

China Airlines, Ltd.

**Financial Statements for the
Years Ended December 31, 2004 and 2003 and
Independent Auditors' Report**

CHINA AIRLINES, LTD.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of China Airlines, Ltd. as of December 31, 2004 and 2003 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, we did not audit the financial statements as of and for the year ended December 31, 2003 of Cal-Dynasty International and six other investees, which were accounted for by the equity method, as shown in the accompanying financial statements. 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 value of those investments was 1% (NT\$2,405,019,000) of the Company's total assets as of December 31, 2003. The Company's share in these investees' net income was 11% (NT\$184,862,000) of pretax income of the Company for the year ended December 31, 2003.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

March 1, 2005

Notice to Readers

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

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

CHINA AIRLINES, LTD.

BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

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

ASSETS	2004		2003	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Note 3)	\$ 5,082,480	2	\$ 6,759,816	4
Short-term investments (Notes 2 and 4)	3,508,718	2	10,103,718	5
Receivables:				
Notes and accounts, net (Notes 2 and 5)	7,856,326	4	5,740,806	3
Related parties (Note 22)	405,299	-	301,010	-
Other receivables (Note 6)	720,989	-	1,624,357	1
Inventories, net (Notes 2 and 7)	5,748,108	3	5,249,167	3
Prepaid expenses (Note 8)	696,139	-	286,999	-
Deferred income tax assets (Notes 2 and 19)	296,067	-	214,336	-
Other current assets	866,544	1	791,684	-
Total current assets	25,180,670	12	31,071,893	16
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 9)				
Equity method	6,093,700	3	6,779,462	3
Cost method	974,366	-	1,064,162	1
Total investments in shares of stock	7,068,066	3	7,843,624	4
OTHER FINANCIAL ASSETS - NONCURRENT	10,354	-	11,451	-
PROPERTIES (Notes 2, 10 and 23)				
Cost				
Land	2,106,788	1	2,153,583	1
Building	7,420,190	4	7,647,484	4
Machinery and equipment	3,163,335	2	3,109,046	2
Flight equipment	154,531,276	71	119,918,862	63
Furniture	773,916	-	839,907	1
Leased flight and other equipment	22,523,849	10	23,484,563	12
Leasehold improvements	558,775	-	439,137	-
Revaluation increase	50,335	-	50,335	-
Total cost and revaluation increase	191,128,464	88	157,642,917	83
Accumulated depreciation	40,587,290	19	35,284,524	19
	150,541,174	69	122,358,393	64
Advance payments on equipment purchase contracts (Note 24 and 25)	25,992,050	12	19,751,912	10
Net properties	176,533,224	81	142,110,305	74
INTANGIBLE ASSETS				
Computer software, net (Note 2)	166,771	-	182,739	-
Deferred pension cost (Notes 2 and 16)	2,377,282	1	2,743,929	2
Net intangible assets	2,544,053	1	2,926,668	2
OTHER ASSETS				
Idle properties, net	339,753	-	713,775	-
Deposits (Notes 23 and 24)	3,971,005	2	5,024,549	3
Deferred charges (Note 2)	417,114	-	85,064	-
Deferred income tax assets (Notes 2 and 19)	985,629	1	815,728	1
Pledged certificates of deposit (Note 23)	258,065	-	272,109	-
Net other assets	5,971,566	3	6,911,225	4
TOTAL	\$ 217,307,933	100	\$ 190,875,166	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans (Note 11)	\$ 500,000	-	\$ 3,600,000	2
Commercial paper (Note 12)	899,626	-	1,823,478	1
Accounts payable	433,069	-	676,377	-
Payable to related parties (Note 22)	1,276,699	1	890,530	1
Accrued expenses (Note 2)	10,397,795	5	8,309,866	4
Bonds issued - current portion (Notes 2 and 13)	1,500,000	1	3,900,000	2
Advance ticket sales (Note 2)	3,712,610	2	3,298,252	2
Loans - current portion (Notes 14 and 23)	15,083,694	7	11,985,946	6
Capital lease obligations - current portion (Notes 2 and 15)	1,239,617	1	1,215,321	1
Other current liabilities	1,169,194	-	859,908	-
Total current liabilities	36,212,304	17	36,559,678	19
LONG-TERM DEBTS, NET OF CURRENT PORTION				
Bonds issued (Notes 2 and 13)	14,875,600	7	8,100,000	4
Loans (Notes 14 and 23)	92,388,836	42	76,587,082	40
Capital lease obligations (Notes 2 and 15)	10,868,380	5	12,766,936	7
Total long-term debts	118,132,816	54	97,454,018	51
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	5,103,777	3	4,868,873	3
Deferred profit on sale-leaseback (Note 2)	4,523,472	2	2,929,679	2
Others	684,822	-	693,466	-
Total other liabilities	10,312,071	5	8,492,018	5
Total liabilities	164,657,191	76	142,505,714	75
STOCKHOLDERS' EQUITY				
Capital stock, \$10 par value				
Authorized - 4,480,000 shares in 2004 and 3,970,000 shares in 2003				
Issued and outstanding - 3,103,698 shares in 2004 and 2,848,929 shares in 2003	31,036,983	14	28,489,288	15
Capital surplus				
Issue of stock in excess of par value	7,843,057	4	7,157,448	4
Revaluation increment on properties	830,471	-	830,471	-
Share in capital surplus reported by equity-method investees	-	-	660	-
Gain on transaction of treasury shares held by subsidiaries	71,836	-	71,502	-
Others	5,044	-	5,044	-
Total capital surplus	8,750,408	4	8,065,125	4
Retained earnings				
Legal reserve	4,172,117	2	3,994,172	2
Special reserve	194,184	-	-	-
Unappropriated earnings	10,062,707	5	8,050,544	4
Total retained earnings	14,429,008	7	12,044,716	6
Unrealized loss on investments in shares of stock	(62,697)	-	(46,156)	-
Cumulative translation adjustments	(826,444)	(1)	144,476	-
Unrecognized pension cost	(641,023)	-	(292,504)	-
Company shares held by subsidiaries reclassified as treasury stock	(35,493)	-	(35,493)	-
Total stockholders' equity	52,650,742	24	48,369,452	25
TOTAL	\$ 217,307,933	100	\$ 190,875,166	100

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

(With Deloitte & Touche audit report dated March 1, 2005)

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2004		2003	
	Amount	%	Amount	%
REVENUES (Notes 2 and 22)				
Passenger	\$ 48,595,448	50	\$ 36,565,052	48
Cargo	41,873,486	44	34,891,924	46
Others	<u>5,706,128</u>	<u>6</u>	<u>4,402,160</u>	<u>6</u>
Total revenues	<u>96,175,062</u>	<u>100</u>	<u>75,859,136</u>	<u>100</u>
COSTS (Notes 20 and 22)				
Flying operations	43,113,961	45	32,255,195	42
Terminal and landing fees	15,540,484	16	13,402,339	18
Passenger service	7,658,575	8	6,769,191	9
Aircraft maintenance	5,953,408	6	5,172,235	7
Others	<u>4,006,909</u>	<u>4</u>	<u>2,871,266</u>	<u>4</u>
Total costs	<u>76,273,337</u>	<u>79</u>	<u>60,470,226</u>	<u>80</u>
GROSS PROFIT	<u>19,901,725</u>	<u>21</u>	<u>15,388,910</u>	<u>20</u>
OPERATING EXPENSES (Note 20)				
Marketing and selling	11,872,487	12	10,294,207	13
General and administrative	<u>2,408,085</u>	<u>3</u>	<u>2,276,826</u>	<u>3</u>
Total operating expenses	<u>14,280,572</u>	<u>15</u>	<u>12,571,033</u>	<u>16</u>
OPERATING INCOME	<u>5,621,153</u>	<u>6</u>	<u>2,817,877</u>	<u>4</u>
NONOPERATING INCOME AND GAIN				
Interest	72,860	-	87,000	-
Equity in investees' net income, net (Notes 2 and 9)	487,738	1	198,447	-
Other investment income	131,802	-	175,307	-
Gain on disposal of properties, net (Note 2)	560,529	1	339,787	1
Gain on disposal of investments, net	264,628	-	109,908	-
Gain on physical inventory	13,880	-	8,028	-
Other	<u>407,280</u>	<u>-</u>	<u>1,045,180</u>	<u>1</u>
Total nonoperating income and gain	<u>1,938,717</u>	<u>2</u>	<u>1,963,657</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	2,560,970	3	2,620,655	3
Foreign exchange loss, net (Note 2)	298,179	-	79,253	-
Other	<u>697,888</u>	<u>1</u>	<u>456,728</u>	<u>1</u>
Total nonoperating expenses and losses	<u>3,557,037</u>	<u>4</u>	<u>3,156,636</u>	<u>4</u>

(Continued)

	<u>2004</u>		<u>2003</u>	
	Amount	%	Amount	%
PRETAX INCOME	\$ 4,002,833	4	\$ 1,624,898	2
INCOME TAX BENEFIT (Notes 2 and 19)	<u>179,894</u>	<u>-</u>	<u>154,568</u>	<u>-</u>
NET INCOME	<u>\$ 4,182,727</u>	<u>4</u>	<u>\$ 1,779,466</u>	<u>2</u>
	<u>2004</u>		<u>2003</u>	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$ 1.33</u>	<u>\$ 1.39</u>	<u>\$ 0.55</u>	<u>\$ 0.60</u>
Diluted	<u>\$ 1.14</u>	<u>\$ 1.19</u>	<u>\$ 0.55</u>	<u>\$ 0.60</u>

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

(With Deloitte & Touche audit report dated March 1, 2005)

(Concluded)

CHINA AIRLINES, LTD.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars and Shares, Except Cash Dividends Per Share)**

	Capital Stock		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 (Notes 2 and 9)	Cumulative Translation Adjustments (Note 2)	Unrecognized Pension Cost (Notes 2 and 16)	Company Shares Held by Subsidiaries Reclassified as Treasury Stock (Notes 2 and 18)	Total Stockholders' Equity	
	Issued			Revaluation Increment on Properties	Share in Capital Surplus Reported by Equity- method Investees	Gain on Transaction of Treasury Shares Held by Subsidiaries	Others	Total	Legal Reserve	Special Reserve	Unappropriated Earnings						Total
	Shares	Amount															
BALANCE, JANUARY 1, 2003	2,542,796	\$ 25,427,956	\$ 7,104,934	\$ 830,471	\$ -	\$ 21,951	\$ 5,044	\$ 7,962,400	\$ 3,572,557	\$ -	\$ 9,403,939	\$ 12,976,496	\$ (26,746)	\$ 637,791	\$ -	\$ (189,738)	\$ 46,788,159
Appropriation of 2002 earnings																	
Legal reserve	-	-	-	-	-	-	-	-	421,615	-	(421,615)	-	-	-	-	-	-
Bonus to employees	16,845	168,450	-	-	-	-	-	-	-	-	(168,450)	(168,450)	-	-	-	-	-
Stock dividends - 10%	254,280	2,542,796	-	-	-	-	-	-	-	-	(2,542,796)	(2,542,796)	-	-	-	-	-
Unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	(19,410)	-	-	-	(19,410)
Share in capital surplus reported by equity-method investees	-	-	-	-	660	-	-	660	-	-	-	-	-	-	-	-	660
Conversion of bonds to capital stock	35,008	350,086	52,514	-	-	-	-	52,514	-	-	-	-	-	-	-	-	402,600
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	-	-	-	-	-	(471,025)	-	-	(471,025)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	(22,290)	-	-	(22,290)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(292,504)	-	(292,504)
Capital surplus from sale of Company shares held by subsidiaries	-	-	-	-	-	49,551	-	49,551	-	-	-	-	-	-	-	154,245	203,796
Net income in 2003	-	-	-	-	-	-	-	-	-	-	1,779,466	1,779,466	-	-	-	-	1,779,466
BALANCE, DECEMBER 31, 2003	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	-	-	-	-	-	-	-	-	177,945	-	(177,945)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	194,184	(194,184)	-	-	-	-	-	-
Bonus to employees	8,444	84,440	-	-	-	-	-	-	-	-	(84,440)	(84,440)	-	-	-	-	-
Cash dividends—\$0.1 per share	-	-	-	-	-	-	-	-	-	-	(284,893)	(284,893)	-	-	-	-	(284,893)
Stock dividends—5%	142,446	1,424,464	-	-	-	-	-	-	-	-	(1,424,464)	(1,424,464)	-	-	-	-	-
Unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	(16,541)	-	-	-	(16,541)
Reversal of share in capital surplus reported by equity-method investees	-	-	-	-	(119)	-	-	(119)	-	-	(8)	(8)	-	-	-	-	(127)
Conversion of bonds to capital stock	103,879	1,038,791	685,609	-	-	-	-	685,609	-	-	-	-	-	-	-	-	1,724,400
Capital surplus from cash dividends of company shares held by subsidiaries	-	-	-	-	-	334	-	334	-	-	-	-	-	-	-	-	334
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	-	-	-	-	-	(905,134)	-	-	(905,134)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	(65,786)	-	-	(65,786)
Net income in 2004	-	-	-	-	-	-	-	-	-	-	4,182,727	4,182,727	-	-	-	-	4,182,727
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(348,519)	-	(348,519)
Adjustment from unproportionate subscription of new shares of investments in shares of stock	-	-	-	-	(541)	-	-	(541)	-	-	(4,630)	(4,630)	-	-	-	-	(5,171)
BALANCE, DECEMBER 31, 2004	3,103,698	\$ 31,036,983	\$ 7,843,057	\$ 830,471	\$ -	\$ 71,836	\$ 5,044	\$ 8,750,408	\$ 4,172,117	\$ 194,184	\$ 10,062,707	\$ 14,429,008	\$ (62,697)	\$ (826,444)	\$ (641,023)	\$ (35,493)	\$ 52,650,742

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

(With Deloitte & Touche audit report dated March 1, 2005)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,182,727	\$ 1,779,466
Adjustments to reconcile net income to net cash provided by operating activities		
Reversal of unrealized loss on short-term investments	-	(15,520)
Provision of allowance for doubtful receivables	30,000	-
Depreciation and amortization	8,053,363	6,832,984
Gain on disposal of investments in shares of stock, net	(149,651)	(20)
Gain on disposal of properties, net	(560,529)	(339,787)
Gain on disposal of idle properties, net	(35,467)	(127,080)
Net loss on inventories, properties and idle properties	613,519	220,052
Amortization of deferred profit on sale-leaseback	(1,111,123)	(311,285)
Amortization of deferred credits	(66,386)	(66,442)
Equity in investees' net gain less cash dividends received	(87,929)	548,373
Reversal of capital lease obligations	-	(981,738)
Gain on liquidation of investments in shares of stock	(5,306)	(1,109)
Deferred income taxes	(251,632)	(1,055,024)
Changes in operating assets and liabilities, net		
Decrease (increase) in		
Notes and accounts receivable - third parties	(2,145,520)	(704,640)
Notes and accounts receivable - related parties	(104,289)	(29,805)
Other receivables	903,368	(393,669)
Inventories	(844,060)	(176,753)
Prepaid expenses	(409,140)	(159,091)
Other current assets	(74,860)	165,573
Increase (decrease) in		
Accounts payable	(243,308)	113,980
Payable to related parties	386,169	67,357
Accrued expenses	2,087,929	197,044
Advance ticket sales	414,359	48,170
Other current liabilities	309,286	23,372
Provision for pension cost	<u>253,032</u>	<u>210,263</u>
Net cash provided by operating activities	<u>11,144,551</u>	<u>5,844,671</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	6,595,000	(9,900,000)
Decrease in pledged certificate of deposits	14,044	6,637
Proceeds from disposal of investments in shares of stock	216,655	296
Addition to investments in shares of stock	(114,743)	-
Proceeds from liquidation of investee	523,241	-
Refund from capital reduction of investee	306,000	-
Decrease in other financial assets - noncurrent	1,097	10,005
Proceeds from disposal of properties	7,192,213	6,321,149
Additions to properties	<u>(50,313,778)</u>	<u>(27,760,977)</u>

(Continued)

	2004	2003
Proceeds from disposal of idle properties	\$ 132,394	\$ 258,348
Decrease (increase) in deposits made	1,053,544	(1,319,429)
Decrease (increase) in computer software	5,436	(49,329)
Increase in deferred charges	<u>(369,730)</u>	<u>(19,368)</u>
Net cash used in investing activities	<u>(34,758,627)</u>	<u>(32,452,668)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (repayments on) short-term loans	(3,100,000)	780,488
Proceeds from (repayments on) commercial paper	(923,852)	254,302
Proceeds from long-term loans	43,209,586	36,172,653
Repayments of long-term loans	(22,744,479)	(9,767,161)
Proceeds from bonds issued	10,000,000	4,000,000
Redemption of bonds issued	(3,900,000)	(31,300)
Increase in deposits-in	57,741	8,800
Decrease in deferred profit on sale - leaseback	(223,148)	-
Payments of cash dividends	<u>(284,893)</u>	<u>-</u>
Net cash provided by financing activities	<u>22,090,955</u>	<u>31,417,782</u>
INCREASE (DECREASE) IN CASH	(1,523,121)	4,809,785
EFFECTS OF EXCHANGE RATE CHANGES	(154,215)	100,897
CASH, BEGINNING OF YEAR	<u>6,759,816</u>	<u>1,849,134</u>
CASH, END OF YEAR	<u>\$ 5,082,480</u>	<u>\$ 6,759,816</u>
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 3,047,437	\$ 2,801,916
Less: Capitalized interest	<u>345,147</u>	<u>277,320</u>
Interest paid (excluding capitalized interest)	<u>\$ 2,702,290</u>	<u>\$ 2,524,596</u>
Income taxes paid	<u>\$ 452,660</u>	<u>\$ 49,271</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term debts	<u>\$ 15,083,694</u>	<u>\$ 11,985,946</u>
Current portion of capital lease obligations	<u>\$ 1,239,617</u>	<u>\$ 1,215,321</u>
Current portion of bonds issued	<u>\$ 1,500,000</u>	<u>\$ 3,900,000</u>
Conversion of convertible bonds to capital stock	<u>\$ 1,724,400</u>	<u>\$ 402,600</u>

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

(With Deloitte & Touche audit report dated March 1, 2005)

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 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 of mail services; (b) provision of ground services and routine aircraft maintenance; (c) major maintenance of flight equipment; (d) provision of 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 67.51% and 70.05% of the shares of the Company as of December 31, 2004 and 2003, respectively. The Company had 9,490 and 9,124 employees as of December 31, 2004 and 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies, which conform to Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted 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 aggregate cost less allowance for losses on decline in market value or on 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 Accounts

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. 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. Furthermore, when the Company recognizes its investment income, the cash dividend income recognized by the subsidiaries due to the Company's earning appropriation should be subtracted from investment income, and credited to paid-in capital.

Properties

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

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

Upon property sale or 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 lease 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, bond, or loan terms.

Frequent-flyer Program

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

Convertible Bonds

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

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

Pension Costs

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

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" in stockholders' 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 deferred tax assets related to net loss carryforwards, 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 incurred.

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

Income tax (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 different foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the period of settlement.

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

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

Derivative Financial Instruments

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

a. Forward exchange contracts

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

Effective from the fourth quarter of 2004, according to the promulgation issued by Accounting Research and Development Foundation, written foreign-currency option contracts should not be designated as hedging instruments (except for those used to offset the position of purchasing options which are equivalent to option written in terms of currency, account and terms.) On balance sheet dates, the carrying value of the option written is restated at fair value, and the resulting differences are credited or charged to current income.

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. Fuel price hedging contracts

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

Reclassifications

Certain accounts for 2003 have been reclassified to conform to the 2004 financial statement presentation.

3. CASH

	December 31	
	2004	2003
Cash on hand	\$ 29,459,962	\$ 14,766,263
Revolving fund	53,521,872	675,358,056
Cash in banks	3,610,706,228	1,218,773,759
Certificates of deposit	<u>1,388,791,553</u>	<u>4,850,918,307</u>
	<u>\$ 5,082,479,615</u>	<u>\$ 6,759,816,385</u>

Certificates of deposit of \$50,000,000 as of December 31, 2004 are due after one year.

4. SHORT-TERM INVESTMENTS

	December 31	
	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>3,305,000,000</u>	<u>9,900,000,000</u>
	<u>\$ 3,508,718,329</u>	<u>\$ 10,103,718,329</u>
Market value		
Domestic marketable equity securities and mutual funds	\$ 3,432,178,493	\$ 10,020,148,981
Foreign marketable equity securities	<u>204,354,693</u>	<u>181,780,859</u>
	<u>\$ 3,636,533,186</u>	<u>\$ 10,201,929,840</u>

The total market value of the marketable equity securities and the open-end mutual funds are calculated at the average closing prices for December and the net asset values on December 31, respectively.

5. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2004	2003
Notes receivable	\$ 266,042,479	\$ 265,742,353
Accounts receivable	<u>7,658,396,572</u>	<u>5,523,569,888</u>
	7,924,439,051	5,789,312,241
Less: Allowance for doubtful accounts	<u>68,113,328</u>	<u>48,506,397</u>
	<u>\$ 7,856,325,723</u>	<u>\$ 5,740,805,844</u>

6. OTHER RECEIVABLES

	December 31	
	2004	2003
Accrued revenue	\$ 500,428,647	\$ 1,374,101,207
Tax refunds	126,593,105	245,717,899
Others	<u>93,967,068</u>	<u>4,538,299</u>
	<u>\$ 720,988,820</u>	<u>\$ 1,624,357,405</u>

7. INVENTORIES

	December 31	
	2004	2003
Aircraft spare parts	\$ 4,737,288,319	\$ 4,541,789,197
Items for in-flight sale	360,781,635	363,714,548
Work in process - maintenance services	<u>699,438,963</u>	<u>392,662,049</u>
	5,797,508,917	5,298,165,794
Less: Allowance for losses	<u>49,400,969</u>	<u>48,999,194</u>
	<u>\$ 5,748,107,948</u>	<u>\$ 5,249,166,600</u>

8. PREPAID EXPENSES

	December 31	
	2004	2003
Prepaid insurance	\$ 522,932,206	\$ 27,970,366
Prepaid aircraft rentals	88,845,181	133,873,359
Others	<u>84,361,566</u>	<u>125,155,115</u>
	<u>\$ 696,138,953</u>	<u>\$ 286,998,840</u>

9. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Equity method</u>				
Taiwan Air Cargo Terminal	\$ 1,747,484,730	54.00	\$ 1,668,302,636	54.00
Taoyuan International Airport Service	846,296,068	49.00	768,279,978	49.00
Cal-Dynasty International	823,787,451	100.00	816,757,176	100.00
China Pacific Catering Services	618,000,629	51.00	864,196,663	51.00
Mandarin Airlines	526,892,631	90.05	736,714,570	90.05
Abacus Distribution Systems (Taiwan)	402,582,668	93.93	391,719,910	93.93
Taiwan Airport Service	354,080,685	47.35	337,237,539	47.35
Cal-Asia Investment	212,604,484	100.00	147,288,230	100.00
Kaoshiung Catering Services	166,449,852	31.76	155,148,478	31.76

(Continued)

	December 31			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Asian Compressor Technology Service	\$ 125,000,155	24.50	\$ 145,241,480	24.50
China Pacific Laundry Services	106,115,182	55.00	104,498,395	55.00
Hwa Hsia	93,156,433	100.00	88,974,057	100.00
ICAS Co., Ltd.	40,360,311	48.21	7,426,254	25.00
Dynasty Holidays	25,162,759	51.00	24,528,593	51.00
Global Sky Express	5,623,390	25.00	5,110,714	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
Hwa Sheng Investment	-	-	<u>517,935,309</u>	100.00
	<u>6,093,700,013</u>		<u>6,779,462,567</u>	
<u>Cost method</u>				
Over-the-counter				
Far Eastern Air Transport	374,317,312	7.61	422,556,470	8.59
Trade-Van Information Services	<u>92,320,048</u>	5.98	<u>92,320,048</u>	5.98
	<u>466,637,360</u>		<u>514,876,518</u>	
With quoted market prices				
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	49,771,879	15.00	56,022,929	15.00
Science Park Cargo Service	44,310,000	14.77	44,310,000	14.77
Chung Hwa Express Co.	22,000,000	11.00	22,000,000	11.00
Regal International Advertising	5,925,000	6.58	5,925,000	6.58
Changi International Airport Services Pte.	-	-	<u>18,764,706</u>	4.40
	<u>569,953,330</u>		<u>594,969,086</u>	
Unlisted preferred stocks				
ABACUS International Holdings Ltd.	<u>472,522</u>	-	<u>472,522</u>	-
Less: Allowance for losses	<u>62,697,368</u>		<u>46,156,360</u>	
	<u>974,365,844</u>		<u>1,064,161,766</u>	
	<u>\$ 7,068,065,857</u>		<u>\$ 7,843,624,333</u>	

The market value of investments in shares of OTC stocks were \$403,940,000 and \$468,721,000 for the years ended December 31, 2004 and 2003, respectively, based on the average closing prices of December 2004 and 2003, respectively.

On March 5, 2004, the stockholders of China Pacific Catering Services resolved to reduce the 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.

Hwa Sheng Investment has finished liquidation on July 31, 2004.

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

- a. The accounting period of Dynasty Holidays ended on June 30 originally but has been changed as calendar year from 2004. In 2003, the Company recognized its equity in this investee's net income using the investee's audited financial statements as of and for the period ended 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 statements. The Company believes that there will be no material effect on the presentation of 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.
- c. The total assets or total operating revenues of subsidiaries were individually less than 10% and collectively less than 30% of those of the Company. Thus, the Company did not prepare consolidated financial statements.

10. PROPERTIES

	December 31	
	2004	2003
Revaluation increase - cost		
Building	<u>\$ 50,335,009</u>	<u>\$ 50,335,009</u>
Accumulated depreciation		
Building	\$ 2,516,400,617	\$ 2,473,100,107
Machinery and equipment	2,511,128,518	2,412,925,421
Flight equipment	29,615,179,704	25,463,108,292
Furniture	601,478,961	646,984,302
Leased flight and other equipment	4,946,956,969	3,930,138,474
Leasehold improvements	<u>396,145,335</u>	<u>358,267,293</u>
	<u>\$ 40,587,290,104</u>	<u>\$ 35,284,523,889</u>

Inventory and property insurance as of December 31, 2004 and 2003 amounted to \$203,135,865,000 and \$189,764,455,000, respectively.

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

Capitalized interest for the years ended December 31, 2004 and 2003 amounted to \$345,147,000 and \$277,320,000, respectively. These interests were calculated at rates ranging from 1.257% to 1.470% and 1.370% to 1.884% in the years ended December 31, 2004 and 2003, respectively.

11. SHORT-TERM LOANS

	December 31	
	2004	2003
Unsecured loans. Interest - 1.29% in 2004 and 1.30% to 1.40% in 2003	<u>\$ 500,000,000</u>	<u>\$ 3,600,000,000</u>

The unused credit lines available for short-term loans amounted to \$5,540,000,000 as of December 31, 2004.

12. COMMERCIAL PAPER

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Aggregate face value - 1.250% to 1.288% in 2004 and 1.25% to 1.40% in 2003	\$ 900,000,000	\$ 1,830,000,000
Less: Unamortized discount	<u>373,655</u>	<u>6,522,165</u>
	<u>\$ 899,626,345</u>	<u>\$ 1,823,477,835</u>

The unused credit lines available for the issuance of commercial paper amounted to \$1,380,000,000 as of December 31, 2004.

13. BONDS

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Current		
Issue of secured bonds in 2002	\$ 600,000,000	\$ -
Second issue of unsecured bonds in 2001	900,000,000	900,000,000
First issue of unsecured bonds in 2001	<u>-</u>	<u>3,000,000,000</u>
	<u>\$ 1,500,000,000</u>	<u>\$ 3,900,000,000</u>
Noncurrent		
Second issue of unsecured domestic convertible bonds	\$ 8,275,600,000	\$ -
Issue of secured bonds in 2003	4,000,000,000	4,000,000,000
Issue of secured bonds in 2002	1,400,000,000	2,000,000,000
Second issue of unsecured bonds in 2001	<u>1,200,000,000</u>	<u>2,100,000,000</u>
	<u>\$ 14,875,600,000</u>	<u>\$ 8,100,000,000</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 \$16.6 on December 31, 2004.
- e. As of December 31, 2004, the bonds with aggregate face value of \$1,724,400,000 had been converted into 103,879,000 shares of common stock of the Company.

On May 20 to 23, 2003 (four business days), secured bonds with aggregate face values of \$1,200,000,000, \$1,200,000,000 and \$1,600,000,000 were issued as Type A, B and C bonds, respectively, and durations of 3, 4 and 5 years, respectively. The bonds are repayable in lump sum payment on maturity. The interest rates for Type A bonds and Type B bonds are 1.45% and 1.6%, respectively, and the interests are calculated and payable annually. The interest rate for Type C bonds is 4% minus floating interest rate, and the interest is calculated semiannually and payable annually. The guarantor institutions are Bank of Taiwan and Chiaotung Bank.

Secured bonds with aggregate face value of \$2,000,000,000 were issued on May 15 to 28, 2002 (ten business days). The bonds will mature on May 28, 2007 at an annual interest rate of 2.84%. The consecutive annual repayments of the principal starts on May 28, 2005 annually at the percentage of 30%, 30% and 40%. The guarantor institutions are Land Bank and Taipei Fubon Bank.

The first and second issues 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 (fourteen 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 due from August 6, 2004 at 30%, 30% and 40% of the principal.

14. LONG-TERM LOANS

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Bank loans	\$ 92,987,480,703	\$ 74,932,597,044
Commercial paper, net of unamortized discount of \$46,950,389 in 2004 and \$25,569,489 in 2003	14,485,049,611	13,640,430,511
Less: Current portion	<u>15,083,694,067</u>	<u>11,985,945,865</u>
	<u>\$ 92,388,836,247</u>	<u>\$ 76,587,081,690</u>

Bank loans (New Taiwan dollars, Japanese yen and U.S. dollars) bears interest at the rates ranging from 0.5972% to 3.3140% in 2004 and 0.5845% to 2.5580% in 2003. They are repayable either quarterly or semiannually or through a lump sum payment upon maturity in December 2016.

The Company has notes issuance facilities (NIF) obtained from certain financial institutions. The NIF, with the various maturities until October 2014, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rate of 1.4962% to 2.1566% in 2004 and 1.1728% to 1.7047% in 2003.

15. LONG-TERM CAPITAL LEASE OBLIGATIONS

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Capital lease obligations	\$ 12,107,997,247	\$ 13,982,257,282
Less: Current portion	<u>1,239,617,047</u>	<u>1,215,321,410</u>
	<u>\$ 10,868,380,200</u>	<u>\$ 12,766,935,872</u>

As of December 31, 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:

Period	Amount
2005	\$ 1,239,617,047
2006	1,333,220,595
2007	1,433,904,392
2008	1,542,204,868
2009	1,658,699,160
2010 and onwards	4,900,351,000

The present value of total rentals starting from 2010, based on the 1.55% discount rate of a one-year time deposit, is \$4,537,614,000.

16. PENSION PLAN

The Company has a pension plan for all 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.

Pension information is summarized as follows:

	2004	2003
a. Net periodic pension cost		
Service cost	\$ 275,829,176	\$ 276,909,322
Interest cost	229,293,945	265,701,410
Projected return on plan assets	(21,771,737)	(46,316,375)
Amortization of net transition obligation	307,511,000	307,511,000
Amortization of prior service cost	59,135,597	-
Amortization of pension gains or losses	<u>53,620,041</u>	<u>3,710,774</u>
	<u>\$ 903,618,022</u>	<u>\$ 807,516,131</u>
	December 31	
	2004	2003
b. Reconciliation of the fund status of the plan and accrued pension cost:		
Benefit obligation:		
Vested benefit obligation	\$ 3,943,290,451	\$ 3,703,222,923
Non-vested benefit obligation	<u>2,449,898,528</u>	<u>2,340,198,625</u>
Accumulated benefit obligation	6,393,188,979	6,043,421,548
Additional benefits based on future salaries	<u>978,042,488</u>	<u>942,264,998</u>
Projected benefit obligation	7,371,231,467	6,985,686,546
Fair value of plan assets	<u>(1,289,412,041)</u>	<u>(1,174,548,995)</u>
Funded status	6,081,819,426	5,811,137,551
Unrecognized net transition obligation	(1,845,062,000)	(2,152,573,000)
Unrecognized prior service cost	(532,220,368)	(591,355,965)
Unrecognized net actuarial loss	(1,619,065,851)	(1,234,769,065)
Additional liability	<u>3,018,305,731</u>	<u>3,036,433,032</u>
Accrued pension cost	<u>\$ 5,103,776,938</u>	<u>\$ 4,868,872,553</u>

	December 31	
	2004	2003
c. Vested benefits - undiscounted	<u>\$ 7,018,593,425</u>	<u>\$ 6,707,994,803</u>
	2004	2003
d. Actuarial assumptions		
Discount rate used in determining present values	3.7%	3.7%
Future salary increase rate	2.0%	2.0%
Expected rate of return on plan assets	3.7%	3.7%
e. Summary of changes in the pension fund		
Contributions	<u>\$ 608,402,156</u>	<u>\$ 519,740,941</u>
Payment of benefits	<u>\$ 549,000,296</u>	<u>\$ 1,115,404,726</u>

As of December 31, 2004 and 2003, the contributions deposited in the Central Trust of China amounted to \$1,179,465,000 and \$1,129,197,000, respectively.

17. STOCKHOLDERS' EQUITY

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

	Appropriations		Dividend per Share	
	(in Thousands of			
	New Taiwan Dollars)			
	2003	2002	2003	2002
Legal reserve	\$ 177,945	\$ 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>\$ 2,165,926</u>	<u>\$ 3,132,861</u>		

The above appropriations were the same as those proposed by the board of directors.

The second issue of unsecured domestic convertible bonds with aggregate face value of \$1,613,200,000 had been converted into 97,180,000 shares of common stock of the Company in fourth quarter in 2004. Under the related regulation, the Company can issue the shares first and then apply to the authorities to register the capital increase. The Company had completed the registration of capital increase dated on January 12, 2005.

Capital surplus from the issue of stock in excess of par value, stock issuance to effect a merger, 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 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 and the balance of treasury stocks), such as the debit balances of unrealized loss on investments in shares of stock, cumulative translation adjustments and unrecognized pension cost. 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 Securities and Futures Commission (known as Securities and Futures Bureau now), 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.

As of March 1, 2005, the date of the audit report, the appropriation of earnings in 2004 had not been resolved by the board of directors. The resolution on this appropriation will be announced through the Market Observation System on the Web site of the Taiwan Stock Exchange.

Under a resolution, the stockholders approved the board of directors' proposal on the appropriation of earnings in 2003 and declared \$84,440,000 as bonus for employees in the form of stocks (0.3% of the Company's outstanding common stocks as of December 31, 2003). Had the entire bonus for employees been distributed and recorded as expense, the 2003 basic earnings per share would have decreased from \$0.60 to \$0.57.

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 Year	Shares Increase During the Year	Shares Decrease During the Year	Shares at End of Year
<u>2004</u>				
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>3,336</u>	<u>167</u>	<u>-</u>	<u>3,503</u>

(Continued)

Reason	Shares at Beginning of Year	Shares Increase During the Year	Shares Decrease During the Year	Shares at End of Year
2003				
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>15,501</u>	<u>1,530</u>	<u>13,695</u>	<u>3,336</u>

The above shares increase during the year refers only to stock dividends.

Proceeds from treasury stock reissuance were \$203,796,000 for the year ended December 31, 2003. The shares reclassified as treasury stock amounted to \$35,493,000 for the years ended December 31, 2004 and 2003, respectively. The market values of the treasury stocks as of December 31, 2004 and 2003 were \$63,689,000 and \$49,945,000, 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:

	2004	2003
Income tax expense on income before income tax at statutory rate (25%)	\$ 1,000,708,351	\$ 406,224,527
Add (less) tax effects of:		
Permanent differences	(204,864,092)	(154,211,906)
Temporary differences	<u>(26,421,298)</u>	<u>1,399,759,985</u>
Income tax expense - current	<u>\$ 769,422,961</u>	<u>\$ 1,651,772,606</u>

- b. Income tax consisted of the following:

Income tax expense - current	\$ 769,422,961	\$ 1,651,772,606
Tax on unappropriated retained earnings	543,373,555	119,019,468
Investment income tax credit	(1,057,386,897)	(1,198,608,318)
Net changes in deferred income tax expense (benefit):		
Allowance for doubtful receivables	-	438,753
Reversal (allowance) for loss on inventories	(100,444)	2,392,851
Equity in net income (loss) of domestic equity-method investees	276,753,472	(64,941,570)
Equity in net income of foreign equity-method investees	18,216,111	7,933,679
Depreciation difference between accounting and tax on properties	(44,344,762)	(1,325,090,158)
Allowance for loss on idle assets	(79,494,521)	(50,000,000)
Accrued expense of frequent-flyer program	(8,716,323)	(2,821,670)
Provision for pension cost	(63,257,922)	(52,565,601)

(Continued)

	2004	2003
Unrealized foreign exchange gain (loss)	\$ (72,914,371)	\$ 66,223,549
Difference between accounting and tax on interest	18,789,936	18,670,183
Investment income tax credits	(291,446,464)	454,487,536
Provision (reversal) of valuation allowance	(210,375,968)	(109,751,078)
Adjustment of prior years' tax	<u>21,587,854</u>	<u>328,272,117</u>
Income tax benefit	<u>\$ (179,893,783)</u>	<u>\$ (154,567,653)</u>

c. Deferred income tax assets (liabilities) as of December 31, 2004 and 2003 consisted of the following:

	December 31	
	2004	2003
Current		
Allowance for loss on inventories	\$ 8,556,719	8,456,275
Accrued expenses for frequent-flyer program	41,259,085	32,542,762
Unrealized foreign exchange loss	<u>246,251,136</u>	<u>173,336,765</u>
Deferred income tax assets	<u>\$ 296,066,940</u>	<u>\$ 214,335,802</u>
Noncurrent		
Investment income tax credit	\$ 1,224,396,704	\$ 1,138,209,770
Cumulative equity in the net loss of domestic equity-method investees	-	276,753,472
Provision for pension cost	521,220,922	457,963,000
Difference between accounting and tax on interest	211,865,421	230,655,357
Allowance for loss on idle properties	<u>290,304,665</u>	<u>210,810,144</u>
Deferred income tax assets	2,247,787,712	2,314,391,743
Less: Valuation allowance	<u>(587,710,418)</u>	<u>(798,086,386)</u>
Deferred income tax assets, net	1,660,077,294	1,516,305,357
Depreciation difference between accounting and tax on properties	(649,801,590)	(694,146,352)
Cumulative equity in the net income of foreign equity-method investees	<u>(24,646,873)</u>	<u>(6,430,762)</u>
Deferred income tax assets - noncurrent, net	<u>\$ 985,628,831</u>	<u>\$ 815,728,243</u>

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

	December 31	
	2004	2003
Balance of ICA	<u>\$ 73,321,744</u>	<u>\$ 48,713,470</u>

The expected and actual creditable tax ratios for distribution to each qualified stockholder of earnings generated up to December 31, 2004 and 2003 were 7.16% and 17.52%, respectively.

The actual creditable tax ratio to be used for distributing earnings generated as of December 31, 2004 will be determined on the date of dividend distribution. Thus, the expected creditable tax ratio may change depending on the ICA balance on the dividend distribution date.

- e. The unappropriated retained earnings as of December 31, 2004 and 2003 included earnings of \$5,644,645,000 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 December 31, 2004 were as follows:

Basis of the Tax Credit	Description of the Source of the Tax Credit	Total Amount of Tax Credits	Remaining Tax Credits	Expiry Year
Article 6 of the Statute for Upgrading of Industries	R&D expenses, personnel	\$ 855,754,412	\$ 185,834,866	2005
	training expenses and purchases of eligible equipment	1,348,833,361	1,038,561,838	2008

The income tax returns through 2002 but 2001, except for the following, had been examined and cleared by the tax authorities.

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

On the Company's 2002 income tax return, the tax authorities reduced the loss on bad debt of \$181,868,000 because the original of the certificates approved by institutions functioning abroad was not presented in time. Further, the tax authorities contended that the Company had an additional gain on disposal of properties of \$867,010,000, since it did not consider the depreciation difference between accounting and tax of properties. The Company has appealed with the original of the certificates, calculation of the gain on disposal of properties and related evidences.

20. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2004		Total
	Included in Operating Costs	Included in Operating Expenses	
Personnel expenses			
Salaries	\$ 7,704,691,254	\$ 2,368,150,038	\$ 10,072,841,292
Labor and health insurance	337,434,340	235,537,051	572,971,391
Pension cost	695,007,302	271,691,799	966,699,101
Others	1,864,536,699	326,853,666	2,191,390,365
Depreciation	7,713,322,049	289,257,907	8,002,579,956
Amortization	23,853,418	24,358,625	48,212,043

	2003		
	Included in Operating Costs	Included in Operating Expenses	Total
Personnel expenses			
Salaries	\$ 7,167,844,453	\$ 2,169,493,860	\$ 9,337,338,313
Labor and health insurance	349,939,123	199,723,573	549,662,696
Pension cost	615,038,241	358,303,290	973,341,531
Others	1,746,153,176	146,274,889	1,892,428,065
Depreciation	6,342,472,501	319,490,699	6,661,963,200
Amortization	114,278,234	12,078,647	126,356,881

21. EARNINGS PER SHARE

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

	Amount		Shares (as Denominator) (Thousand)	Earnings Per Share		
	(as Numerator) (Thousand)				Pre-tax After Tax	
	Pretax	After Tax			Pre-tax	After Tax
<u>For the year ended December 31, 2004</u>						
Basic EPS						
Net income attributable to common stock	\$ 4,002,833	\$ 4,182,727	3,012,561	<u>\$ 1.33</u>	<u>\$ 1.39</u>	
Dilutive effect of potential common stock						
Second tranche of unsecured convertible bonds	-	-	496,756			
Diluted EPS	<u>\$ 4,002,833</u>	<u>\$ 4,182,727</u>	<u>3,509,317</u>	<u>\$ 1.14</u>	<u>\$ 1.19</u>	
<u>For the year ended December 31, 2003</u>						
Basic EPS						
Net income attributable to common stock	\$ 1,624,898	\$ 1,779,466	2,950,420	<u>\$ 0.55</u>	<u>\$ 0.60</u>	
Dilutive effect of potential common stock						
Convertible bonds - Type A	19,433	14,575	33,796			
Convertible bonds - Type B	-	-	530			
Diluted EPS	<u>\$ 1,644,331</u>	<u>\$ 1,794,041</u>	<u>2,984,746</u>	<u>\$ 0.55</u>	<u>\$ 0.60</u>	

The number of shares outstanding should be retroactively adjusted to reflect the effects of the distribution of stock dividends and the bonus for employees that were appropriated from the earnings in 2003. Thus, the 2003 basic EPS and diluted EPS for net income were retroactively adjusted to decrease from \$0.64 and \$0.63 to \$0.60, respectively.

22. RELATED-PARTY TRANSACTIONS

- a. The related parties

Related Party	Relationship with the Company
Taiwan Air Cargo Terminal	Subsidiary
Taoyuan International Airport Services	Equity-method investee
Cal-Dynasty International	Subsidiary
China Pacific Catering Services	Subsidiary
Mandarin Airlines	Subsidiary

(Continued)

<u>Related Party</u>	<u>Relationship with the Company</u>
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
Freighter Princess Ltd.	Subsidiary
Freighter Prince Ltd.	Subsidiary
Freighter Queen Ltd.	Subsidiary
Hwa Sheng Investment	Subsidiary
China Aviation Development Foundation	Major stockholder (67.51%)

b. Significant transactions with related parties:

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1) Operating revenues - for the year				
Mandarin Airlines	\$ 1,178,032,166	1.22	\$ 761,747,264	1.00
Global Sky Express	160,602,034	0.17	179,200,823	0.24
China Aviation Development Foundation	47,581,043	0.05	21,848,007	0.03
Taiwan Air Cargo Terminal	28,471,379	0.03	24,936,696	0.03
Others	<u>37,203,923</u>	<u>0.04</u>	<u>9,671,708</u>	<u>0.01</u>
	<u>\$ 1,451,890,545</u>	<u>1.51</u>	<u>\$ 997,404,498</u>	<u>1.31</u>
2) Operating costs - for the year				
China Pacific Catering Services	\$ 982,395,606	1.29	\$ 791,026,822	1.31
Taoyuan International Airport Service	791,722,585	1.04	686,947,585	1.14
Mandarin Airlines	413,248,012	0.54	141,903,319	0.23
Taiwan Airport Service	250,241,206	0.33	250,472,085	0.41
Taiwan Air Cargo Terminal	226,970,153	0.30	161,587,331	0.27
Hwa Hsia	193,363,594	0.25	195,659,187	0.32
China Aviation Development Foundation	106,134,077	0.14	43,914,494	0.07
Kaoshiung Catering Services	91,053,103	0.12	65,417,024	0.11
Dynasty Holidays	75,474,091	0.10	60,054,440	0.10
China Pacific Laundry Services	60,883,959	0.08	57,983,346	0.10
Cal-Dynasty International	45,597,315	0.06	34,151,724	0.06
Cal Asia Investment	24,117,886	0.03	18,618,172	0.03
Asian Compressor Technology Service	4,548,261	-	4,574,490	0.01
Others	<u>611,684</u>	<u>-</u>	<u>621,824</u>	<u>-</u>
	<u>\$ 3,266,361,532</u>	<u>4.28</u>	<u>\$ 2,512,931,843</u>	<u>4.16</u>

	December 31			
	2004		2003	
	Amount	%	Amount	%
3) Receivables - related party				
Mandarin Airlines	\$ 384,064,718	94.76	\$ 268,128,012	89.08
China Aviation Development Foundation	8,159,011	2.01	13,513,895	4.49
Global Sky Express	7,900,247	1.95	13,297,445	4.42
Taiwan Air Cargo Terminal	3,172,050	0.78	3,826,516	1.27
Others	<u>2,002,695</u>	<u>0.50</u>	<u>2,243,674</u>	<u>0.74</u>
	<u>\$ 405,298,721</u>	<u>100.00</u>	<u>\$ 301,009,542</u>	<u>100.00</u>

4) Payable - related party

Mandarin Airlines	\$ 690,146,433	54.06	\$ 349,241,095	39.22
China Pacific Catering Services	245,183,885	19.20	233,616,043	26.23
Taoyuan International Airport Service	207,647,733	16.26	188,958,071	21.22
Taiwan Airport Service	38,876,414	3.05	39,695,994	4.46
Taiwan Air Cargo Terminal	30,732,847	2.41	22,269,243	2.50
Hwa Hsia	22,680,375	1.78	19,016,043	2.14
China Aviation Development Foundation	15,616,466	1.22	15,033,963	1.69
Kaoshiung Catering Services	15,384,117	1.20	12,479,789	1.40
Others	<u>10,430,792</u>	<u>0.82</u>	<u>10,219,826</u>	<u>1.14</u>
	<u>\$ 1,276,699,062</u>	<u>100.00</u>	<u>\$ 890,530,067</u>	<u>100.00</u>

5) Lease of property and equipment

In September 2002, in order to help Mandarin Airlines fly the 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 flights made. As of December 31, 2004 and 2003, the rentals received were \$1,060,603,000 and \$675,576,000.

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. For the year ended 2004, the Company had paid about \$117,979,000.

6) Endorsement and guarantee

	December 31	
	2004	2003
Mandarin Airlines - bank loans, commercial paper and other guarantee	\$ 1,087,500,000	\$ 1,285,000,000
China Pacific Laundry Service - bank loans	120,000,000	120,000,000
Asian Compressor Technology Service - bank loans	20,749,186	21,666,667
Freighter Queen Ltd.	419,390,543	433,429,575
Freighter Prince Ltd.	477,943,422	526,967,956
Freighter Princess Ltd.	703,378,859	372,356,687

These related party transactions were conducted under normal terms.

23. PLEDGED ASSETS

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

	December 31	
	2004	2003
Deposit (for business affairs in certificates of deposit)	\$ 14,514,200	\$ 9,350,000
Pledged certificates of deposit (for bank loans)	258,064,516	272,108,844
Properties - flight equipment (net)	<u>111,034,129,803</u>	<u>89,108,436,555</u>
	<u>\$111,306,708,519</u>	<u>\$ 89,389,895,399</u>

24. COMMITMENTS AND CONTINGENT LIABILITIES

- a. The Company leased certain flight equipment and hangar under various operating lease agreements expiring in various dates until October 2023. Lease deposits aggregated \$2,453,355,000.

Minimum rentals for future years are summarized as follows:

Year	Amount
2005	\$ 2,671,049,975
2006	1,941,940,209
2007	1,773,445,585
2008	1,457,418,488
2009	996,001,668

Rentals from 2010 and thereafter will aggregate \$2,204,587,000. The present value of these rentals using the 1.55% discounted interest rate of one-year time deposits, is \$2,041,397,000.

- b. In July 1999, the Company acquired thirteen 747-400F aircraft from the Boeing Co., which had delivered twelve planes as of December 31, 2004. The aggregate purchase price of the remaining aircraft for delivery is US\$213,836,000. As of December 31, 2004, the Company had paid about US\$2,577,000, 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 December 31, 2004. The aggregate purchase price of the remaining aircraft for delivery is US\$223,446,000. As of December 31, 2004, the Company had paid about US\$79,271,000, 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 December 31, 2004, the Company had paid about US\$69,114,000, 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 December 31, 2004, the Company had received 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. As of December 31, 2004, the Company had received two 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\$441,452,000 for the two 747-400F and US\$436,237,000 for the two unreceived 747-400 aircraft for which the Company had paid about US\$145,287,000 and US\$154,167,000, respectively, which are included in “advance payments on equipment purchase contracts” in the properties section of the balance sheets as of December 31, 2004.
- e. In December 2002, the Company entered into a contract with Airbus for the purchase of twelve A330 aircraft and purchase option of another six A330 aircraft. The Company exercised the purchase option on two planes in December 2003. Airbus had delivered three plane as of December 31, 2004. The aggregate purchase price of the remaining eleven planes is US\$1,847,129,000. As of December 31, 2004, the Company had paid about US\$248,852,000, 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

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, liabilities and commitment. Interest rate swaps is used to hedge the risk arising from adverse movements of interest 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 December 31, 2004 and 2003.

	December 31					
	2004			2003		
	Contract (Notional) Amount	Credit Risk	Fair Value	Contract (Notional) Amount	Credit Risk	Fair Value
Forward exchange contracts	\$ -	\$ -	\$ -	\$ 4,380,952,381	\$ 199,000	(\$ 7,753,663)
Interest rate swaps	113,996,724,336	247,088,317	(1,442,180,263)	57,973,959,865	235,288,904	(1,868,807,199)
Foreign-currency options						
- Buy	5,080,645,161	12,372,438	12,372,438	2,585,034,014	2,592,539	(5,802,142)
- Sell	10,923,562,387	-	(502,787,986)	3,442,768,367	9,228,755	(16,573,690)
Fuel swap contracts	19,456,774,194	978,936,413	781,960,180	13,880,518,707	336,079,454	190,359,895

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 maturity.

The gain or loss from derivative transactions is listed below.

	2004	2003
Forward exchange contracts		
Foreign-currency gain	\$ 14,336,637	\$ 17,162,451
Addition (reduction) of advance payments on equipment purchase contracts	1,523,213	(21,907,763)
Interest rate swaps - increase interest expense	578,360,112	655,449,568
Foreign-currency options		
Foreign-currency loss	247,003,571	79,825,522
Additional advances for aircraft and other equipment acquired	64,630,689	713,027
Fuel swap contracts - decrease of fuel cost	2,646,122,668	1,204,121,526

b. Fair value of financial instruments as of December 31, 2004 and 2003

	December 31			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Fair value equal to carrying value	\$ 25,372,582,788	\$ 25,372,582,788	\$ 27,557,722,566	\$ 27,557,722,566
Short-term investments	3,508,718,329	3,636,533,186	10,103,718,329	10,201,929,840
Financial liabilities				
Fair value equal to carrying value	133,557,916,974	133,557,916,974	117,927,163,091	117,927,163,091
Bonds	16,375,600,000	17,220,439,778	12,000,000,000	12,063,189,043

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 maturities of these instruments or the present receipts and payments approximate their carrying value. This assumption applies to cash, receivables, other receivables, receivable from related parties, 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, some 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.

Only the fair values of some 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 investment in shares of stock and individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None.
 - 6) Disposal of investment in shares of stock and individual real estates at cost or 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).

CHINA AIRLINES, LTD. AND INVESTEES

**ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 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	\$ 10,530,148,316	\$ 1,322,500,000	\$ 1,087,500,000	\$ -	2	\$ 26,325,370,790
		China Pacific Laundry Services	55% subsidiary	10,530,148,316	120,000,000	120,000,000	-	-	26,325,370,790
		Asian Compressor Technology Services	Subsidiary held by each stockholder proportionately providing an endorsement/ guarantee within joint investment arrangements	10,530,148,316	21,666,667	20,749,186	-	-	26,325,370,790
		Freighter Queen Ltd.	100% subsidiary	10,530,148,316	437,935,023	419,390,543	-	1	26,325,370,790
		Freighter Prince Ltd.	100% subsidiary	10,530,148,316	513,551,449	477,943,422	-	1	26,325,370,790
		Freighter Princess Ltd.	100% subsidiary	10,530,148,316	734,480,645	703,378,859	-	1	26,325,370,790

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

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

CHINA AIRLINES, LTD. AND INVESTEEES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2004

(Amounts in New Taiwan Dollars, Unless Stated Otherwise)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 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	\$ 1,747,484,730	54.00	\$ 1,747,484,730	-
	Taoyuan International Airport Services	Equity-method investee	Investments in shares of stock	34,300,000	846,296,068	49.00	846,296,068	-
	Cal-Dynasty International	Subsidiary	Investments in shares of stock	2,614,500	823,787,451	100.00	823,787,451	-
	China Pacific Catering Services	Subsidiary	Investments in shares of stock	43,860,000	618,000,629	51.00	618,000,629	-
	Mandarin Airlines	Subsidiary	Investments in shares of stock	108,220,793	526,892,631	90.05	899,039,033	Note 1
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments in shares of stock	22,450,008	402,582,668	93.93	402,582,668	-
	Taiwan Airport Services	Equity-method investee	Investments in shares of stock	17,188,870	354,080,685	47.35	354,080,685	-
	Cal-Asia Investment	Subsidiary	Investments in shares of stock	5,650,000	212,604,484	100.00	212,604,484	-
	Kaoshiung Catering Services	Equity-method investee	Investments in shares of stock	12,705,000	166,449,852	31.76	166,449,852	-
	Asian Compressor Technology Services	Equity-method investee	Investments in shares of stock	7,732,200	125,000,155	24.50	125,000,155	-
	China Pacific Laundry Services	Subsidiary	Investments in shares of stock	13,750,000	106,115,182	55.00	106,115,182	-
	Hwa Hsia	Subsidiary	Investments in shares of stock	50,000	93,156,433	100.00	104,382,325	Note 1
	ICAS Co., Ltd.	Equity-method investee	Investments in shares of stock	6,750,000	40,360,311	48.21	40,360,311	-
	Dynasty Holidays	Subsidiary	Investments in shares of stock	408	25,162,759	51.00	25,162,759	-
	Global Sky Express	Equity-method investee	Investments in shares of stock	250,000	5,623,390	25.00	5,623,390	-
	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	289,228,520	-
	Trade-Van Information Services	-	Investments in shares of stock	11,825,925	92,320,048	5.98	114,711,472	-
	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	98,083,676	-
	Jardine Air Terminal Services	-	Investments in shares of stock	12,000,000	49,771,879	15.00	13,689,450	-
	Science Park Logistics Co.	-	Investments in shares of stock	4,431,000	44,310,000	14.77	34,525,464	-
	Chung Hua Express Co.	-	Investments in shares of stock	2,200,000	22,000,000	11.00	20,159,013	-
	Regal International Advertising	-	Investments in shares of stock	592,500	5,925,000	6.58	3,301,780	-
	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	-	125,300,000	-
	France Telecom	-	Short-term investments	195,587	88,962,451	-	204,354,693	-
	<u>Mutual funds</u>							
	Ta Chong Top25 Fund	-	Short-term investments	500,000.00	5,000,000	-	4,125,000	-
	Sheng Hua 9966 Balanced Fund	-	Short-term investments	10,000,000.00	100,000,000	-	100,368,000	-
	The First Global Investment Trust Duo Li-2 Bond Fund	-	Short-term investments	3,515,160.90	50,000,000	-	50,088,582	-
	Mega Diamond Bond Fund	-	Short-term investments	17,904,301.51	200,000,000	-	200,256,032	-
	Tlam Solomon Bond Fund	-	Short-term investments	17,647,110.73	200,000,000	-	200,254,118	-
	Polaris De-Li Fund	-	Short-term investments	10,211,792.60	150,000,000	-	150,184,834	-
	Upamc James Bond Fund	-	Short-term investments	13,319,835.90	200,000,000	-	200,229,101	-
	Shinkong Chi-Shin Fund	-	Short-term investments	21,509,693.70	300,000,000	-	300,176,379	-
	En Trust Kirin Bond Fund	-	Short-term investments	27,854,894.60	300,000,000	-	300,194,985	-
	NITC Bond Fund	-	Short-term investments	1,874,847.70	300,000,000	-	300,189,365	-
	Invesco Income Fund	-	Short-term investments	26,971,140.88	300,000,000	-	300,175,312	-
	Prudential Financial Bond Fund	-	Short-term investments	21,086,962.70	300,000,000	-	300,172,914	-
	Truswell Premier Fund	-	Short-term investments	18,455,803.00	200,000,000	-	200,127,345	-
	UBS Taiwan Bond Fund	-	Short-term investments	13,836,425.77	200,000,000	-	200,083,018	-
	JF (Taiwan) Bond Fund	-	Short-term investments	13,466,290.50	200,000,000	-	200,100,997	-
	Barits Bond Fund	-	Short-term investments	12,671,380.40	150,000,000	-	150,087,432	-
	Fuhwa Bond Fund	-	Short-term investments	12,051,580.77	150,000,000	-	150,065,079	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Taiwan Air Cargo Terminal	<u>Mutual funds</u>							
	Jih Sun Bond Fund	-	Short-term investments	10,686,136.43	\$ 142,055,086	-	\$ 142,055,086	-
	NITC Taiwan Bond Fund	-	Short-term investments	14,473,671.60	198,507,853	-	198,507,853	-
	NITC Bond Fund	-	Short-term investments	627,321.10	100,442,891	-	100,442,891	-
	The Incerement Fund	-	Short-term investments	15,002,271.78	222,368,173	-	222,368,173	-
	Upamc James Bond Fund	-	Short-term investments	12,734,373.00	191,428,189	-	191,428,189	-
	Fuh-Hwa Bond Fund	-	Short-term investments	14,613,032.10	189,494,494	-	189,494,494	-
	Fuh-Hwa Albatross Fund	-	Short-term investments	7,648,670.10	83,806,478	-	83,806,478	-
	Fuh-Hwa Heirloom Balance Fund	-	Short-term investments	2,349,936.90	28,947,463	-	29,690,278	-
	Sheng Hua 5599 Bond Fund	-	Short-term investments	25,227,522.35	275,434,089	-	275,434,089	-
	PCA Bond Fund	-	Short-term investments	15,874,263.80	240,626,853	-	240,626,853	-
	Fuhwa Bond Fund	-	Short-term investments	6,547,516.52	81,529,021	-	81,529,021	-
	Fuhwa Advantage Bond Fund	-	Short-term investments	18,052,407.83	181,766,084	-	183,311,370	-
	Fuhwa Apex Bond Fund	-	Short-term investments	4,368,796.30	50,227,177	-	50,227,177	-
	Mega Diamond Bond Fund	-	Short-term investments	8,967,966.42	100,000,000	-	100,304,911	-
	Fubon Ju-I III Fund	-	Short-term investments	8,405,763.20	100,000,000	-	100,207,625	-
	Fubon Chi-Hsiang I Fund	-	Short-term investments	7,858,916.79	100,000,000	-	100,083,305	-
Chung Hsing Pion Fund	-	Short-term investments	4,801,736.31	50,000,000	-	50,017,286	-	
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	2,515,898	26,947,989	-	45,739,026	-
France Telecom	-	Short-term investments	8,274	3,894,546	-	8,644,923	-	
China Pacific Catering Services	<u>Mutual funds</u>							
	Fuhwa Classical Fund	-	Short-term investments	487,367.40	5,005,000	-	4,935,765	-
	Fuhwa Bond Fund	-	Short-term investments	3,219,729.05	40,035,682	-	40,091,744	-
	Truswell Bond Fund	-	Short-term investments	806,406.10	10,000,000	-	10,030,805	-
	Sheng Hua 5599 Bond Fund	-	Short-term investments	1,837,374.03	20,000,000	-	20,060,450	-
	CITC Safe Income Fund	-	Short-term investments	2,362,694.20	34,000,000	-	34,086,589	-
	Transcend Fortune Fund	-	Short-term investments	1,689,674.40	20,000,000	-	20,027,542	-
	The Rsit Enhanced Bond Fund	-	Short-term investments	3,733,451.93	40,000,000	-	40,075,993	-
	ABN AMRO Bond Fund	-	Short-term investments	682,109.63	10,000,000	-	10,005,116	-
	HSBC Ntd Money Management Fund	-	Short-term investments	690,889.20	10,000,000	-	10,004,905	-
Tlam Solomon Bond Fund	-	Short-term investments	1,766,722.02	20,000,000	-	20,048,231	-	
Abacus Distribution Systems (Taiwan)	<u>Stock</u>							
	Yestrip Co., Ltd.	Subsidiary	Investments in shares of stock	2,600,000	46,715,174	100.00	46,715,174	-
	<u>Mutual funds</u>							
	The Incerement Fund	-	Short-term investments	1,233,710.98	18,008,321	-	18,286,434	-
Sheng Hua 5599 Bond Fund	-	Short-term investments	654,582.73	7,020,923	-	7,146,734	-	
Tlam B.B. Bond Fund	-	Short-term investments	1,372,281.74	15,000,000	-	15,104,568	-	
Cal-Asia Investment	<u>Stock</u>							
	Taiwan Airport Service (Macau)	Equity-method investee	Investments in shares of stock	-	118,159,622	24.49	118,159,622	Note 2
Eastern United International Logistics	Equity-method investee	Investments in shares of stock	600,000	11,928,004	20.00	11,533,744	-	
Hwa Hsia	<u>Stock</u>							
	Hwa Shin Building Safeguard Co., Ltd.	Subsidiary	Investments in shares of stock	1,000,000	11,452,653	100.00	11,452,653	-
China Airlines	Parent company	Short-term investments	987,322	11,225,890	-	17,949,514	-	

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. Besides, the difference between the carrying value and net asset value of Mandarin Airlines is due to the difference between the investment acquisition cost and the Company's equity in the net assets of the investee.

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

Note 3: The subsidiary's financial statements as of and for the year ended December 31, 2004 were not available as of March 1, 2005, the date of the accompanying auditors' report; thus, no information on the subsidiary's market value or net asset value was 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 YEAR ENDED DECEMBER 31, 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>Stock</u> Changi International Airport Services Pte.	Investments in shares of stock	-	-	2,640,000.00	\$ 18,764,706	-	\$ -	2,640,000.00	\$ 159,009,703	\$ 18,764,706	\$ 140,244,997	-	\$ -
	<u>Mutual funds</u>													
	Ta Chong Bond Fund	Short-term investments	-	-	-	-	35,573,232.20	450,000,000	35,573,232.20	450,429,636	450,000,000	429,636	-	-
	Ta Chong Gallop Bond Fund	Short-term investments	-	-	14,383,246.40	150,000,000	147,932,477.10	1,550,000,000	162,315,723.50	1,702,865,223	1,700,000,000	2,865,223	-	-
	Grand Cathay Bond Fund	Short-term investments	-	-	16,085,575.30	200,000,000	92,102,193.20	1,150,000,000	108,187,768.50	1,353,047,623	1,350,000,000	3,047,623	-	-
	Chung Hsing Pion Fund	Short-term investments	-	-	24,394,576.94	250,000,000	38,581,222.63	400,000,000	62,975,799.57	651,107,110	650,000,000	1,107,110	-	-
	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	109,774,048.90	1,550,000,000	120,532,469.70	1,705,357,159	1,700,000,000	5,357,159	3,515,160.90	50,000,000
	Jih Sun Bond Fund	Short-term investments	-	-	-	-	41,642,365.12	550,000,000	41,642,365.12	551,179,654	550,000,000	1,179,654	-	-
	Long-River Bond Fund	Short-term investments	-	-	-	-	61,570,972.20	700,000,000	61,570,972.20	701,578,134	700,000,000	1,578,134	-	-
	Tlam Solomon Bond Fund	Short-term investments	-	-	71,667,949.67	800,000,000	168,928,733.69	1,900,000,000	222,949,572.63	2,506,195,355	2,500,000,000	6,195,355	17,647,110.73	200,000,000
	En Trust Phoenix Bond Fund	Short-term investments	-	-	10,382,059.80	150,000,000	3,440,919.40	50,000,000	13,822,979.20	200,474,710	200,000,000	474,710	-	-
	En Trust Kirin Bond Fund	Short-term investments	-	-	-	-	51,206,852.20	550,000,000	23,351,957.60	250,959,891	250,000,000	959,891	27,854,894.60	300,000,000
	Mega Diamond Bond Fund	Short-term investments	-	-	-	-	63,031,352.38	700,000,000	45,127,050.87	501,095,887	500,000,000	1,095,887	17,904,301.51	200,000,000
	JF (Taiwan) Bond Fund	Short-term investments	-	-	-	-	67,783,189.70	1,000,000,000	67,783,189.70	1,001,536,149	1,000,000,000	1,536,149	-	-
	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	-	-
	Fuhwa Bond Fund	Short-term investments	-	-	20,675,852.53	250,000,000	28,144,922.15	350,000,000	36,769,193.91	455,819,449	450,000,000	5,819,449	12,051,580.77	150,000,000
	Tiim Bond Fund	Short-term investments	-	-	14,727,757.40	200,000,000	58,241,114.54	800,000,000	72,968,871.94	1,000,919,310	1,000,000,000	919,310	-	-
	Pca Well Pool Fund	Short-term investments	-	-	-	-	82,072,351.20	1,000,000,000	82,072,351.20	1,000,741,766	1,000,000,000	741,766	-	-
	Prudential Financial Bond Fund	Short-term investments	-	-	42,814,939.60	600,000,000	35,275,552.10	500,000,000	57,003,529.00	803,345,384	800,000,000	3,345,384	21,086,962.70	300,000,000
	NITC Taiwan Bond Fund	Short-term investments	-	-	14,865,353.80	200,000,000	7,393,934.00	100,000,000	22,259,287.80	302,283,353	300,000,000	2,283,353	-	-
	NITC Bond Fund	Short-term investments	-	-	1,267,788.70	200,000,000	13,845,809.60	2,200,000,000	13,238,750.60	2,103,396,159	2,100,000,000	3,396,159	1,874,847.70	300,000,000
	Barits Bond Fund	Short-term investments	-	-	12,861,956.90	150,000,000	110,618,205.20	1,300,000,000	110,808,781.70	1,302,027,917	1,300,000,000	2,027,917	12,671,380.40	150,000,000
	Cathay Bond Fund	Short-term investments	-	-	13,545,852.70	150,000,000	40,296,968.10	450,000,000	53,842,820.80	600,940,700	600,000,000	940,700	-	-
	The Increment Fund	Short-term investments	-	-	-	-	16,910,287.54	250,000,000	16,910,287.54	250,301,003	250,000,000	301,003	-	-
	The High-Yield Fund	Short-term investments	-	-	21,652,364.08	300,000,000	10,766,271.42	150,000,000	32,418,635.50	450,602,088	450,000,000	602,088	-	-
	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	-	-
	Sheng Hua 9966 Balanced Fund	Short-term investments	-	-	-	-	10,000,000.00	100,000,000	-	-	-	-	10,000,000.00	100,000,000
	Upamc James Bond Fund	Short-term investments	-	-	33,747,983.60	500,000,000	43,473,990.50	650,000,000	63,902,138.20	951,148,609	950,000,000	1,148,609	13,319,835.90	200,000,000
	ABN AMRO Bond Fund	Short-term investments	-	-	-	-	72,046,167.83	1,050,000,000	72,046,167.83	1,050,929,458	1,050,000,000	929,458	-	-
	KGI Victory Fund	Short-term investments	-	-	9,699,415.13	100,000,000	211,660,521.07	2,200,000,000	221,359,936.20	2,303,388,586	2,300,000,000	3,388,586	-	-
	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	97,769,593.40	1,200,000,000	130,512,063.40	1,602,466,661	1,600,000,000	2,466,661	-	-
	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	-	-
	Truswell Premier Fund	Short-term investments	-	-	-	-	60,139,958.30	650,000,000	41,684,155.30	450,376,786	450,000,000	376,786	18,455,803.00	200,000,000
	Fuh-Hwa Albatross Fund	Short-term investments	-	-	9,347,978.50	100,000,000	-	-	9,347,978.50	101,546,156	100,000,000	1,546,156	-	-
	Fuh-Hwa Bond Fund	Short-term investments	-	-	27,863,234.90	350,000,000	-	-	27,863,234.90	359,181,373	350,000,000	9,181,373	-	-
	Invesco Roc Bond Fund	Short-term investments	-	-	54,855,638.24	600,000,000	99,752,668.93	1,100,000,000	127,637,166.29	1,407,195,610	1,400,000,000	7,195,610	26,971,140.88	300,000,000
	Invesco Income Fund	Short-term investments	-	-	-	-	20,763,688.46	300,000,000	20,763,688.46	300,342,601	300,000,000	342,601	-	-
	Transcend Fortune Fund	Short-term investments	-	-	47,163,052.90	550,000,000	136,402,868.00	1,600,000,000	183,565,920.90	2,154,204,378	2,150,000,000	4,204,378	-	-
	HSBC Ntd Money Management Fund	Short-term investments	-	-	-	-	38,100,422.20	550,000,000	38,100,422.20	550,764,432	550,000,000	764,432	-	-
	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	-	-
	Nt\$ High Yield Fund	Short-term investments	-	-	-	-	50,075,426.11	801,068,484	50,075,426.11	803,705,581	801,068,484	2,637,097	-	-
	Shinkong Chi-Shin Fund	Short-term investments	-	-	36,391,955.91	500,000,000	100,858,690.40	1,400,000,000	115,740,952.61	1,602,832,429	1,600,000,000	2,832,429	21,509,693.70	300,000,000
	Shinkong Chi-Shun Fund	Short-term investments	-	-	28,412,319.58	400,000,000	63,667,032.65	900,000,000	92,079,352.23	1,305,540,238	1,300,000,000	5,540,238	-	-
	UBS Taiwan Bond Fund	Short-term investments	-	-	-	-	48,533,830.95	700,000,000	34,697,405.18	500,395,049	500,000,000	395,049	13,836,425.77	200,000,000
	UBS Soaring Eagle Bond Fund	Short-term investments	-	-	47,947,407.26	500,000,000	62,141,515.91	650,000,000	110,088,923.17	1,151,864,022	1,150,000,000	1,864,022	-	-
	CITC Safe Income Fund	Short-term investments	-	-	17,856,122.50	250,000,000	-	-	17,856,122.50	255,740,743	250,000,000	5,740,743	-	-
	Forever Fund	Short-term investments	-	-	10,802,402.45	150,000,000	32,218,749.31	450,000,000	43,021,151.76	600,994,259	600,000,000	994,259	-	-
	Dresdner Bond Dam Fund	Short-term investments	-	-	-	-	44,804,170.03	500,000,000	44,804,170.03	500,449,578	500,000,000	449,578	-	-
	JF (Taiwan) Bond Fund	Short-term investments	-	-	-	-	13,466,290.50	200,000,000	-	-	-	-	13,466,290.50	200,000,000
	Weili Bond Fund	Short-term investments	-	-	9,861,446.67	100,000,000	68,788,268.87	700,000,000	78,649,715.54	801,890,621	800,000,000	1,890,621	-	-
	Bond Fund	Short-term investments	-	-	42,918,030.40	500,000,000	170,831,876.29	2,000,000,000	213,749,906.69	2,507,335,934	2,500,000,000	7,335,934	-	-
	Polaris De-Li Fund	Short-term investments	-	-	-	-	10,211,792.60	150,000,000	-	-	-	-	10,211,792.60	150,000,000
	Polaris Di-Po Fund	Short-term investments	-	-	9,414,334.30	100,000,000	126,182,162.50	1,350,000,000	135,596,496.80	1,452,819,858	1,450,000,000	2,819,858	-	-
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	27,672,827.40	346,791,200	345,015,633	1,775,567	-	-
	Prudential Financial Bond Fund	Short-term investments	-	-	7,023,786.70	98,571,120	7,023,786.70	99,319,153	14,047,573.40	199,109,603	197,890,273	1,219,330	-	-
	Jih Sun Bond Fund	Short-term investments	-	-	29,274,089.08	383,183,189	32,707,142.70	432,518,765	51,295,095.35	677,518,765	673,646,868	3,871,897	10,686,136.43	142,055,086
	NITC Taiwan Bond Fund	Short-term investments	-	-	12,157,614.40	164,165,483	31,263,400.40	426,868,992	28,947,343.20	395,500,313	392,526,622	2,973,691	14,473,671.60	198,507,853
	NITC Bond Fund	Short-term investments	-	-	-	-	1,254,642.20	200,442,891	627,321.10	100,442,891	100,000,000	442,891	627,321.10	100,442,891
	The Wan Pao Fund	Short-term investments	-	-	11,370,738.92	165,562,507	11,370,738.92	166,824,659	22,741,477.84	333,849,443	332,387,166	1,462,277	-	-
	The Increment Fund	Short-term investments	-	-	15,002,271.83	218,968,659	30,004,543.58	443,011,085	30,004,543.63	443,011,085	439,611,571	3,399,514	15,002,271.78	222,368,173
	Upamc Home Run Bond Fund	Short-term investments	-	-	14,004									

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
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	-	\$ -	50,455,044.68	\$ 549,664,825	25,227,522.33	\$ 275,434,089	\$ 274,230,736	\$ 1,203,353	25,227,522.35	\$ 275,434,089
	PCA Bond Fund	Short-term investments	-	-	14,843,105.60	221,632,800	39,378,647.20	594,235,807	38,347,489.00	579,235,808	575,241,754	3,994,054	15,874,263.80	240,626,853
	Fuhwa Bond Fund	Short-term investments	-	-	6,547,516.46	80,169,101	13,095,033.02	162,400,671	13,095,032.96	162,400,671	161,040,751	1,359,920	6,547,516.52	81,529,021
	Fuhwa Advantage Bond Fund	Short-term investments	-	-	-	-	36,105,891.46	362,372,881	18,053,483.63	181,766,084	180,606,797	1,159,287	18,052,407.83	181,766,084
	Fuhwa Apex Bond Fund	Short-term investments	-	-	-	-	8,737,592.60	100,227,177	4,368,796.30	50,227,177	50,000,000	227,177	4,368,796.30	50,227,177
	Fuhwa Classical Fund	Short-term investments	-	-	3,000,000.00	30,164,400	11,680,771.70	118,875,156	14,680,771.70	148,489,188	149,039,556	-550,368	-	-
	Mega Diamond Bond Fund	Short-term investments	-	-	-	-	8,967,966.42	100,000,000	-	-	-	-	8,967,966.42	100,000,000
	Fubon Chi-Hsiang III Fund	Short-term investments	-	-	-	-	8,405,763.20	100,000,000	-	-	-	-	8,405,763.20	100,000,000
	Fubon Chi-Hsiang I Fund	Short-term investments	-	-	-	-	7,858,916.79	100,000,000	-	-	-	-	7,858,916.79	100,000,000
Mandarin Airlines	<u>Mutual fund</u>													
	NTS High Yield Fund	Short-term investments	-	-	9,418,411.98	150,000,000	11,213,173.52	180,000,000	20,631,585.50	330,700,494	330,000,000	700,494	-	-
	Shinkong Chi-Shin Fund	Short-term investments	-	-	-	-	7,220,304.45	100,000,000	7,220,304.45	100,160,866	100,000,000	160,866	-	-
	Shinkong Chi-Shun Fund	Short-term investments	-	-	-	-	15,106,774.54	215,000,000	15,106,774.54	215,280,903	215,000,000	280,903	-	-
	The High-Yield Fund	Short-term investments	-	-	7,249,896.70	100,000,000	10,373,131.66	145,000,000	17,623,028.36	245,887,472	245,000,000	887,472	-	-
	The Increment Fund	Short-term investments	-	-	3,425,502.18	50,000,000	5,750,677.57	85,000,000	9,176,179.75	135,398,628	135,000,000	398,628	-	-
	The Wan Pao Fund	Short-term investments	-	-	-	-	8,848,548.40	130,000,000	8,848,548.40	130,262,429	130,000,000	262,429	-	-
	ABN AMRO Select Bond Fund	Short-term investments	-	-	6,891,355.82	75,000,000	2,737,351.16	30,000,000	9,628,706.98	105,132,801	105,000,000	132,801	-	-
	ABN AMRO Bond Fund	Short-term investments	-	-	-	-	6,857,346.62	100,000,000	6,857,346.62	100,136,530	100,000,000	136,530	-	-

CHINA AIRLINES, LTD. AND INVESTEEES

SALE OF LONG-TERM INVESTMENT IN SHARES OF STOCK AND INDIVIDUAL REAL ESTATES AT COST OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEARS ENDED DECEMBER 31, 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 dormitory	2004.1.30	1984.5.1	\$188,282,020	\$682,244,312	Received	\$493,962,292	Mer Vue Development	-	Asset restructuring	Appraisal of DTZ Debenham Tie Leung	-
	Stock of Changi International Airport Services Pte.	2004.11.25	1977.12.20	18,764,706	159,009,703	Received	140,244,997	Singapore Dnata Group	-	Management of investees	Negotiated	-

CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 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	\$ 226,970,153	0.30	30 days	\$ -	-	\$ (30,732,847)	(1.80)	-
	Taoyuan International Airport Services	Equity-method investee	Purchase	791,722,585	1.04	40 days	-	-	(207,647,733)	(12.14)	-
	China Pacific Catering Services	Subsidiary	Purchase	982,395,606	1.29	60 days	-	-	(245,183,885)	(14.34)	-
	Mandarin Airlines	Subsidiary	Sale	(1,178,032,166)	(1.22)	2 months	-	-	384,064,718	4.65	-
		Subsidiary	Purchase	413,248,012	0.54	2 months	-	-	(690,146,433)	(40.36)	-
	Taiwan Airport Services	Equity-method investee	Purchase	250,241,206	0.33	40 days	-	-	(38,876,414)	(2.27)	-
	Hwa Hsia	Subsidiary	Purchase	193,363,594	0.25	2 months	-	-	(22,680,375)	(1.33)	-
	Global Sky Express	Equity-method investee	Sale	(160,602,034)	(0.17)	30 days	-	-	7,900,247	0.10	-
	China Aviation Development Foundation	Parent company	Purchase	106,134,077	0.14	30 days	-	-	(15,616,466)	(0.91)	-

CHINA AIRLINES, LTD. AND INVESTEES

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

DECEMBER 31, 2004

(Amounts in Thousand 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	\$384,064,718	3.61	\$ -	-	\$182,909,414	\$ -

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2004			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				Dec. 31, 2004	Dec. 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	\$ 1,747,484,730	\$ 455,665,862	\$ 241,182,094	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000,000	147,000,000	34,300,000	49.00	846,296,068	237,959,739	116,215,701	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate, hotel service, lease of aircraft and serving as cargo agent	US\$ 26,145,000	US\$ 26,145,000	2,614,500	100.00	823,787,451	51,194,740	51,194,740	Note 1
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	438,600,000	744,600,000	43,860,000	51.00	618,000,629	234,192,742	119,371,966	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,243,035,922	2,486,071,844	108,220,793	90.05	526,892,631	(269,513,651)	(210,061,548)	Note 2
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	90,000,000	90,000,000	22,450,008	93.93	402,582,668	97,799,888	89,437,786	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289,100	12,289,100	17,188,870	47.35	354,080,685	58,422,548	27,626,334	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 5,650,000	US\$ 4,000,000	5,650,000	100.00	212,604,484	20,509,022	20,509,022	-
	Kaoshiung Catering Services	Kaoshiung, Taiwan	In-flight catering	115,500,000	115,500,000	12,705,000	31.76	166,449,852	96,333,941	29,633,233	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50	125,000,155	36,063,000	8,821,057	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the tower of airline company, hotel, restaurant, and health club	137,500,000	137,500,000	13,750,000	55.00	106,115,182	2,939,612	1,616,787	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00	93,156,433	10,443,739	10,161,879	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	40,360,311	(51,994,742)	(20,894,787)	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00	25,162,759	2,275,848	1,160,682	-
Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00	5,623,390	7,227,336	1,762,676	-	
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	42,324,272	(1,093,789)	(581,334)	-
	Tao Yao Co., Ltd.	Taoyuan, Taiwan	Manpower placement and machine installation	10,000,000	10,000,000	1,000,000	100.00	11,088,705	35,561	35,155	-
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	46,715,174	20,225,383	19,769,269	-
Taiwan Airport Services	Taiwan Airport Service (Macau)	Macau	Airport service and investment	US\$ 3,525,726	US\$ 3,525,726	-	26.53	125,629,073	63,869,966	16,239,260	Note 3
Cal Asia Investment	Taiwan Airport Service (Macau)	Macau	Airport service and investment	US\$ 3,254,526	US\$ 3,254,526	-	24.49	118,159,622	63,869,966	15,642,560	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	11,928,004	15,407,199	2,645,235	-
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	11,452,653	1,452,653	1,452,653	-

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

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

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

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in New Taiwan Dollars, Unless Otherwise Noted)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2004	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2004	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of Dec. 31, 2004	Accumulated Inward Remittance of Earnings as of Dec. 31, 2004	Accumulated Investment in Mainland China as of Dec. 31, 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 (RMB224,480,000)	Indirect (Note 1)	\$104,984,710 (US\$3,254,526)	\$ -	-	\$104,984,710 (US\$3,254,526)	12%	\$15,642,560 (US\$466,148.29)	\$118,152,622 (US\$3,662,948.29)	\$ -	\$104,984,710 (US\$3,254,526)	\$1,679,032,258 (US\$52,050,000)	\$12,030,156,712

Note 1: The Company 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 international accounting firms with cooperative relationship with R.O.C. accounting firms.

Note 3: The limits based on the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China 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 total is the upper limit on investment.