305,782,529
Payment of benefits	\$ 381,950,510	\$ 248,930,864

As of June 30, 2004 and 2003, the contributions deposited in the Central Trust of China amounted to \$1,046,943,000 and \$1,728,475,000, respectively.

17. STOCKHOLDERS' EQUITY

As of June 11, 2004 and May 30, 2003, the appropriation of the 2003 and 2002 earnings, respectively, had been resolved by the stockholders, as follows:

	<u>Appropriation (in Thousands of New Taiwan Dollars)</u>		<u>Dividend per Share</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Legal reserve	\$ 177,946	\$ 421,615		
Special reserve	194,184	-		
Cash dividends	284,893	-	\$ 0.10	\$ -
Stock dividends	1,424,464	2,542,796	0.50	1.00
Stock bonus for employees	<u>84,440</u>	<u>168,450</u>		
	<u>\$ 2,165,927</u>	<u>\$ 3,132,861</u>		

The above appropriations, which were the same as those proposed by the board of directors, had been approved by the Securities and Futures Bureau and will be effected on July 30, 2004.

Capital surplus from the issue of stock in excess of par value, stock issuance to effect a merger and reissuance of treasury stock and donation may be distributed as stock dividend or used to offset a deficit. But capital surplus from equity-method investees should not be used for any purpose.

The Company's Articles of Incorporation provide that the following should be appropriated from annual net income (less any deficit): (a) 10% as legal reserve, and (b) special reserve equivalent to a debit balance of any stockholders' equity account. From the remainder, the Company should also appropriate at least 3% bonus to employees. Of the final remainder, at least 50% should be distributed to stockholders as both cash and stock dividends (cash dividend should not exceed 30% of the total dividends) or stock dividend only. In determining the amount of cash dividends to be distributed, the board of directors should take into account future cash requirements of the Company, primarily cash requirements for future aircraft acquisitions. Distribution of earnings generated in prior years should also 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, a portion of the special reserve equal to the amount of the decrease becomes available for distribution.

Under the regulations of the ex-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.

Under the Company Law, legal reserve should be appropriated until the reserve equals the Company's paid-in capital. This reserve may be used to offset a deficit. Also, when the reserve reaches 50% of the Company's paid-in capital, up to 50% thereof may be capitalized.

Under the Income Tax Law, ROC resident stockholders are entitled to income tax credit upon the distribution of dividends appropriated 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 End of Period
<u>2004</u>			
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>3,336</u>	<u>-</u>	<u>3,336</u>
<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>

Proceeds from treasury stock reissuance were \$3,381,000 for the six months ended June 30, 2003. The shares reclassified as treasury stock amounted to \$35,493,000 and \$187,264,000 for the six months ended June 30, 2004 and 2003, respectively. The market values of the treasury stocks as of June 30, 2004 and 2003 were \$58,053,000 and \$210,176,000, 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:

	<u>January 1 to June 30</u>	
	<u>2004</u>	<u>2003</u>
Income tax expense on income before income tax at statutory rate (25%)	\$ 332,269,081	(\$ 273,675,876)
Add (deduct) tax effects of:		
Permanent differences	(106,956,181)	(43,622,861)
Temporary differences	<u>88,338,841</u>	<u>1,348,023,055</u>
Income tax expense—current	<u>\$ 313,651,741</u>	<u>\$ 1,030,724,318</u>

- b. Income tax consisted of the following:

Income tax expense—current	\$ 313,651,741	\$ 1,030,724,318
Tax on unappropriated retained earnings	543,373,555	119,019,468
Investment income tax credit	(529,536,860)	(888,084,176)
Net changes in deferred income tax expense (benefit):		
Allowance for doubtful receivables	-	(893,734)
Equity in net income (loss) of domestic equity-method investees	5,632,461	(65,568,380)
Equity in net income of foreign equity-method investees	10,183,112	2,350,706
Depreciation difference between accounting and tax on properties	(22,051,220)	(1,302,917,777)
Allowance for loss on idle assets	(7,880,141)	-
Provision for pension cost	(49,366,143)	(19,595,281)
Accrued expense for frequent-flyer program	-	(4,253,304)
Unrealized foreign exchange gain (loss)	(16,626,070)	33,973,013
Difference between accounting and tax on interest	8,733,415	9,335,092
Investment income tax credits	29,713,023	839,743,823
Reversal of valuation allowance	(205,648,515)	(271,746,536)
Adjustment of prior years' tax	<u>21,587,854</u>	<u>328,272,117</u>
Income tax expense (benefit)	<u>\$ 101,766,212</u>	<u>(\$ 189,640,651)</u>

- c. Deferred income tax assets as of June 30, 2004 and 2003 consisted of the following:

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Current		
Allowance for doubtful receivables	\$ -	\$ 1,332,487
Allowance for loss on inventories	8,456,275	10,849,126
Accrued expenses for frequent-flyer program	32,542,762	33,974,396
Unrealized foreign exchange loss	<u>189,962,835</u>	<u>205,587,301</u>
Deferred income tax assets	<u>\$ 230,961,872</u>	<u>\$ 251,743,310</u>

(Continued)

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Noncurrent		
Cumulative equity in the net loss of domestic equity-method investees	\$ 271,121,011	\$ 277,380,282
Provision for pension cost	507,329,143	424,992,680
Difference between accounting and tax on interest	221,921,942	239,990,448
Allowance for loss on idle properties	218,690,285	160,810,144
Investment income tax credit	<u>903,237,217</u>	<u>752,953,483</u>
Deferred income tax assets	2,122,299,598	1,856,127,037
Less: Valuation allowance	(<u>592,437,871</u>)	(<u>636,090,928</u>)
Deferred income tax assets—net	1,529,861,727	1,220,036,109
Depreciation difference between accounting and tax on properties	(672,095,132)	(716,318,733)
Cumulative equity in net gain of foreign equity-method investees	(<u>16,613,874</u>)	(<u>847,789</u>)
Deferred income tax assets—noncurrent, net	<u>\$ 841,152,721</u>	<u>\$ 502,869,587</u>

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

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Balance of ICA	<u>\$ 402,730,861</u>	<u>\$ 134,963,795</u>

The actual creditable tax ratios for dividend distribution to each qualified stockholder of earnings generated up to December 31, 2004 and 2003 were 1.74% and 3.70%, respectively.

- e. The unappropriated retained earnings as of June 30, 2004 and 2003 included earnings of \$5,752,946,000 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, 2004 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	\$ 855,754,412	\$ 239,782,426	2005
	training expenses and	691,221,339	163,630,953	2006
	purchases of eligible equipment	499,823,838	499,823,838	2008

The income tax returns through 2000, 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 on the Company. The tax authorities contended that transfers from the reorganization of foreign investees are considered securities trading. The Company has appealed these assessments and expects a favorable outcome on those appeals. But for conservative purposes, the Company recognized in 2003 an additional income tax on the 1998 income tax return.

20. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<u>January 1 to June 30, 2004</u>		
	<u>Included in Operating Costs</u>	<u>Included in Operating Expenses</u>	<u>Total</u>
Personnel			
Salaries	\$ 3,486,368,134	\$ 1,003,296,252	\$ 4,489,664,386
Labor and health insurance	166,062,899	119,155,326	285,218,225
Pension cost	347,910,750	146,947,387	494,858,137
Others	905,267,370	122,080,659	1,027,348,029
Depreciation	3,660,917,479	144,086,178	3,805,003,657
Amortization	11,926,709	7,711,549	19,638,258

	<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

21. EARNINGS PER SHARE

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

	<u>Amount (as Numerator)</u>		<u>Shares (as Denominator) (Thousands)</u>	<u>Earnings Per Share</u>	
	<u>(Thousands)</u>	<u>(Thousands)</u>		<u>Pretax</u>	<u>After Tax</u>
<u>For the six months ended June 30, 2004</u>					
Basic EPS					
Net income on common stock	<u>\$1,329,116</u>	<u>\$1,227,350</u>	<u>2,996,483</u>	<u>\$ 0.44</u>	<u>\$ 0.41</u>
Dilutive effect of potential common stock					
Second tranche of unsecured convertible bonds	<u>\$ -</u>	<u>\$ -</u>	<u>423,673</u>		
Diluted EPS	<u>\$1,329,116</u>	<u>\$1,227,350</u>	<u>3,420,156</u>	<u>\$ 0.39</u>	<u>\$ 0.36</u>
<u>For the six months ended June 30, 2003</u>					
Basic EPS					
Net (loss) on common stock	<u>(\$1,094,664)</u>	<u>(\$ 905,023)</u>	<u>2,949,637</u>	<u>(\$ 0.37)</u>	<u>(\$ 0.31)</u>

The number of shares outstanding should be retroactively adjusted for the effects of the distribution of stock dividends and the bonus for employees that were appropriated from the 2003 earnings. As a result of the retroactive adjustment, the 2003 basic EPS before tax and after tax decreased from NT\$0.39 and to NT\$0.37 and from \$0.32 to \$0.31, respectively.

22. RELATED-PARTY TRANSACTIONS

a. The Company's related parties

<u>Related Party</u>	<u>Relationship with the Company</u>
Taiwan Air Cargo Terminal	Subsidiary
Cal-Dynasty International	Subsidiary
Taoyuan International Airport Services	Equity-method investee
Mandarin Airlines	Subsidiary
China Pacific Catering Services	Subsidiary
Hwa Sheng Investment	Subsidiary
Abacus Distribution Systems (Taiwan)	Subsidiary
Taiwan Airport Services	Equity-method investee
Cal-Asia Investment	Subsidiary
Kaohsiung Catering Services	Equity-method investee
Asian Compressor Technology Services	Equity-method investee
China Pacific Laundry Services	Subsidiary
Hwa Hsia	Subsidiary
ICAS Co., Ltd.	Equity-method investee
Dynasty Holidays	Subsidiary
Global Sky Express	Equity-method investee
Spacehab Taiwan	Equity-method investee
Freighter Princess Ltd.	Subsidiary
Freighter Prince Ltd.	Subsidiary
Freighter Queen Ltd.	Subsidiary
China Aviation Development Foundation	Major stockholder (70.05%)

b. Significant transactions with related parties:

	<u>January 1 to June 30</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1) Revenues				
Mandarin Airlines	\$ 455,273,009	1.04	\$ 356,550,548	1.08
Global Sky Express	81,458,208	0.19	101,307,939	0.31
Dynasty Holidays	37,641,128	0.09	-	-
China Aviation Development Foundation	23,394,075	0.05	6,192,448	0.02
Taiwan Air Cargo Terminal	11,618,019	0.03	10,755,670	0.03
Others	<u>9,042,588</u>	<u>0.01</u>	<u>4,767,360</u>	<u>0.01</u>
	<u>\$ 618,427,027</u>	<u>1.41</u>	<u>\$ 479,573,965</u>	<u>1.45</u>
2) Costs				
China Pacific Catering Services	\$ 472,004,659	1.32	\$ 337,583,578	1.21
Taoyuan International Airport Services	380,580,301	1.07	315,217,142	1.13
Taiwan Airport Services	121,612,490	0.34	111,392,538	0.40
Taiwan Air Cargo Terminal	103,917,616	0.29	79,201,279	0.28
Mandarin Airlines	102,450,445	0.29	33,009,427	0.12

(Continued)

	January 1 to June 30			
	2004		2003	
	Amount	%	Amount	%
Hwa Hsia	\$ 95,632,508	0.27	\$ 100,984,149	0.36
Dynasty Holidays	72,848,954	0.20	33,937,073	0.12
China Aviation Development Foundation	52,213,338	0.15	13,437,863	0.05
Kaohsiung Catering Services	42,071,345	0.12	27,390,394	0.10
China Pacific Laundry Services	29,894,815	0.08	25,986,556	0.10
Cal-Dynasty International	20,133,779	0.06	14,813,149	0.06
Cal-Asia Investment	8,653,043	0.02	8,235,571	0.03
Others	<u>1,165,436</u>	-	<u>4,871,630</u>	<u>0.02</u>
	<u>\$ 1,503,178,729</u>	<u>4.21</u>	<u>\$ 1,106,060,349</u>	<u>3.98</u>
	June 30			
	2004		2003	
	Amount	%	Amount	%
3) Receivables: Related parties				
Mandarin Airlines	\$ 519,055,544	97.44	\$ 300,693,892	93.32
Global Sky Express	6,072,513	1.14	15,111,604	4.69
China Aviation Development Foundation	3,943,701	0.74	-	-
Taiwan Air Cargo Terminal	1,678,081	0.31	4,836,269	1.50
Others	<u>1,952,586</u>	<u>0.37</u>	<u>1,569,687</u>	<u>0.49</u>
	<u>\$ 532,702,425</u>	<u>100.00</u>	<u>\$ 322,211,452</u>	<u>100.00</u>
4) Payable to related parties				
Mandarin Airlines	\$ 569,010,496	49.53	\$ 175,909,053	33.60
China Pacific Catering Services	249,980,274	21.76	127,295,691	24.32
Taoyuan International Airport Services	204,354,404	17.79	151,991,778	29.03
Taiwan Airport Services	42,129,963	3.67	22,427,787	4.28
Taiwan Air Cargo Terminal	27,262,005	2.37	19,876,255	3.80
Hwa Hsia	19,958,084	1.74	15,128,814	2.89
Others	<u>36,108,250</u>	<u>3.14</u>	<u>10,889,973</u>	<u>2.08</u>
	<u>\$ 1,148,803,476</u>	<u>100.00</u>	<u>\$ 523,519,351</u>	<u>100.00</u>
5) Lease of property and equipment				

In September 2002, to help Mandarin Airlines ply passenger and cargo routes between Kaohsiung and Hong Kong, the Company rented out planes to Mandarin Airlines under an operating lease agreement. Passenger fares, 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. As of June 30, 2004 and 2003, the rentals received were \$401,667,000 and \$339,194,000.

The Company rented planes from Mandarin Airlines under an operating lease agreement from July 2003 to February 2008. Before October 2003, the Company paid the rental by flight hours. From October 2003, rentals were at a fixed amount of US\$282,000 monthly. As of June 30, 2004, the Company had paid about US\$1,692,000.

6) Endorsement and guarantee

	June 30	
	2004	2003
Mandarin Airlines—bank loans	\$ 1,135,000,000	\$ 1,655,000,000
China Pacific laundry services—bank loans	120,000,000	120,000,000
Asian Compressor Technology Services—bank loans	21,447,811	22,041,522
Freighter Queen Ltd.	433,511,437	440,928,356
Freighter Prince Ltd.	508,364,060	536,085,048
Freighter Princess Ltd.	727,061,648	378,798,844

These related party transactions were conducted under normal terms.

23. PLEDGED ASSETS

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

	June 30	
	2004	2003
Certificates of deposit	\$ 269,360,210	\$ 276,816,549
Properties—building, machinery and flight equipment (net)	<u>96,821,898,803</u>	<u>74,197,803,025</u>
	<u>\$ 97,091,259,013</u>	<u>\$ 74,474,619,574</u>

24. COMMITMENTS AND CONTINGENT LIABILITIES

- a. The Company leased certain flight equipment and a hangar under various operating lease agreements expiring in various dates until October 2023. Lease deposits aggregated \$2,879,966,000.

Minimum rentals for future years are summarized as follows:

<u>Year</u>	<u>Amount</u>
July to December in 2004	\$ 2,004,129,721
2005	2,654,088,049
2006	1,788,195,793
2007	1,553,010,608
2008	1,345,256,507
2009	1,194,933,490

Rentals from 2010 and thereafter will aggregate \$2,198,057,000. The present value of these rentals, discounted using the 1% interest rate for one-year time deposits, is \$2,080,971,000.

- b. In July 1999, the Company acquired thirteen 747-400F aircraft from the Boeing Co., which had delivered twelve planes as of June 30, 2004. The aggregate purchase price of the remaining aircraft for delivery is US\$213,836,000. As of June 30, 2004, the Company had paid about US\$2,560,000, which was included in “advance payments on equipment purchase contracts” in the properties section of the balance sheets.

In October 2002, the Company acquired four more 747-400F aircraft from the Boeing Co., which had delivered three planes as of June 30, 2004. The aggregate purchase price of the remaining aircraft for delivery is US\$223,446,000. As of June 30, 2004, the Company had paid about US\$56,475,000, included in “advance payments on equipment purchase contracts” in the properties section of the balance sheets.

In April 2004, the Company acquired two more 747-400F aircraft from the Boeing Co. The aggregate purchase price is US\$459,813,000. As of June 30, 2004, the Company had paid about US\$25,149,000, included in “advance payments on equipment purchase contracts” in the properties section of the balance sheets.

- c. 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, 2004, the Company had delivered three 737-800 planes. However, in May 2004, the Company canceled its order for the remaining two planes and offset the refund of US\$1,519,000 against the prepayment for the 747-400F aircraft.
- d. The Company entered into an option contract with Boeing Co. in November 2002 for the purchase of six 747-400 aircraft. In November 2003 the Company asked that the model of two of the aircraft be changed to 747-400F. The aggregate purchase prices were US\$868,097,000 for the four 747-400 and US\$441,940,000 for the two 747-400F aircraft for which the Company had paid about US\$272,896,000 and US\$111,362,000, respectively, which are included in “advance payments on equipment purchase contracts” in the properties section of the balance sheets as of June 30, 2004.
- e. In December 2002, the Company entered into an option contract with Airbus for the purchase of twelve A330 aircraft and exercised the purchase option on two planes in December 2003. Airbus had delivered one plane as of June 30, 2004. The aggregate purchase price of the remaining 13 planes is US\$2,171,055,000. As of June 30, 2004, the Company had paid about US\$251,622,000, which was included in “advance payments on equipment purchase contracts” in the properties section of the balance sheets.
- f. 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 with the Taipei District Court. CAA repudiated the terms of the original contracts and claimed additional interests imputed on rentals and on prepayments for six planes under capital lease, i.e., originally leased but were later acquired by the Company. The amount claimed was 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 had raised an appeal to the supreme court, and the supreme court remanded the case to the Taiwan high court on July 20, 2004 for a retrial. The Company expects a favorable outcome on this case.

25. 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. The 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 with fluctuations in their fair values that offset 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 of credit risk. Thus, no material losses resulting from counter-party defaults are anticipated.

The following table summarizes the aggregate contract (notional) amounts, credit risk and fair value of the Company's derivative financial instruments as of June 30, 2004 and 2003.

	June 30					
	2004			2003		
	Notional or Contractual Amount	Credit Risk	Fair Value	Notional or Contractual Amount	Credit Risk	Fair Value
Interest rate swaps	\$ 100,470,461,513	\$ 945,082,493	(\$ 430,111,677)	\$ 47,587,041,031	\$ 382,497,505	(\$ 2,022,350,195)
Forward exchange contracts	-	-	-	1,038,062,284	1,425,031	1,425,031
Foreign-currency options	3,642,219,259	5,506,667	(25,248,691)	4,559,199,585	11,055,903	1,247,145
Fuel swap contracts	21,990,404,040	1,202,360,262	1,027,117,905	15,388,027,682	221,818,665	(189,892,740)

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. The Company does not expect significant cash flow requirements upon contract maturity.

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

	January 1 to June 30	
	2004	2003
Forward exchange contracts		
Foreign exchange gain	\$ 14,336,637	\$ 16,976,397
Reduction (addition) of advance payments on equipment purchase contracts	(4,414,011)	7,118,389
Interest rate swaps—additional interest expense	301,087,784	278,126,057
Foreign-currency options		
Foreign-exchange loss	21,448,965	10,497,461
Additional of advance payments on equipment purchase contracts	-	713,027
Fuel swap contracts—reduction of fuel cost	862,883,979	812,791,852

b. Fair value of financial instruments as of June 30, 2004 and 2003

	June 30			
	2004		2003	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets				
Fair value equal to carrying value	\$ 26,941,398,954	\$ 26,941,398,954	\$ 22,695,181,768	\$ 22,695,181,768
Short-term investments	7,519,786,813	7,630,606,480	12,734,848,267	12,807,920,900
Financial liabilities				
Fair value equal to carrying value	127,752,955,946	127,752,955,946	110,757,578,260	110,757,578,260
Bonds	19,000,000,000	19,848,321,000	12,433,300,000	12,616,392,000
Derivative financial instruments				
Foreign exchange contracts	-	-	60,825	1,425,031

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 fair values because of the short-term maturities of these instruments or the present receipts and payments approximating their carrying value. This assumption 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, payable to related parties, accrued expenses, loans and debts—current portion, capital lease obligations—current portion, other current liabilities, loans and debts—net of current portion and capital lease obligations—net of current portion.
- 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 fair values.
- 5) Fair value of the derivative financial instruments is based on the assumption that the Company terminates the contract on the balance sheet date and would make or receive payments accordingly. 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.

26. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
 - 1) Financing provided: None.
 - 2) Endorsement/guarantee provided: Table 1 (attached).
 - 3) Marketable securities held: Table 2 (attached).
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached).
 - 5) Acquisition of individual real estates at costs 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: Table 4 (attached).
 - 7) Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached).
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 6 (attached).
 - 9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 7 (attached).
 - 10) Derivative financial transactions (please see Note 25).
- b. Investment in Mainland China: Table 8 (attached).

TABLE 1**CHINA AIRLINES, LTD. AND INVESTEES****ENDORSEMENT/GUARANTEE PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in New Taiwan Dollars, Unless Stated Otherwise)**

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship						
0	China Airlines	Mandarin Airlines	90.05% subsidiary	\$ 9,784,570,227	\$ 1,235,000,000	\$ 1,135,000,000	\$ -	2	\$ 24,461,425,567
		China Pacific Laundry Services	55% subsidiary	9,784,570,227	120,000,000	120,000,000	-	-	24,461,425,567
		Asian Compressor Technology Services	Subsidiary held by each stockholder proportionately providing an endorsement/ guarantee within joint investment arrangements	9,784,570,227	21,666,667	21,447,811	-	-	24,461,425,567
		Freighter Queen Ltd.	100% subsidiary	9,784,570,227	437,935,023	433,511,437 (Note 3)	-	1	24,461,425,567
		Freighter Prince Ltd.	100% subsidiary	9,784,570,227	513,551,449	508,364,060 (Note 3)	-	1	24,461,425,567
		Freighter Princess Ltd.	100% subsidiary	9,784,570,227	734,480,645	727,061,648 (Note 3)	-	1	24,461,425,567

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

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

Note 3: The guarantee provided to subsidiaries by the Company was not counted in the allowable aggregate amount of collateral guarantee because the related amount was intended to meet the Company's financing need and the Company had recognized an equal amount as a liability.

CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES HELD

JUNE 30, 2004

(Amounts in New Taiwan Dollars, Unless Stated Otherwise)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines	<u>Stock</u>							
	Taiwan Air Cargo Terminal	Subsidiary	Investments in shares of stock	135,000,000	\$1,625,823,136	54.00	\$1,625,823,136	-
	Cal-Dynasty International	Subsidiary	Investments in shares of stock	2,614,500	843,330,370	100.00	843,330,370	-
	Taoyuan International Airport Services	Equity-method investee	Investments in shares of stock	34,300,000	791,974,967	49.00	791,974,967	-
	Mandarin Airlines	Subsidiary	Investments in shares of stock	216,441,585	691,387,395	90.05	1,079,967,369	Note 1
	China Pacific Catering Services	Subsidiary	Investments in shares of stock	43,860,000	554,911,194	51.00	554,911,194	-
	Hwa Sheng Investment	Subsidiary	Investments in shares of stock	50,000,000	517,935,309	100.00	517,935,309	-
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments in shares of stock	22,450,008	360,197,643	93.93	360,197,643	-
	Taiwan Airport Services	Equity-method investee	Investments in shares of stock	17,188,870	343,512,723	47.35	343,512,723	-
	Cal-Asia Investment	Subsidiary	Investments in shares of stock	4,000,000	153,657,946	100.00	153,657,946	-
	Kaoshiung Catering Services	Equity-method investee	Investments in shares of stock	12,705,000	150,532,142	31.76	150,532,142	-
	Asian Compressor Technology Services	Equity-method investee	Investments in shares of stock	7,732,200	120,049,912	24.50	120,049,912	-
	China Pacific Laundry Services	Subsidiary	Investments in shares of stock	13,750,000	104,986,402	55.00	104,986,402	-
	Hwa Hsia	Subsidiary	Investments in shares of stock	50,000	93,551,458	100.00	104,777,350	Note 1
	ICAS Co., Ltd.	Equity-method investee	Investments in shares of stock	6,750,000	56,475,200	48.21	56,475,200	-
	Dynasty Holidays	Subsidiary	Investments in shares of stock	408	22,612,837	51.00	22,612,837	-
	Global Sky Express	Equity-method investee	Investments in shares of stock	250,000	5,070,680	25.00	5,070,680	-
	Freighter Princess Ltd.	Subsidiary	Investments in shares of stock	1,000	35,088	100.00	35,088	-
	Freighter Prince Ltd.	Subsidiary	Investments in shares of stock	1,000	34,602	100.00	34,602	-
	Freighter Queen Ltd.	Subsidiary	Investments in shares of stock	1,000	32,895	100.00	32,895	-
	Far Eastern Air Transport	-	Investments in shares of stock	44,703,017	374,317,312	7.61	285,205,248	-
	Trade-Van Information Services	-	Investments in shares of stock	11,825,925	92,320,048	5.98	132,332,011	-
	Abacus International Holding, Ltd.—unlisted common stock	-	Investments in shares of stock	1,359,368	297,946,451	13.59	-	Note 3
	Fat Capital Management	-	Investments in shares of stock	15,000,000	150,000,000	10.00	110,924,914	-
	Jardine Air Terminal Services	-	Investments in shares of stock	12,000,000	56,022,929	15.00	59,241,600	-
	Sceince Park Logistics Co.	-	Investments in shares of stock	4,431,000	44,310,000	14.77	43,076,881	-
	Chung Hua Express Co.	-	Investments in shares of stock	2,200,000	22,000,000	11.00	19,661,503	-
	Changi International Airport Services Pte.	-	Investments in shares of stock	2,640,000	18,764,706	4.40	-	Note 3
	Regal International Advertising	-	Investments in shares of stock	592,500	5,925,000	6.58	-	Note 3
	Abacus International Holding, Ltd.—unlisted preferred stock	-	Investments in shares of stock	135,937	472,522	-	-	Note 3
	Chunghwa Telecom	-	Short-term investments	2,000,000	114,755,878	-	111,900,000	-
	France Telecom	-	Short-term investments	195,587	88,962,451	-	160,983,146	-
	<u>Mutual funds</u>							
	Ta Chong Top25 Fund	-	Short-term investments	500,000.00	5,000,000	-	4,520,000	-
	Ta Chong Gallop Bond Fund	-	Short-term investments	9,508,414.90	100,000,000	-	100,034,230	-
	Grand Cathay Bond Fund	-	Short-term investments	3,988,894.90	50,000,000	-	50,000,000	-
	The First Global Investment Trust Duo Li-2 Bond Fund	-	Short-term investments	39,042,283.20	550,000,000	-	552,346,798	-
	Jih Sun Bond Fund	-	Short-term investments	7,615,798.21	100,000,000	-	100,454,663	-
	Long-River Bond Fund	-	Short-term investments	26,356,017.10	300,000,000	-	300,645,723	-
	Tlam Solomon Bond Fund	-	Short-term investments	31,174,846.35	350,000,000	-	351,035,005	-
	Phoenix Bond Fund	-	Short-term investments	3,440,919.40	50,000,000	-	50,140,733	-
	Entrust Kirin Bond Fund	-	Short-term investments	14,043,744.00	150,000,000	-	150,148,689	-
	JF (Taiwan) Bond Fund	-	Short-term investments	13,580,314.00	200,000,000	-	200,454,941	-
	Fu-Hwa Bond Fund	-	Short-term investments	20,675,852.53	250,000,000	-	255,377,792	-
	Prudential Financial Global Selection Fund	-	Short-term investments	1,000,000.00	10,000,000	-	10,000,000	-
	Prudential Financial Bond Fund	-	Short-term investments	7,086,720.20	100,000,000	-	100,209,058	-
	NITC Taiwan Bond Fund	-	Short-term investments	7,393,934.00	100,000,000	-	100,634,399	-
	NITC Bond Fund	-	Short-term investments	1,891,801.60	300,000,000	-	300,628,084	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Cathay Bond Fund	-	Short-term investments	8,972,391.90	\$ 100,000,000	-	\$ 100,161,502	-
	The High-Yield Fund	-	Short-term investments	10,766,271.42	150,000,000	-	150,319,758	-
	James Bond Fund	-	Short-term investments	10,091,156.80	150,000,000	-	150,628,679	-
	KGI Victory Fund	-	Short-term investments	19,257,989.66	200,000,000	-	200,362,050	-
	Fuh-Hwa Albatross Fund	-	Short-term investments	9,347,978.50	100,000,000	-	101,439,589	-
	Fuh-Hwa Bond Fund	-	Short-term investments	27,863,234.90	350,000,000	-	358,014,706	-
	Invesco Gp Aggressive Income Fund	-	Short-term investments	72,781,528.05	800,000,000	-	804,279,554	-
	Transcend Fortune Fund	-	Short-term investments	34,066,273.30	400,000,000	-	400,660,253	-
	HSBC Ntd Money Management Fund	-	Short-term investments	10,446,046.20	150,000,000	-	150,258,018	-
	Shinkong Nt\$ High Yield Fund	-	Short-term investments	18,778,284.79	301,068,484	-	301,661,878	-
	Shinkong Chi-Shin Fund	-	Short-term investments	7,228,776.31	100,000,000	-	100,167,708	-
	Shinkong Chi-Shun Fund	-	Short-term investments	35,368,683.15	500,000,000	-	502,924,990	-
	Soaring Eagle Bond Fund	-	Short-term investments	14,323,911.38	150,000,000	-	150,444,041	-
	CITC Safe Income Fund	-	Short-term investments	17,856,122.50	250,000,000	-	255,297,911	-
	Weili Bond Fund	-	Short-term investments	9,861,446.67	100,000,000	-	100,485,156	-
	Union Bond Fund	-	Short-term investments	59,851,568.11	700,000,000	-	703,650,946	-
	Polaris De-Bao Fund	-	Short-term investments	18,693,335.80	200,000,000	-	200,336,480	-
Taiwan Air Cargo Terminal	<u>Mutual funds</u>							
	Grand Cathay Bond Fund	-	Short-term investments	7,825,353.20	98,089,237	-	98,089,237	-
	Prudential Financial Fund	-	Short-term investments	7,023,786.70	99,319,153	-	99,319,153	-
	Jih Sun Bond Fund	-	Short-term investments	22,021,006.27	290,463,679	-	290,463,679	-
	NITC Taiwan Bond Fund	-	Short-term investments	14,473,671.60	196,992,460	-	196,992,460	-
	The Wan Pao Fund	-	Short-term investments	11,370,738.92	166,824,659	-	166,824,659	-
	The Incerement Fund	-	Short-term investments	15,002,271.80	220,642,912	-	220,642,912	-
	President Home Run Bond Fund	-	Short-term investments	14,004,050.90	190,057,377	-	190,057,377	-
	Fuh-Hwa Bond Fund	-	Short-term investments	14,613,032.10	187,762,849	-	187,762,849	-
	Fuh-Hwa Albatross Fund	-	Short-term investments	2,825,843.30	30,664,639	-	30,664,639	-
	Fuh-Hwa Heirloom Balance Fund	-	Short-term investments	2,349,936.90	30,000,000	-	29,251,779	-
	Fuh-Hwa Global Balance Fund	-	Short-term investments	3,000,000.00	30,000,000	-	29,820,000	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	26,945,857.07	323,212,861	-	323,212,861	-
	PCA Bond Fund	-	Short-term investments	19,173,744.50	288,608,954	-	288,608,954	-
	Fuhwa Bond Fund	-	Short-term investments	6,547,516.50	80,871,650	-	80,871,650	-
	Fuhwa Classical Fund	-	Short-term investments	5,843,920.00	60,000,000	-	59,166,184	-
Mandarin Airlines	<u>Stock</u>							
	Mandarin Airlines Sweden AB	Subsidiary	Investments in shares of stock	1,000	-	100.00	-	-
	Mandarin Aircraft Trading Co., Ltd.	Subsidiary	Investments in shares of stock	1,000	-	100.00	-	-
	China Airlines	Parent company	Short-term investments	2,396,094	47,377,914	-	35,222,582	-
	France Telecom	-	Short-term investments	8,274	3,894,546	-	6,810,081	-
	<u>Mutual funds</u>							
	Shinkong Chi-Shin Fund	-	Short-term investments	5,781,341.65	80,000,000	-	80,110,895	-
	The High-Yield Fund	-	Short-term investments	2,149,181.88	30,000,000	-	30,007,092	-
China Pacific Catering Services	<u>Mutual funds</u>							
	Fuhwa Classical Fund	-	Short-term investments	487,367.40	5,005,000	-	4,934,303	-
Hwa Sheng Investment	<u>Mutual funds</u>							
	Polaris De-Bao Fund	-	Short-term investments	164,907.90	1,754,818	-	1,767,318	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	1,249,437.10	14,860,430	-	14,986,873	-
	Long-River Bond Fund	-	Short-term investments	11,280,465.50	127,705,022	-	128,677,398	-
	Fuh-Hwa Albatross Fund	-	Short-term investments	10,692,727.20	114,880,522	-	116,032,129	-
	The Wan Pao Fund	-	Short-term investments	1,359,203.77	19,791,502	-	19,941,422	-
	Phoenix Bond Fund	-	Short-term investments	3,679,384.90	53,174,839	-	53,615,629	-
	Fuh-Hwa Bond Fund	-	Short-term investments	1,014,087.20	12,900,609	-	13,030,006	-
	NITC Taiwan Bond Fund	-	Short-term investments	5,638,248.50	76,137,216	-	76,738,817	-
	Chung Hsing Ping-An Fund	-	Short-term investments	2,545,757.09	26,115,140	-	26,314,218	-
	Truswell Bond Fund	-	Short-term investments	3,913,879.60	47,922,716	-	48,289,447	-
	Truswell Premier Fund	-	Short-term investments	809,922.50	8,645,842	-	8,711,931	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Abacus Distribution Systems (Taiwan)	<u>Stock</u> Yestrip Co., Ltd.	Subsidiary	Investments in shares of stock	2,600,000	\$ 36,820,275	100.00	\$ 36,820,275	-
	<u>Mutual funds</u> The Incerement Fund	-	Short-term investments	1,298,774.84	18,883,636	-	19,101,471	-
	Sheng Hua 5599 Bond Fund	-	Short-term investments	654,582.73	7,020,923	-	7,091,095	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	1,438,398.47	17,000,000	-	17,253,446	-
	Polaris Global Short-Duration Diversified Bond Fund	-	Short-term investments	1,874,536.70	18,700,000	-	18,254,426	-
	PCA Bond Fund	-	Short-term investments	3,635,265.70	54,540,898	-	54,719,110	-
	NAM Short Term Fixed Income Fund	-	Short-term investments	26,065.10	11,418,931	-	11,454,484	-
	Cal-Asia Investment	<u>Stock</u> Taiwan Airport Services (Macau)	Equity-method investee	Investments in shares of stock	-	114,887,138	24.49	114,887,138
Eastern United International Logistics		Equity-method investee	Investments in shares of stock	600,000	10,975,286	20.00	10,975,286	-
Hwa Hsia	<u>Stock</u> Hwa Shin Building Safeguard Co., Ltd.	Subsidiary	Investments in shares of stock	1,000,000	10,000,000	100.00	10,000,000	-
	China Airlines	Parent company	Short-term investments	940,307	18,023,440	-	16,361,342	-
	<u>Mutual funds</u> Truswell Unique Fund	-	Short-term investments	2,826,668.70	30,000,000	-	29,870,539	-
	Fu-Hwa Bond Fund	-	Short-term investments	1,214,427.40	15,000,000	-	15,000,000	-

Note 1: Based on the ROC Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stocks," Company shares held by subsidiaries are reclassified from investment in shares of stocks to treasury stocks.

Note 2: The Company was established as a limited company.

Note 3: The subsidiary's financial statements as of and for the six months ended June 30, 2004 were not available as of August 6, 2004, the date of the accompanying auditors' report; thus, no information on the information on the subsidiary's market value or net asset value was then available.

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 SIX MONTHS ENDED JUNE 30, 2004

(Amounts in New Taiwan Dollars, Unless Stated Otherwise)

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
China Airlines	<u>Mutual funds</u>													
	Ta Chong Gallop Bond Fund	Short-term investments	-	-	14,383,246.40	\$ 150,000,000	128,932,087.60	\$ 1,350,000,000	133,806,919.10	\$ 1,402,629,515	\$ 1,400,000,000	\$ 2,629,515	9,508,414.90	\$ 100,000,000
	Grand Cathay Bond Fund	Short-term investments	-	-	16,085,575.30	200,000,000	84,162,597.60	1,050,000,000	96,259,278.00	1,202,875,062	1,200,000,000	2,875,062	3,988,894.90	50,000,000
	Chung Hsing Ping-An Fund	Short-term investments	-	-	24,394,576.94	250,000,000	4,860,739.80	50,000,000	29,255,316.74	300,905,767	300,000,000	905,767	-	-
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	25,050,739.80	400,000,000	-	-	25,050,739.80	401,008,239	400,000,000	1,008,239	-	-
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	14,273,581.70	200,000,000	63,917,551.50	900,000,000	39,148,850.00	552,005,451	550,000,000	2,005,451	39,042,283.20	550,000,000
	Jih Sun Bond Fund	Short-term investments	-	-	-	-	19,060,675.86	250,000,000	11,444,877.65	150,470,384	150,000,000	470,384	7,615,798.21	100,000,000
	Long-River Bond Fund	Short-term investments	-	-	-	-	61,570,972.20	700,000,000	35,214,955.10	400,008,613	400,000,000	8,613	26,356,017.10	300,000,000
	Tlam Solomon Bond Fund	Short-term investments	-	-	71,667,949.67	800,000,000	102,582,863.14	1,150,000,000	143,075,966.46	1,604,219,817	1,600,000,000	4,219,817	31,174,846.35	350,000,000
	Entrust Kirin Bond Fund	Short-term investments	-	-	-	-	14,043,744.00	150,000,000	-	-	-	-	14,043,744.00	150,000,000
	Central Diamond Bond Fund	Short-term investments	-	-	-	-	27,177,113.25	300,000,000	27,177,113.25	300,875,103	300,000,000	875,103	-	-
	Jf (Taiwan) Bond Fund	Short-term investments	-	-	-	-	34,006,680.40	500,000,000	-	500,000,000	300,430,997	430,997	13,580,314.00	200,000,000
	Jf (Taiwan) First Bond Fund	Short-term investments	-	-	7,396,996.80	100,000,000	-	-	7,396,996.80	100,190,103	100,000,000	190,103	-	-
	Tiim Bond Fund	Short-term investments	-	-	14,727,757.40	200,000,000	-	-	14,727,757.40	200,259,208	200,000,000	259,208	-	-
	Prudential Financial Bond Fund	Short-term investments	-	-	42,814,939.60	600,000,000	14,188,589.40	200,000,000	49,916,808.80	702,829,471	700,000,000	2,829,471	7,086,720.20	100,000,000
	NITC Taiwan Bond Fund	Short-term investments	-	-	14,865,353.80	200,000,000	7,393,934.00	100,000,000	14,865,353.80	201,391,645	200,000,000	1,391,645	7,393,934.00	100,000,000
	NITC Bond Fund	Short-term investments	-	-	1,267,788.70	200,000,000	7,581,501.50	1,200,000,000	6,957,488.60	1,101,513,411	1,100,000,000	1,513,411	1,891,801.60	300,000,000
	Barits Bond Fund	Short-term investments	-	-	12,861,956.90	150,000,000	68,286,286.80	800,000,000	81,148,243.70	951,643,183	950,000,000	1,643,183	-	-
	Cathay Bond Fund	Short-term investments	-	-	13,545,852.70	150,000,000	22,464,027.10	250,000,000	27,037,487.90	300,547,213	300,000,000	547,213	8,972,391.90	100,000,000
	The High-Yield Fund	Short-term investments	-	-	21,652,364.08	300,000,000	10,766,271.42	150,000,000	21,652,364.08	300,240,341	300,000,000	240,341	10,766,271.42	150,000,000
	The Wan Pao Fund	Short-term investments	-	-	20,608,075.62	300,000,000	-	-	20,608,075.62	301,580,639	300,000,000	1,580,639	-	-
	James Bond Fund	Short-term investments	-	-	33,747,983.60	500,000,000	10,091,156.80	150,000,000	33,747,983.60	500,178,865	500,000,000	178,865	10,091,156.80	150,000,000
	Abn Amro Bond Fund	Short-term investments	-	-	-	-	34,433,775.87	500,000,000	34,433,775.87	500,690,236	500,000,000	690,236	-	-
	Kgi Victory Fund	Short-term investments	-	-	9,699,415.13	100,000,000	135,120,995.28	1,400,000,000	125,562,420.75	1,302,295,474	1,300,000,000	2,295,474	19,257,989.66	200,000,000
	Fubon Ju-I Ii Fund	Short-term investments	-	-	14,356,265.10	200,000,000	-	-	14,356,265.10	200,578,558	200,000,000	578,558	-	-
	Truswell Bond Fund	Short-term investments	-	-	32,742,470.00	400,000,000	81,560,167.60	1,000,000,000	114,302,637.60	1,402,283,494	1,400,000,000	2,283,494	-	-
	Truswell Hua-Win Bond Fund	Short-term investments	-	-	-	-	29,505,488.10	300,000,000	29,505,488.10	300,864,512	300,000,000	864,512	-	-
	Invesco Gp Aggressive Income Fund	Short-term investments	-	-	54,855,638.24	600,000,000	72,781,528.05	800,000,000	54,855,638.24	602,457,533	600,000,000	2,457,533	72,781,528.05	800,000,000
	Transcend Fortune Fund	Short-term investments	-	-	47,163,052.90	550,000,000	119,461,611.80	1,400,000,000	132,558,391.40	1,552,961,933	1,550,000,000	2,961,933	34,066,273.30	400,000,000
	Hsbc Ntd Money Management Fund	Short-term investments	-	-	-	-	10,446,046.20	150,000,000	-	-	-	-	10,446,046.20	150,000,000
	Hsbc Ntd Money Management Fund 2	Short-term investments	-	-	-	-	29,454,455.30	400,000,000	29,454,455.30	400,446,776	400,000,000	446,776	-	-
	Shinkong NtS High Yield Fund	Short-term investments	-	-	-	-	50,075,426.11	801,068,484	31,297,141.32	501,608,047	500,000,000	1,608,047	18,778,284.79	301,068,484
	Shinkong Chi-Shin Fund	Short-term investments	-	-	36,391,955.91	500,000,000	43,381,543.45	600,000,000	72,544,723.05	1,001,886,020	1,000,000,000	1,886,020	7,228,776.31	100,000,000
	Union Bond Fund	Short-term investments	-	-	42,853,189.98	500,000,000	153,716,062.13	1,800,000,000	136,717,684.00	1,602,245,249	1,600,000,000	2,245,249	59,851,568.11	700,000,000
	Shinkong Chi-Shun Fund	Short-term investments	-	-	28,412,319.58	400,000,000	63,667,032.65	900,000,000	56,710,669.08	802,017,517	800,000,000	2,017,517	35,368,683.15	500,000,000
	Soaring Eagle Bond Fund	Short-term investments	-	-	47,947,407.26	500,000,000	62,141,515.91	650,000,000	95,765,011.79	1,001,289,633	1,000,000,000	1,289,633	14,323,911.38	150,000,000
The Forever Fund	Short-term investments	-	-	10,802,402.45	150,000,000	21,500,559.11	300,000,000	32,302,961.56	450,849,563	450,000,000	849,563	-	-	
Dresdner Bond Dam Fund	Short-term investments	-	-	-	-	26,943,997.32	300,000,000	26,943,997.32	300,360,276	300,000,000	360,276	-	-	
Weili Bond Fund	Short-term investments	-	-	9,861,446.67	100,000,000	68,828,751.71	700,000,000	68,828,751.71	701,276,811	700,000,000	1,276,811	9,861,446.67	100,000,000	
Polaris De-Bao Fund	Short-term investments	-	-	9,414,334.30	100,000,000	84,285,352.20	900,000,000	75,006,350.70	801,339,477	800,000,000	1,339,477	18,693,335.80	200,000,000	
Taiwan Air Cargo Terminal	<u>Mutual funds</u>													
	Grand Cathay Bond Fund	Short-term investments	-	-	19,847,474.20	246,926,396	7,825,353.20	98,089,237	19,847,474.20	248,089,238	246,926,396	1,162,842	7,825,353.20	98,089,237
	Jih Sun Bond Fund	Short-term investments	-	-	29,274,089.08	383,183,189	22,021,006.27	290,463,679	29,274,089.08	385,463,679	383,183,189	2,280,490	22,021,006.27	290,463,679
	NITC Taiwan Bond Fund	Short-term investments	-	-	12,157,614.40	164,165,483	16,789,728.80	228,361,139	14,473,671.60	196,992,460	195,534,162	1,458,298	14,473,671.60	196,992,460
	The Wan Pao Fund	Short-term investments	-	-	11,370,738.92	165,562,507	11,370,738.92	166,824,659	11,370,738.92	166,824,659	165,562,507	1,262,152	11,370,738.92	166,824,659
	The Increment Fund	Short-term investments	-	-	15,002,271.83	218,968,659	15,002,271.80	220,642,912	15,002,271.83	220,642,912	218,968,659	1,674,253	15,002,271.80	220,642,912
	President Home Run Bond Fund	Short-term investments	-	-	14,004,050.90	188,522,533	14,004,050.90	190,057,377	14,004,050.90	190,057,377	188,522,533	1,534,844	14,004,050.90	190,057,377
	Fuh-Hwa Bond Fund	Short-term investments	-	-	14,613,032.10	185,885,075	14,613,032.10	187,762,849	14,613,032.10	187,762,849	185,885,075	1,877,774	14,613,032.10	187,762,849
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	26,945,857.06	320,467,078	26,945,857.07	323,212,861	26,945,857.06	323,212,861	320,467,078	2,745,783	26,945,857.07	323,212,861
	PCA Bond Fund	Short-term investments	-	-	14,843,105.60	221,632,800	23,504,383.40	353,608,954	19,173,744.50	288,608,954	286,632,800	1,976,154	19,173,744.50	288,608,954
Fuhwa Advantage Bond Fund	Short-term investments	-	-	-	-	18,053,483.63	180,606,797	18,053,483.63	181,766,084	180,606,797	1,159,287	-	-	
Mandarin Airlines	<u>Mutual funds</u>													
	The High-Yield Fund	Short-term investments	-	-	7,249,896.69	100,000,000	8,605,212.36	120,000,000	13,705,926.68	190,809,794	190,000,000	809,794	2,149,181.37	30,000,000
	Shinkong NTS High-Yield Fund	Short-term investments	-	-	9,418,411.98	150,000,000	3,754,729.00	60,000,000	13,173,140.98	210,458,876	210,000,000	458,876	-	-
Hwa Hsia	<u>Mutual funds</u>													
	Truswell Unique Fund	Short-term investments	-	-	-	-	2,826,668.70	30,000,000	-	-	-	-	2,826,668.70	30,000,000
Fu-Hwa Bond Fund	Short-term investments	-	-	-	-	1,214,427.40	15,000,000	-	-	-	-	1,214,427.40	15,000,000	

CHINA AIRLINES, LTD. AND INVESTEEES

**SALE OF INDIVIDUAL REAL ESTATES AT COST OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Property	Transaction Date	Prior Purchase Date	Book Value	Transaction Amount	Receivables from Transaction Amount Condition	Sale Gain (Loss)	Counter-party	Relationship	Purpose of Sale	Price Reference	Others
China Airlines	Singapore crew dorm	2004.01.30	1984.05.01	\$188,282,020	\$682,244,312	Received	\$493,962,292	Mer Vue Development	-	Asset restructuring	Appraisal of DTZ Debenham Tie Leung	-

CHINA AIRLINES, LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in New Taiwan Dollars, Unless Stated 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	Taiwan Air Cargo Terminal	Subsidiary	Purchase	\$ 103,917,616	0.29	30 days	\$ -	-	(\$ 27,262,005)	(1.83)	-	
	Taoyuan International Airport Services	Equity-method investee	Purchase	380,580,301	1.07	40 days	-	-	(204,354,404)	(13.75)	-	
	Mandarin Airlines	Subsidiary	Purchase	102,450,445	0.29	2 months	-	-	(569,010,496)	(38.29)	-	
				Sale	(455,273,009)	(1.04)	2 months	-	-	519,055,544	5.76	-
	China Pacific Catering Services	Subsidiary	Purchase	472,004,659	1.32	60 days	-	-	(249,980,274)	(16.82)	-	
	Taiwan Airport Services	Equity-method investee	Purchase	121,612,490	0.34	40 days	-	-	(42,129,963)	(2.84)	-	

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, 2004

(Amounts in New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines	Mandarin Airlines	Subsidiary	\$519,055,544	2.31%	\$ -	-	\$264,806,220	\$ -

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2004			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2004	December 31, 2003	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	\$ 1,625,823,136	\$ 230,366,614	\$ 119,520,500	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate, hotel services, lease of aircraft and serving as cargo agent	US\$ 26,145,000	US\$ 26,145,000	2,614,500	100.00	843,330,370	34,628,940	34,628,940	Note 1
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000,000	147,000,000	34,300,000	49.00	791,974,967	127,100,350	61,894,600	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,916,250,274	2,916,250,274	216,441,585	90.05	691,387,395	(68,587,200)	(43,327,175)	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	438,600,000	744,600,000	43,860,000	51.00	554,911,194	110,487,968	56,282,531	-
	Hwa Sheng Investment	Taipei, Taiwan	General investment	500,000,000	500,000,000	50,000,000	100.00	517,935,309	-	-	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	90,000,000	90,000,000	22,450,008	93.93	360,197,643	52,678,047	47,052,761	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289,100	12,289,100	17,188,870	47.35	343,512,723	28,783,247	13,591,456	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 4,000,000	US\$ 4,000,000	4,000,000	100.00	153,657,946	7,657,903	7,657,903	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	115,500,000	115,500,000	12,705,000	31.76	150,532,142	46,219,153	13,715,523	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50	120,049,912	15,857,924	3,870,814	-
	China Pacific Laundry Services	Taoyuan, 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	104,986,402	887,285	488,007	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00	93,551,458	4,577,401	4,577,401	Note 2
	ICAS Co., Ltd.	Taoyuan, Taiwan	Manufacture and retail of aircraft and its related parts	67,500,000	8,500,000	6,750,000	48.21	56,475,200	(18,571,267)	(4,779,898)	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00	22,612,837	(3,047,836)	(1,554,396)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00	5,070,680	5,016,497	1,209,966	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	35,088	-	-	-
Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	34,602	-	-	-	
Freighter Queen Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	32,895	-	-	-	
Taoyuan International Airport Services	Taiwan Whi Lin Industry Co., Ltd.	Taichung, Taiwan	Other machine manufacturing	49,477,500	49,477,500	4,275,000	26.07	42,729,089	463,201	(176,517)	-
	Tao Yao Co., Ltd.	Taoyuan, Taiwan	Manpower placement and machine installation	10,000,000	10,000,000	1,000,000	100.00	11,070,497	17,353	16,947	-
Mandarin Airlines	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, Taiwan	Travel business	26,000,000	26,000,000	2,600,000	100.00	36,820,275	9,874,370	9,874,370	-
Taiwan Airport Services	Taiwan Airport Services (Macau)	Macau	Airport services and investment	US\$ 1,050,000	US\$ 3,525,726	-	26.53	124,604,874	29,153,177	7,893,518	Note 3
Cal Asia Investment	Taiwan Airport Services (Macau)	Macau	Airport services and investment	US\$ 3,254,526	US\$ 3,254,526	-	24.49	114,887,138	29,153,177	7,202,274	Note 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	10,975,286	6,152,472	1,208,094	-
Hwa Hsia	Hwa Shin Building Safeguard Co., Ltd.	Taoyuan, Taiwan	Building security and maintenance services	\$ 10,000,000	\$ 10,000,000	1,000,000	100.00	10,000,000	-	-	-

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 investee was established as a limited company.

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENT IN MAINLAND CHINA
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in New Taiwan Dollars, Unless Stated Otherwise)

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, 2004	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2004	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of June 30, 2004	Accumulated Inward Remittance of Earnings as of June 30, 2004	Accumulated Investment in Mainland China as of June 30, 2004	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	Indirect (Note 1)	\$109,580,000 (Note 3)	\$ -	\$ -	\$109,580,000 (Note 3)	12%	\$7,202,274	\$114,887,138	\$ -	\$109,580,000 (Note 3)	\$1,696,969,697 (Note 4)	\$11,284,570,227 (Note 5)

Note 1: China Airlines Ltd. invested in Cal-Asia Investment, which, in turn, invested in Taiwan Airport Services (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 relationships with R.O.C. accounting firms.

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

Note 4: US\$50,400,000.

Note 5: The limits based on the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China of Adjudgment Rule," are as follows: 40% for an NT\$5 billion investment, 30% for investments of over NT\$5 billion to NT\$10 billion, and 20% for investments of over NT\$10 billion. The three parts of total are upper limit on investment.