

**China Airlines, Ltd.**

**Financial Statements for the  
Six Months Ended June 30, 2005 and 2004 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 June 30, 2005 and 2004 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, we did not audit the financial statements as of and for the six months ended June 30, 2004 of Cal-Dynasty International and four other investees, which were accounted for by the equity method, as shown in the accompanying financial statements. The aggregate carrying value of those investments was 1% (NT\$1,193,000,000) of the Company's total assets as of June 30, 2004. The Company's share in these investees' net income was 3% (NT\$45,881,000) of pretax income of the Company in the six months ended June 30, 2004. The financial statements of the investees 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.

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 the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of June 30, 2005 and 2004 and the results of its operation and its cash flows for the six months 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.

We have also reviewed the consolidated financial statements of China Airlines, Ltd. and its subsidiaries as of and the six months ended June 30, 2005 and have issued a modified unqualified report thereon dated August 10, 2005.

August 10, 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**  
**JUNE 30, 2005 AND 2004**

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

ASSETS	2005		2004		LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 3)	\$ 4,564,684	2	\$ 3,338,770	2	Short-term loans (Notes 11 and 23)	\$ -	-	\$ 1,740,000	1
Short-term investments, net (Notes 2 and 4)	3,918,718	2	7,519,787	3	Commercial paper (Note 12)	1,149,197	-	2,773,733	1
Receivables:					Accounts payable	210,137	-	337,198	-
Notes and accounts, net (Notes 2 and 5)	9,952,720	4	8,482,774	4	Payables to related parties (Note 22)	1,024,972	-	1,148,804	-
Related parties (Note 22)	143,300	-	532,703	-	Accrued expenses (Note 2)	8,965,918	4	8,392,033	4
Other receivables (Note 6)	1,470,953	1	1,673,370	1	Bonds issued - current portion (Notes 2 and 13)	2,700,000	1	1,500,000	1
Inventories, net (Notes 2 and 7)	5,077,831	2	5,626,346	3	Advance ticket sales (Note 2)	6,163,159	3	5,867,744	3
Prepaid expenses (Note 8)	512,173	-	351,381	-	Loans and debts - current portion (Notes 14 and 23)	20,350,232	9	13,733,216	6
Deferred income tax assets (Notes 2 and 19)	229,187	-	230,962	-	Capital lease obligations - current portion (Notes 2 and 15)	1,249,296	1	1,247,633	1
Other current assets	504,185	-	446,811	-	Other current liabilities	1,367,566	1	1,316,414	1
Total current assets	26,373,751	11	28,202,904	13	Total current liabilities	43,180,477	19	38,056,775	18
<b>INVESTMENTS IN SHARES OF STOCK (Notes 2 and 9)</b>					<b>LONG-TERM DEBTS, NET OF CURRENT PORTION</b>				
Equity method	6,781,132	3	6,436,112	3	Bonds issued (Notes 2 and 13)	12,380,400	5	17,500,000	8
Cost method	908,948	-	1,012,979	1	Loans and debts (Notes 14 and 23)	103,376,155	45	85,016,275	40
Total investments in shares of stock	7,690,080	3	7,449,091	4	Capital lease obligations (Notes 2 and 15)	9,925,734	4	12,002,810	6
<b>OTHER FINANCIAL ASSETS - NONCURRENT</b>	10,455	-	11,497	-	Total long-term debts	125,682,289	54	114,519,085	54
<b>PROPERTIES (Notes 2, 10 and 23)</b>					<b>OTHER LIABILITIES</b>				
Cost					Accrued pension costs (Notes 2 and 16)	5,203,055	2	5,066,337	2
Land	2,106,788	1	2,106,789	1	Deferred profits on sale-leaseback (Note 2)	3,927,264	2	5,130,907	3
Buildings	7,438,752	3	7,390,155	4	Others	649,528	-	661,204	-
Machinery and equipment	3,150,800	2	3,141,467	1	Total other liabilities	9,779,847	4	10,858,448	5
Flight equipment	176,101,758	76	140,263,842	66	Total liabilities	178,642,613	77	163,434,308	77
Furniture	758,172	-	813,449	-	<b>STOCKHOLDERS' EQUITY</b>				
Leased flight and other equipment	22,088,114	10	23,225,190	11	Capital stock, \$10 par value				
Leasehold improvements	603,885	-	481,641	-	Authorized - 5,000,000 shares in 2005 and 4,480,000 shares in 2004				
Revaluation increase	50,335	-	50,335	-	Issued and outstanding - 3,145,578 shares in 2005 and 2,848,929 shares in 2004	31,455,777	14	28,489,288	13
Total cost and revaluation increase	212,298,604	92	177,472,868	83	Dividends to be distributed	3,326,250	1	1,508,904	1
Accumulated depreciation	43,695,876	19	36,811,438	17	Total capital stock	34,782,027	15	29,998,192	14
Advance payments on equipment purchase contracts (Note 24)	168,602,728	73	140,661,430	66	Capital surplus				
Net properties	188,492,749	82	166,787,655	79	Issue of stock in excess of par value	8,119,463	4	7,157,448	3
<b>INTANGIBLE ASSETS</b>					Revaluation increment on properties	830,471	-	830,471	1
Computer software, net (Note 2)	189,615	-	165,016	-	Gain on sale of treasury shares held by subsidiaries	71,836	-	71,502	-
Deferred pension cost (Note 2)	2,377,282	1	2,743,929	1	Others	5,044	-	5,044	-
Net intangible assets	2,566,897	1	2,908,945	1	Total capital surplus	9,026,814	4	8,064,465	4
<b>OTHER ASSETS</b>					Retained earnings				
Idle properties, net	338,013	-	634,128	-	Legal reserve	4,590,391	2	4,172,118	2
Deposits (Note 24)	3,746,129	2	5,183,834	3	Special reserve	1,530,165	1	194,184	-
Deferred charges (Note 2)	769,328	-	68,592	-	Unappropriated earnings	5,033,118	2	7,107,329	3
Deferred income tax assets (Notes 2 and 19)	1,278,970	1	841,153	-	Total retained earnings	11,153,674	5	11,473,631	5
Pledged certificates of deposit (Note 23)	250,784	-	269,360	-	Unrealized loss on investments in shares of stock	(52,421)	-	(49,100)	-
Net other assets	6,383,224	3	6,997,067	3	Cumulative translation adjustments	(1,357,974)	(1)	(236,340)	-
<b>TOTAL</b>	<b>\$ 231,517,156</b>	<b>100</b>	<b>\$ 212,357,159</b>	<b>100</b>	Net loss not recognized as pension cost	(641,023)	-	(292,504)	-
					Company shares held by subsidiaries reclassified as treasury stock	(36,554)	-	(35,493)	-
					Total stockholders' equity	52,874,543	23	48,922,851	23
					<b>TOTAL</b>	<b>\$ 231,517,156</b>	<b>100</b>	<b>\$ 212,357,159</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated August 10, 2005)

# CHINA AIRLINES, LTD.

## STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
REVENUES (Notes 2 and 22)				
Passenger	\$ 26,141,531	53	\$ 22,358,693	51
Cargo	20,985,147	42	18,789,490	43
Others	<u>2,686,969</u>	<u>5</u>	<u>2,641,739</u>	<u>6</u>
Total revenues	<u>49,813,647</u>	<u>100</u>	<u>43,789,922</u>	<u>100</u>
COSTS (Notes 20 and 22)				
Flying operations	24,882,994	50	20,154,764	46
Terminal and landing fees	7,850,341	16	7,378,511	17
Passenger services	4,029,270	8	3,766,993	9
Aircraft maintenance	2,963,303	6	2,558,938	6
Others	<u>1,575,549</u>	<u>3</u>	<u>1,841,195</u>	<u>4</u>
Total costs	<u>41,301,457</u>	<u>83</u>	<u>35,700,401</u>	<u>82</u>
GROSS PROFIT	<u>8,512,190</u>	<u>17</u>	<u>8,089,521</u>	<u>18</u>
OPERATING EXPENSES (Note 20)				
Marketing and selling	5,523,606	11	5,498,093	13
General and administrative	<u>1,162,410</u>	<u>2</u>	<u>1,020,254</u>	<u>2</u>
Total operating expenses	<u>6,686,016</u>	<u>13</u>	<u>6,518,347</u>	<u>15</u>
OPERATING INCOME	<u>1,826,174</u>	<u>4</u>	<u>1,571,174</u>	<u>3</u>
NONOPERATING INCOME AND GAINS				
Interest	42,018	-	28,600	-
Equity in investees' net income, net (Notes 2 and 9)	373,031	1	312,829	1
Dividend income	144,547	-	36,165	-
Gain on disposal of properties, net (Note 2)	2,167	-	494,917	1
Gain on disposal of investments, net	23,402	-	62,314	-
Gain on physical inventory	6,020	-	-	-
Foreign exchange gain, net (Note 2)	28,735	-	-	-
Others	<u>247,879</u>	<u>1</u>	<u>207,504</u>	<u>1</u>
Total nonoperating income and gains	<u>867,799</u>	<u>2</u>	<u>1,142,329</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	1,940,985	4	1,187,045	3
Loss on physical inventory	-	-	2,039	-
Foreign exchange loss, net (Note 2)	-	-	9,674	-
Others	<u>239,080</u>	<u>1</u>	<u>185,629</u>	<u>-</u>
Total nonoperating expenses and losses	<u>2,180,065</u>	<u>5</u>	<u>1,384,387</u>	<u>3</u>

(Continued)

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
PRETAX INCOME	\$ 513,908	1	\$ 1,329,116	3
INCOME TAX BENEFIT (EXPENSES) (Notes 2 and 19)	<u>180,924</u>	<u>-</u>	<u>(101,766)</u>	<u>-</u>
NET INCOME	<u>\$ 694,832</u>	<u>1</u>	<u>\$ 1,227,350</u>	<u>3</u>
	<u>2005</u>		<u>2004</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$ 0.16</u>	<u>\$ 0.22</u>	<u>\$ 0.44</u>	<u>\$ 0.41</u>
Diluted	<u>\$ 0.14</u>	<u>\$ 0.19</u>	<u>\$ 0.39</u>	<u>\$ 0.36</u>

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

(With Deloitte & Touche audit report dated August 10, 2005)

(Concluded)

**CHINA AIRLINES, LTD.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2005 AND 2004**  
(Dollars and Shares in Thousands, Except Dividend Per Share)

	Capital Stock		Dividends to Be Distributed (Note 17)	Issue of Stock in Excess of Par Value	Revaluation Increment on Properties	Capital Surplus (Notes 2, 10 and 17)				Retained Earnings (Notes 2 and 17)				Unrealized Loss on Investments in Shares of Stock (Notes 2, 9 and 17)	Cumulative Translation Adjustments (Notes 2 and 17)	Unrecognized Pension Cost (Notes 2 and 17)	Company Shares Held by Subsidiaries Reclassified as Treasury Stock (Notes 2, 17 and 18)	Total Stockholders' Equity
	Issued					Share in Capital Surplus Reported by Equity-Method Investees	Gain on Sale of Treasury Shares Held by Subsidiaries	Others	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total					
	Shares	Amount																
BALANCE, JANUARY 1, 2005	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
Appropriation of 2004 earnings																		
Legal reserve	-	-	-	-	-	-	-	-	-	418,274	-	(418,274)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	1,335,981	(1,335,981)	-	-	-	-	-	-
Bonus to employees	-	-	145,708	-	-	-	-	-	-	-	-	(145,708)	(145,708)	-	-	-	-	-
Cash dividends - \$0.2 per share	-	-	-	-	-	-	-	-	-	-	-	(636,108)	(636,108)	-	-	-	-	(636,108)
Stock dividends - 10%	-	-	3,180,542	-	-	-	-	-	-	-	-	(3,180,542)	(3,180,542)	-	-	-	-	-
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,039)	-	-	-	(33,039)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	-	-	-	-	-	(498,491)	-	-	-	(498,491)
Conversion of bonds to capital stock	41,880	418,794	-	276,406	-	-	-	-	276,406	-	-	-	-	-	-	-	-	695,200
Adjustment of treasury stocks due to a nonproportional subscription for investees' newly issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,061)	(1,061)
Reversal of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	10,276	-	-	-	-	10,276
Adjustment due to nonproportional subscription for investees' issuance of new shares	-	-	-	-	-	-	-	-	-	-	-	(7,808)	(7,808)	-	-	-	-	(7,808)
Net loss in the six months ended June 30, 2005	-	-	-	-	-	-	-	-	-	-	-	694,832	694,832	-	-	-	-	694,832
<b>BALANCE, JUNE 30, 2005</b>	<b>3,145,578</b>	<b>\$ 31,455,777</b>	<b>\$ 3,326,250</b>	<b>\$ 8,119,463</b>	<b>\$ 830,471</b>	<b>\$ -</b>	<b>\$ 71,836</b>	<b>\$ 5,044</b>	<b>\$ 9,026,814</b>	<b>\$ 4,590,391</b>	<b>\$ 1,530,165</b>	<b>\$ 5,033,118</b>	<b>\$ 11,153,674</b>	<b>\$ (52,421)</b>	<b>\$ (1,357,974)</b>	<b>\$ (641,023)</b>	<b>\$ (36,554)</b>	<b>\$ 52,874,543</b>
BALANCE, JANUARY 1, 2004	2,848,929	\$ 28,489,288	\$ -	\$ 7,157,448	\$ 830,471	\$ 660	\$ 71,502	\$ 5,044	\$ 8,065,125	\$ 3,994,172	\$ -	\$ 8,050,544	\$ 12,044,716	\$ (46,156)	\$ 144,476	\$ (292,504)	\$ (35,493)	\$ 48,369,452
Appropriation of 2003 earnings																		
Legal reserve	-	-	-	-	-	-	-	-	-	177,946	-	(177,946)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	194,184	(194,184)	-	-	-	-	-	-
Bonus to employees	-	-	84,440	-	-	-	-	-	-	-	-	(84,440)	(84,440)	-	-	-	-	-
Cash dividends - \$0.1 per share	-	-	-	-	-	-	-	-	-	-	-	(284,893)	(284,893)	-	-	-	-	(284,893)
Stock dividends - 5%	-	-	1,424,464	-	-	-	-	-	-	-	-	(1,424,464)	(1,424,464)	-	-	-	-	-
Share in capital surplus reported by equity-method investees	-	-	-	-	-	(119)	-	-	(119)	-	-	(8)	(8)	-	-	-	-	(127)
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,146)	-	-	-	(10,146)
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	-	-	-	-	-	(370,670)	-	-	-	(370,670)
Net income in the six months ended June 30, 2004	-	-	-	-	-	-	-	-	-	-	-	1,227,350	1,227,350	-	-	-	-	1,227,350
Unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,944)	-	-	-	(2,944)
Adjustment due to nonproportional subscription for investees' issuance of new shares	-	-	-	-	-	(541)	-	-	(541)	-	-	(4,630)	(4,630)	-	-	-	-	(5,171)
<b>BALANCE, JUNE 30, 2004</b>	<b>2,848,929</b>	<b>\$ 28,489,288</b>	<b>\$ 1,508,904</b>	<b>\$ 7,157,448</b>	<b>\$ 830,471</b>	<b>\$ -</b>	<b>\$ 71,502</b>	<b>\$ 5,044</b>	<b>\$ 8,064,465</b>	<b>\$ 4,172,118</b>	<b>\$ 194,184</b>	<b>\$ 7,107,329</b>	<b>\$ 11,473,631</b>	<b>\$ (49,100)</b>	<b>\$ (236,340)</b>	<b>\$ (292,504)</b>	<b>\$ (35,493)</b>	<b>\$ 48,922,851</b>

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

(With Deloitte & Touche audit report dated August 10, 2005)

# CHINA AIRLINES, LTD.

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 694,832	\$ 1,227,350
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,735,535	3,824,642
Gain on disposal of properties, net	(2,167)	(494,917)
Gain on disposal of idle properties, net	(17,480)	(50,801)
Gain on disposal of investments in shares of stock, net	-	(9,406)
Net loss on inventories, properties and idle properties	224,199	38,556
Equity in investees' net gain less cash dividends received	(151,139)	(253,261)
Amortization of deferred profit on sale-leaseback	(386,208)	(385,236)
Amortization of deferred credits	(33,207)	(33,178)
Deferred income taxes	(226,461)	(42,051)
Net changes in operating assets and liabilities		
Notes and accounts receivable - third parties	(2,096,394)	(2,741,968)
Notes and accounts receivable - related parties	261,999	(231,693)
Other receivables	(376,795)	285,154
Inventories	374,080	(862,538)
Prepaid expenses	183,966	(64,382)
Other current assets	362,359	344,873
Accounts payable	(222,932)	(339,179)
Payable to related parties	(251,727)	258,274
Accrued expenses	(1,431,882)	82,167
Advance ticket sales	2,450,549	2,569,492
Other current liabilities	(437,736)	171,613
Provision for pension cost	99,278	197,464
Net cash provided by operating activities	<u>3,752,669</u>	<u>3,490,975</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in pledged certificates of deposit	7,281	11,099
Decrease (increase) in short-term investments	(410,000)	2,583,931
Addition to investments in shares of stock	(905,671)	(59,000)
Proceeds from disposal of investments in shares of stock	-	57,645
Investees' return of capital	30,000	306,000
Proceeds from disposal of properties	1,170,949	5,059,514
Proceeds from disposal of idle properties	40,544	82,632
Additions to properties	(20,161,465)	(30,828,383)
Increase in other financial assets - noncurrent	(101)	(46)
Decrease (increase) in intangible assets	(35,124)	13,073

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	<b>2005</b>	<b>2004</b>
Decrease (increase) in deposits made	\$ 224,876	\$ (167,635)
Decrease (increase) in other assets	<u>(391,653)</u>	<u>1,483</u>
Net cash used in investing activities	<u>(20,430,364)</u>	<u>(22,939,687)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of short-term loans	(500,000)	(1,860,000)
Proceeds from commercial paper issuance	249,571	950,255
Proceeds from long-term loans and capital lease obligations	26,741,980	20,733,688
Repayments of long-term loans and capital lease obligations	(9,395,216)	(10,768,306)
Proceeds from bonds issued	-	10,000,000
Redemption of bonds issued	(600,000)	(3,000,000)
Increase (decrease) in deposits-in	(2,087)	916
Decrease in deferred profit on sale-lease back	<u>(210,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>16,284,248</u>	<u>16,056,553</u>
DECREASE IN CASH	(393,447)	(3,392,159)
EFFECTS OF EXCHANGE RATE CHANGES	(124,349)	(28,887)
CASH, BEGINNING OF PERIOD	<u>5,082,480</u>	<u>6,759,816</u>
CASH, END OF PERIOD	<u>\$ 4,564,684</u>	<u>\$ 3,338,770</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 1,927,142	\$ 1,567,225
Less: Capitalized interest	<u>136,682</u>	<u>168,746</u>
Interest paid (excluding capitalized interest)	<u>\$ 1,790,460</u>	<u>\$ 1,398,479</u>
Income taxes paid	<u>\$ 254,877</u>	<u>\$ 400,209</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term loans and debts	<u>\$ 20,350,232</u>	<u>\$ 13,733,216</u>
Current portion of capital lease obligations	<u>\$ 1,249,296</u>	<u>\$ 1,247,633</u>
Current portion of bonds issued	<u>\$ 2,700,000</u>	<u>\$ 1,500,000</u>

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

(With Deloitte & Touche audit report dated August 10, 2005)

(Concluded)

# CHINA AIRLINES, LTD.

## NOTES TO FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (In New Taiwan Dollars, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

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

The Company is a subsidiary of China Aviation Development Foundation, which held 66.61% and 70.05% of the Company’s shares as of June 30, 2005 and 2004, respectively. The Company had 9,553 and 9,345 employees as of June 30, 2005 and 2004, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

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

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

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

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

Unrestricted cash and cash equivalents and other 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. All 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 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 accounts are provided on the basis of an evaluation of the collectibility of receivables.

## **Inventories**

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

## **Investments in Shares of Stock**

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

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

Investments in shares of stocks are initially stated at cost method, when a company subscribes additional shares of stock issued by an investee at a rate not equal to the Company's current equity, and restated Investments in shares of stocks at the equity method due to the change in percentage of ownership, the difference between the investments acquisition cost and the Company's equity in the net assets of the investees won't retrace adjustment. however; the happened prior the difference between the investments and net asset of the investees belonged to prior years is amortized over five years.

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 earnings 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 other disposal, the cost, revaluation increment (if any) and the related accumulated depreciation are removed from the accounts, and gain or loss is credited or charged to nonoperating income or expenses.

## **Leased Flight and Other Equipment**

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

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

## **Computer Software Costs**

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

## **Other Assets - Deferred Charges**

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

## **Frequent-flyer Program**

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

## **Convertible Bonds**

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

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

## **Pension Costs**

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

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

## **Unearned Gain on Sale-leasebacks**

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

## **Income Tax**

Deferred tax assets are recognized for the tax effects of deductible temporary differences, loss carryforwards and unused investment credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. Deferred tax liabilities and assets are classified as current or noncurrent on the basis of the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that cannot be related to an asset or liability for financial reporting, such as the deferred tax assets related to net loss carryforward, is classified according to the expected reversal or realization date of the temporary difference. Valuation allowance is recognized on deferred tax assets that are not expected to be realized.

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

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

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

## **Asset Impairment**

The Company began applying ROC Statement of Financial Accounting Standards (SFAS) No. 35, “Accounting for Asset Impairment” on January 1, 2005, which requires that certain assets - goodwill, long-term investments accounted for by the equity method, property and equipment, cash-generating unit, etc. - are subject to an impairment review.

SFAS No. 35 requires the Company to determine on each balance sheet date if a asset has been impaired. If there is impairment, then the Company must calculate the recoverable amount of the assets or the cash generating unit. An impairment loss should be recognized whenever the recoverable amount of the assets or the cash-generating unit is below the carrying amount, and this impairment loss is either charged to accumulated impairment or is used to reduce the carrying amount of the assets directly. After the recognition of an impairment loss, the depreciation (amortization) charged to the asset should be adjusted in future periods for the revised asset carrying amount (net of accumulated impairment), less its salvage value, on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

The adoption of SFAS No. 35 had no significant effect on the Company's financial statements for the six months ended June 30, 2005.

## **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 and Transactions of Foreign Subsidiaries or Foreign operating Entity**

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of prevailing 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 of the Securities and Futures Bureau, the carrying amount of an aircraft acquired and the related U.S. dollar-denominated obligation incurred for the acquisition is accounted for as an investment in a foreign operating entity if the Company's use of the aircraft results in generating revenues and incurring expenses mainly in U.S. dollars. On the balance sheet date, the carrying amount of the aircraft and the related liability are restated at balance sheet date rates. The difference is recognized in stockholders' equity as translation adjustment.

## **Derivative Financial Instruments**

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

- a. Forward exchange contracts

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

Under a pronouncement of the Accounting Research and Development Foundation, effective in the fourth quarter of 2004, written currency option contracts should not be designated as hedging instruments (except those used to offset the position of purchasing options, which are equivalent to options written in terms of currency, account and terms.) On the balance sheet dates, the carrying value of currency options written is restated at fair value, and the resulting difference is 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. Currency swap

Foreign-currency spot-position assets or liabilities on foreign-currency swap contracts are recorded at spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates. The difference between the spot rate on the contract date and contracted forward rate is amortized using the straight-line method over the term of the contract and recorded as interest income or expense. On the balance sheet dates, receivables and payables of open contracts are netted out, and the net amount is recorded as an asset or a liability. Gain or loss on contracts settled on or before the balance sheet date is credited or charged to current income.

e. Fuel price hedging contracts

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

### 3. CASH

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Cash on hand	\$ 45,278,611	\$ 15,356,549
Revolving fund	46,395,835	32,626,759
Cash in banks	3,229,592,586	2,865,786,942
Certificates of deposit	<u>1,243,417,314</u>	<u>425,000,000</u>
	<u>\$ 4,564,684,346</u>	<u>\$ 3,338,770,250</u>

#### 4. SHORT-TERM INVESTMENTS

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Domestic marketable equity securities	\$ 114,755,878	\$ 114,755,878
Foreign marketable equity securities	88,962,451	88,962,451
Mutual funds	<u>3,715,000,000</u>	<u>7,316,068,484</u>
	<u>\$ 3,918,718,329</u>	<u>\$ 7,519,786,813</u>
Market value		
Domestic marketable equity securities and mutual funds	\$ 3,860,853,985	\$ 7,469,623,334
Foreign marketable equity securities	<u>177,109,896</u>	<u>160,983,146</u>
	<u>\$ 4,037,963,881</u>	<u>\$ 7,630,606,480</u>

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

#### 5. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Notes receivable	\$ 272,212,777	\$ 319,298,404
Accounts receivable	<u>9,741,658,668</u>	<u>8,207,504,204</u>
	10,013,871,445	8,526,802,608
Less: Allowance for doubtful accounts	<u>61,151,861</u>	<u>44,028,535</u>
	<u>\$ 9,952,719,584</u>	<u>\$ 8,482,774,073</u>

#### 6. OTHER RECEIVABLES

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Accrued revenue	\$ 1,040,067,565	\$ 535,508,606
Tax refunds	167,201,319	271,131,397
Credit note receivable for concessions from aircraft or engine manufacturer	-	709,403,154
Others	<u>263,684,237</u>	<u>157,327,064</u>
	<u>\$ 1,470,953,121</u>	<u>\$ 1,673,370,221</u>

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

## 7. INVENTORIES

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Aircraft spare parts	\$ 4,301,488,956	\$ 4,749,764,212
Items for in-flight sale	343,285,916	355,326,705
Work in process - maintenance services	<u>483,097,262</u>	<u>570,254,393</u>
	5,127,872,134	5,675,345,310
Less: Allowance for losses	<u>50,041,571</u>	<u>48,999,194</u>
	<u>\$ 5,077,830,563</u>	<u>\$ 5,626,346,116</u>

## 8. PREPAID EXPENSES

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Prepaid insurance	\$ 311,300,209	\$ 93,398,269
Prepaid aircraft rentals	38,174,915	163,270,729
Others	<u>162,697,959</u>	<u>94,711,584</u>
	<u>\$ 512,173,083</u>	<u>\$ 351,380,582</u>

## 9. INVESTMENTS IN SHARES OF STOCK

	<u>June 30</u>			
	<u>2005</u>		<u>2004</u>	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Equity method</u>				
Taiwan Air Cargo Terminal	\$ 1,641,943,463	54.00	\$ 1,625,823,136	54.00
Mandarin Airlines	1,372,211,936	93.99	691,387,395	90.05
Taoyuan International Airport Services	793,541,786	49.00	791,974,967	49.00
Cal-Dynasty International	791,672,256	100.00	843,330,370	100.00
China Pacific Catering Services	579,056,864	51.00	554,911,194	51.00
Abacus Distribution Systems (Taiwan)	381,823,593	93.93	360,197,643	93.93
Taiwan Airport Services	353,632,999	47.35	343,512,723	47.35
Cal-Asia Investment	213,759,373	100.00	153,657,946	100.00
Kaohsiung Catering Services	153,221,616	31.76	150,532,142	31.76
Science Park Logistics Co.	153,048,849	28.48	-	-
Asian Compressor Technology Services	120,451,940	24.50	120,049,912	24.50
China Pacific Laundry Services	108,448,365	55.00	104,986,402	55.00
Hwa Hsia	70,491,552	100.00	93,551,458	100.00
Dynasty Holidays	22,499,956	51.00	22,612,837	51.00
ICAS Co., Ltd.	20,252,189	48.21	56,475,200	48.21
Global Sky Express	4,972,621	25.00	5,070,680	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>6,781,131,943</u>		<u>6,436,111,899</u>	

(Continued)

	<b>June 30</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Carrying Value</b>	<b>% of Ownership</b>	<b>Carrying Value</b>	<b>% of Ownership</b>
<u>Cost method</u>				
Over-the-counter				
Far Eastern Air Transport	\$ 374,317,312	7.61	\$ 374,317,312	7.61
Trade-Van Information Services	92,320,048	5.98	92,320,048	5.98
With quoted market prices				
ABACUS International Holdings Ltd.	297,946,451	13.59	297,946,451	13.59
Fat Capital Management	120,000,000	10.00	150,000,000	10.00
Jardine Air Terminal Services	48,387,097	15.00	56,022,929	15.00
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
Science Park Logistics Co.	-	-	44,310,000	14.77
Changi International Airport Services Pte.	-	-	18,764,706	4.40
Unlisted preferred stocks				
ABACUS International Holdings Ltd.	<u>472,522</u>		<u>472,522</u>	
	961,368,430		1,062,078,968	
Less: Allowance for losses	<u>52,420,588</u>		<u>49,100,011</u>	
	<u>908,947,842</u>		<u>1,012,978,957</u>	
	<u>\$ 7,690,079,785</u>		<u>\$ 7,449,090,856</u>	

The market values of investments in shares of OTC stocks were \$414,217,000 and \$417,537,000 for the six months ended June 30, 2005 and 2004, respectively, based on the average closing prices in June 2005 and 2004, respectively.

The stockholders of Fat Capital Management (FCM) and China Pacific Catering Services (CPCS) resolved to reduce their companies' capital on June 24, 2005 and March 5, 2004, respectively. The Company received a return of capital of \$30,000,000 (FCM) and \$306,000,000 (CPCS) respectively, based on its percentage of ownership on the date of the authorities' approval of the capital reduction.

Equity-method investments in shares of stock are summarized as follows:

- a. Hwa Sheng Investment completed its liquidation on July 31, 2004.
- b. The accounting period of Dynasty Holidays ended on June 30 originally but it was changed to calendar year from 2004. In 2004, 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.
- c. The equity in net income or loss on all equity-method investments (except Freighter Princess Ltd., Freighter Queen Ltd., Freighter Prince Ltd., Dynasty Holidays, ICAS Co., Ltd. and Science Park Logistics) is calculated on the basis of the current year's audited financial statements. Since each of the total paid-in capital of Freighter Princess Ltd., Freighter Queen Ltd. and Freighter Prince Ltd. is less than \$30 million and each of their total operating revenue is less than \$50 million or less than 10% of the total operating revenues of the Company, the recognition of equity in net income is based on unaudited financial statements. The recognition of equity in net income of three other investees is also based on unaudited financial statements. The Company believes that there would have been 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 6.

## 10. PROPERTIES

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Revaluation increase - cost		
Building	\$ <u>50,335,009</u>	\$ <u>50,335,009</u>
Accumulated depreciation		
Building	\$ 2,597,465,823	\$ 2,438,583,979
Machinery and equipment	2,546,214,277	2,482,284,310
Flight equipment	32,135,183,588	26,426,120,073
Furniture	594,841,906	645,598,055
Leased flight and other equipment	5,449,968,871	4,443,938,182
Leasehold improvements	<u>372,201,955</u>	<u>374,913,937</u>
	<u>\$ 43,695,876,420</u>	<u>\$ 36,811,438,536</u>

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

Capitalized interests for the six months ended June 30, 2005 and 2004 amounted to \$136,682,000 and \$168,746,000, respectively. These interests were calculated at rates ranging from 1.2927% to 1.3445% and from 1.332% to 1.381% in the six months ended June 30, 2005 and 2004, respectively.

## 11. SHORT-TERM LOANS

	<u>June 30, 2004</u>
Unsecured loans. Interest - 1.30% to 1.32% in 2004	\$ <u>1,740,000,000</u>

## 12. COMMERCIAL PAPER

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Aggregate face value - discounted interest: 1.288% to 1.380% and 1.20% to 1.40% in the six months ended June 30, 2005 and 2004, respectively	\$ 1,150,000,000	\$ 2,780,000,000
Less: Unamortized discount	<u>802,701</u>	<u>6,267,442</u>
	<u>\$ 1,149,197,299</u>	<u>\$ 2,773,732,558</u>

### 13. BONDS

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Current		
Second issue of unsecured bonds in 2001	\$ 900,000,000	\$ 900,000,000
Issue of secured bonds in 2002	600,000,000	600,000,000
First issue of secured bonds in 2003	<u>1,200,000,000</u>	<u>-</u>
	<u>\$ 2,700,000,000</u>	<u>\$ 1,500,000,000</u>
Noncurrent		
Second issue of unsecured bonds in 2001	\$ 1,200,000,000	\$ 2,100,000,000
Issue of secured bonds in 2002	800,000,000	1,400,000,000
Issue of secured bonds in 2003	2,800,000,000	4,000,000,000
Second issue of unsecured bonds in 2001	<u>7,580,400,000</u>	<u>10,000,000,000</u>
	<u>\$ 12,380,400,000</u>	<u>\$ 17,500,000,000</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 zero interest rate. The bond repayment terms, conversion features and other conditions are summarized as follows:

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. On February 23, 2007, the holders can require the Company to redeem their bonds at 99.70% 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 June 30, 2005.
- e. As of June 30, 2005, the bonds with aggregate face value of \$2,419,600,000 had been converted into 145,759,000 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 Types A, B and C bonds, respectively, with terms of 3, 4 and 5 years, respectively. The bonds are repayable in lump sum on maturity. The interest rates for Type A bonds and Type B bonds are 1.45% and 1.60%, respectively, and the interests are calculated and payable annually. The interest rate for Type C bonds is 4% minus floating interest rate, and the interest is calculated semiannually and payable annually. The guarantor institutions are the Bank of Taiwan and Chiao Tung Bank.

Secured bonds with an 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 three consecutive annual repayments of the principal starts on May 28, 2005 at 30%, 30% and 40% of the principal. The guarantor institutions are Land Bank and Taipei Fubon Bank.

The first and second issue of unsecured bonds, with an aggregate face value of \$3,000,000,000 each, were made on January 5, 2001 and between July 18, 2001 and August 6, 2001 (14 business days), respectively. The bonds will mature on January 5, 2004 and August 6, 2006 at annual interest rates of 5.526% and 4.900%, respectively. The interests are payable annually. The bonds are repayable as follows: (i) first issue - lump sum payment on maturity, and (ii) second issue - three consecutive annual payments due from August 6, 2004 at 30%, 30% and 40% of the principal.

#### 14. LONG-TERM LOANS

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Bank loans	\$ 110,852,032,016	\$ 84,185,588,526
Commercial paper, net of unamortized discounts of \$40,645,902 and \$35,097,042 in the six months ended June 30, 2005 and 2004, respectively	12,874,354,098	14,563,902,958
Less: Current portion	<u>20,350,231,647</u>	<u>13,733,216,048</u>
	<u>\$ 103,376,154,467</u>	<u>\$ 85,016,275,436</u>

The interest rates on bank loans (in New Taiwan dollars, Japanese yen and U.S. dollars) ranged from 0.586% to 4.840% and from 0.5827% to 2.5580% in the six months ended June 30, 2005 and 2004, respectively. These loans are repayable either quarterly or semiannually or through a lump sum payment upon maturity in June 2017.

The Company has notes issuance facilities (NIF) obtained from certain financial institutions. The NIF, with various maturities until October 2014, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 1.6363% to 2.0896% and 1.2198% to 2.0920% in the six months ended June 30, 2005 and 2004, respectively.

#### 15. LONG-TERM CAPITAL LEASE OBLIGATIONS

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Capital lease obligations	\$ 11,175,030,193	\$ 13,250,443,460
Less: Current portion	<u>1,249,295,926</u>	<u>1,247,633,253</u>
	<u>\$ 9,925,734,267</u>	<u>\$ 12,002,810,207</u>

As of June 30, 2005, 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:

<b>Period</b>	<b>Amount</b>
July to December 2005	\$ 613,281,409
2006	1,295,606,221
2007	1,393,449,409
2008	1,498,694,386
2009	1,611,902,005
2010	1,221,394,350

The present value of total rentals from 2011 is \$3,540,702,000, based on the 1.7% discount rate for a one-year time deposit of \$3,227,187,000.

## 16. PENSION PLAN

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

The Company makes monthly contributions to a pension fund. The fund is administered by a pension fund committee and deposited in the committee's name in the Central Trust of China.

	<b>January 1 to June 30</b>	
	<b>2005</b>	<b>2004</b>
Contributions	<u>\$ 311,845,587</u>	<u>\$ 236,273,697</u>
Payment of benefits	<u>\$ 348,095,018</u>	<u>\$ 381,950,510</u>

As of June 30, 2005 and 2004, the contributions deposited in the Central Trust of China amounted to \$1,253,163,000 and \$1,046,943,000, respectively.

The Labor Pension Act (the "Act") takes effect on July 1, 2005. A new defined contribution pension plan is stipulated by this Act. The employees may choose the pension mechanism either under the Labor Standards Law or under this Act. For those employees who were subject to the Labor Standards Law before the enforcement of this Act, still work for the same business entity after the enforcement of this Act, and choose to be subject to the pension mechanism under this Act, their service years accumulated before the enforcement of this Act will be retained. Under the Act, the rate of an employer's monthly contribution to the Labor Pension Fund should be at least 6% of the employee's monthly wages.

## 17. STOCKHOLDERS' EQUITY

As of June 10, 2005 and June 10, 2004, the appropriation of the 2004 and 2003 earnings, respectively, had been resolved by the stockholders, as follows:

	<b>Appropriation (in Thousands of New Taiwan Dollars)</b>		<b>Dividend per Share</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Legal reserve	\$ 418,274	\$ 177,946		
Special reserve	1,335,981	194,184		
Cash dividends	636,108	284,893	\$ 0.2	\$ 0.1
Stock dividends	3,180,542	1,424,464	1.0	0.5
Stock bonus for employees	<u>145,708</u>	<u>84,440</u>		
	<u>\$ 5,716,613</u>	<u>\$ 2,165,927</u>		

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

The Company's application for a capital increase had been approved by the Securities and Futures Bureau and will be effected on August 16, 2005.

The second issue of unsecured domestic convertible bonds with an aggregate face value of \$82,500,000 had been converted into the Company's 4,970,000 common shares in the second quarter of 2005. Under the related regulations, the Company can issue the shares first and then apply to the authorities to register the related capital increase. The Company completed the registration of capital increase on July 13, 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 to in the financial statements of that year.

The Company's special reserve appropriation from the current year's net income or the unappropriated earnings should be equal to the debit balance of any stockholders' equity account (other than deficit 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 (renamed Securities and Futures Bureau effective July 1, 2004), a special reserve is appropriated from the balance of the retained earnings at an amount equal to the carrying value of the treasury stock held by subsidiaries in excess of the market value on the balance sheet date. The special reserve may be reversed when the market value recovers.

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

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

## 18. TREASURY STOCK

(In Thousands of Shares)

Reason	Shares		
	Shares at Beginning of Period	(Decrease) During the Period	Shares at End of Period
<u>2005</u>			
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>3,503</u>	-	<u>3,503</u>
<u>2004</u>			
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>3,336</u>	-	<u>3,336</u>

The shares reclassified as treasury stock to \$36,554,000 and \$35,493,000 in the six months ended June 30, 2005 and 2004, respectively. The market values of the treasury stocks as of June 30, 2005 and 2004 were \$62,848,000 and \$58,053,000, respectively.

The shares of the Company held by its subsidiaries were treated as treasury stock. The subsidiaries can exercise stockholders' right on these treasury stocks expect to participate in new shares of investments in shares of stock. However, under the amended Business Law, the subsidiaries will no longer have voting rights effective June 22, 2005.

## 19. INCOME TAXES

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

	<u>Six Months Ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Income tax expense on income before income tax at statutory rate (25%)	\$ 128,466,891	\$ 332,269,081
Add (deduct) tax effects of:		
Permanent differences	(103,963,870)	(106,956,181)
Temporary differences	<u>36,720,587</u>	<u>88,338,841</u>
Income tax expense - current	<u>\$ 61,223,608</u>	<u>\$ 313,651,741</u>

- b. Income tax consisted of the following:

Income tax expense - current	\$ 61,223,608	\$ 313,651,741
Tax on unappropriated retained earnings	-	543,373,555
Investment income tax credit	(61,223,608)	(529,536,860)
Net changes in deferred income tax expense (benefit):		
Allowance for loss on inventories	(160,151)	-
Equity in net income of domestic equity-method investees	-	5,632,461

(Continued)

	<b>Six Months Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Equity in net income (loss) of foreign equity-method investees	\$ (668,888)	\$ 10,183,112
Depreciation difference between accounting and tax on properties	(67,284,364)	(22,051,220)
Allowance for loss on idle assets	(19,221,883)	(7,880,141)
Provision for pension cost	(24,819,583)	(49,366,143)
Accrued expense for frequent-flyer program	(1,499,873)	-
Unrealized foreign exchange gain (loss)	68,540,459	(16,626,070)
Difference between accounting and tax on interest	8,393,696	8,733,415
Investment income tax credits	(841,670,623)	29,713,023
Reversal of valuation allowance	651,929,978	(205,648,515)
Adjustment of prior years' tax	<u>45,537,175</u>	<u>21,587,854</u>
Income tax expense (benefit)	<u>\$ (180,924,057)</u>	<u>\$ 101,766,212</u>

c. Deferred income tax assets as of June 30, 2005 and 2004 were as follows:

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Current		
Allowance for loss on inventories	\$ 8,716,870	\$ 8,456,275
Accrued expenses for frequent-flyer program	42,758,958	32,542,762
Unrealized foreign exchange loss	<u>177,710,677</u>	<u>189,962,835</u>
Deferred income tax assets	<u>\$ 229,186,505</u>	<u>\$ 230,961,872</u>
Noncurrent		
Cumulative equity in the net loss of domestic equity-method investees	\$ -	\$ 271,121,011
Provision for pension cost	546,040,505	507,329,143
Difference between accounting and tax on interest	203,471,725	221,921,942
Allowance for loss on idle properties	309,526,548	218,690,285
Investment income tax credit	<u>2,066,067,327</u>	<u>903,237,217</u>
Deferred income tax assets	3,125,106,105	2,122,299,598
Less: Valuation allowance	<u>(1,239,640,396)</u>	<u>(592,437,871)</u>
Deferred income tax assets, net	1,885,465,709	1,529,861,727
Depreciation difference between accounting and tax on properties	(582,517,226)	(672,095,132)
Cumulative equity in net gain of foreign equity-method investees	<u>(23,977,985)</u>	<u>(16,613,874)</u>
Deferred income tax assets - noncurrent, net	<u>\$ 1,278,970,498</u>	<u>\$ 841,152,721</u>

d. The imputation credit account (ICA) and creditable tax ratio are summarized as follows:

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Balance of ICA	<u>\$ 304,318,814</u>	<u>\$ 402,730,861</u>

The expected and actual creditable tax ratios for dividend distribution to each qualified stockholder of earnings generated up to December 31, 2004 and 2003 were 8.57% and 17.52%, respectively.

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

- e. The unappropriated retained earnings as of June 30, 2005 and 2004 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 June 30, 2005 were as follows:

<b>Regulatory Basis of Tax Credits</b>	<b>Description of the Source of the Tax Credit</b>	<b>Total Amount of the Tax Credits</b>	<b>Remaining Tax Credits</b>	<b>Expiry Year</b>
Article 6 of the Statute for Upgrading Industries	R&D expenses, personnel	\$ 855,754,412	\$ 124,611,258	2005
	training expenses and	691,221,339	187,945,814	2006
	purchases of eligible	728,009,810	158,180,920	2007
	equipment	1,413,493,056	769,884,880	2008
		825,444,455	825,444,455	2009

The income tax returns through 2002 (except 2001) had been examined by the tax authorities. Other information on these returns is as follows:

- a. 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.
- b. On the Company's 1998 income tax return, the tax authorities calculated an additional gain of \$1,313,088,000 from the securities trading by foreign investees and assessed a fine on the Company. The tax authorities contended that transfers from the reorganization of foreign investees are considered securities trading. The Company has appealed these assessments and expects a favorable outcome on those appeals. But for conservative purposes, the Company recognized in 2003 an additional income tax on the 1998 income tax return.
- c. On the Company's 1999 income tax return, the tax authorities reassessed and reduced by \$1,411,146,000 the loss carryforwards generated from 1998 because they determined that the additional gain on the securities trading by foreign investee was in violation of the income tax law in 1998. The Company is claiming that the assessment of its 1998 income tax return is unreasonable and has appealed the assessment.
- d. On the Company's 2002 income tax return, the tax authorities reduced the \$181,868,000 loss on bad debt because the original of the documents approved by foreign authorities and showing that the foreign company that owed the Company had become bankrupt were not presented on time. Further, the tax authorities contended that the Company had an additional gain of \$867,010,000 on property disposal since it did not consider the depreciation difference between the accounting and tax treatments for 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

	<b>Six Months Ended June 30, 2005</b>		
	<b>Included in</b>	<b>Included in</b>	<b>Total</b>
	<b>Operating Costs</b>	<b>Operating Expenses</b>	
Personnel			
Salaries	\$ 4,030,920,769	\$ 1,032,280,627	\$ 5,063,201,396
Labor and health insurance	185,413,783	117,937,473	303,351,256
Pension cost	397,650,967	90,116,120	487,767,087
Others	894,591,913	114,459,072	1,009,050,985
Depreciation	4,542,486,485	141,328,797	4,683,815,282
Amortization	12,053,449	39,665,981	51,719,430

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

## 21. EARNINGS PER SHARE

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

	<b>Amount (as Numerator)</b>		<b>Shares (as Denominator)</b>	<b>Earnings Per Share</b>		
	<b>(Thousands)</b>			<b>(Thousands)</b>	<b>After</b>	
	<b>Pretax</b>	<b>After Tax</b>			<b>Pretax</b>	<b>Tax</b>
<u>Six months ended June 30, 2005</u>						
Basic EPS						
Net income on common stock	\$ 513,905	\$ 694,832	3,127,566	<u>\$ 0.16</u>	<u>\$ 0.22</u>	
Dilutive effect of potential common stock						
Second tranche of unsecured convertible bonds	-	-	466,061			
Diluted EPS	<u>\$ 513,905</u>	<u>\$ 694,832</u>	<u>3,593,627</u>	<u>\$ 0.14</u>	<u>\$ 0.19</u>	
Pro forma retroactively adjusted basis EPS reflecting the distribution date of stock dividend after the date of financial statements	<u>\$ 513,908</u>	<u>\$ 694,832</u>	<u>3,460,191</u>	<u>\$ 0.15</u>	<u>\$ 0.20</u>	
Pro forma retroactively adjusted diluted EPS reflecting the distribution date of stock Dividend after the date of financial statements	<u>\$ 513,908</u>	<u>\$ 694,832</u>	<u>3,926,252</u>	<u>\$ 0.13</u>	<u>\$ 0.18</u>	

(Continued)

	Amount (as Numerator)		Shares (as Denominator) (Thousands)	Earnings Per Share	
	(Thousands)			Pretax	After Tax
	Pretax	After Tax			
<u>Six months ended June 30, 2004</u>					
Basic EPS					
Net income on common stock	\$ 1,329,116	\$ 1,227,350	2,996,483	\$ 0.44	\$ 0.41
Dilutive effect of potential common stock					
Second tranche of unsecured convertible bonds	-	-	423,673		
Diluted EPS	\$ 1,329,116	\$ 1,227,350	3,752,781	\$ 0.39	\$ 0.36
Pro forma retroactively adjusted basis EPS reflecting the distribution date of stock dividend after the date of financial statements	\$ 1,329,116	\$ 1,227,350	3,329,108	\$ 0.40	\$ 0.37
Pro forma retroactively adjusted diluted EPS reflecting the distribution date of stock dividend after the date of financial statements	\$ 1,329,116	\$ 1,227,350	3,752,781	\$ 0.35	\$ 0.33

## 22. RELATED-PARTY TRANSACTIONS

- a. The Company's related parties

<u>Related Party</u>	<u>Relationship with the Company</u>
Taiwan Air Cargo Terminal	Subsidiary
Mandarin Airlines	Subsidiary
Taoyuan International Airport Services	Equity-method investee
Cal-Dynasty International	Subsidiary
China Pacific Catering Services	Subsidiary
Abacus Distribution Systems (Taiwan)	Subsidiary
Taiwan Airport Services	Equity-method investee
Cal-Asia Investment	Subsidiary
Kaohsiung Catering Services	Equity-method investee
Science Park Logistics Co.	Equity-method investee
Asian Compressor Technology Services	Equity-method investee
China Pacific Laundry Services	Subsidiary
Hwa Hsia	Subsidiary
Dynasty Holidays	Subsidiary
ICAS Co., Ltd.	Equity-method investee
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 (66.61%)

b. Significant transactions with related parties:

	<b>Six Months Ended June 30</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
1) Revenues				
Mandarin Airlines	\$ 685,865,749	1.38	\$ 455,273,009	1.04
Global Sky Express	74,235,032	0.15	81,458,208	0.19
China Aviation Development Foundation	23,360,796	0.05	23,394,075	0.05
Taiwan Air Cargo Terminal	16,761,535	0.03	11,618,019	0.03
Dynasty Holidays	1,052,168	-	37,641,128	0.09
Others	<u>22,791,869</u>	<u>0.04</u>	<u>9,042,588</u>	<u>0.01</u>
	<u>\$ 824,067,149</u>	<u>1.65</u>	<u>\$ 618,427,027</u>	<u>1.41</u>
2) Costs				
China Pacific Catering Services	\$ 539,364,286	1.30	\$ 472,004,659	1.32
Taoyuan International Airport Services	411,075,390	1.00	380,580,301	1.07
Mandarin Airlines	366,435,147	0.89	102,450,445	0.29
Taiwan Air Cargo Terminal	114,811,054	0.28	103,917,616	0.29
Taiwan Airport Services	104,603,497	0.25	121,612,490	0.34
Hwa Hsia	101,745,732	0.25	95,632,508	0.27
Dynasty Holidays	39,260,433	0.10	72,848,954	0.20
China Aviation Development Foundation	49,968,772	0.12	52,213,338	0.15
Kaohsiung Catering Services	46,907,923	0.11	42,071,345	0.12
China Pacific Laundry Services	30,597,938	0.07	29,894,815	0.08
Cal-Dynasty International	17,486,800	0.04	20,133,779	0.06
Cal-Asia Investment	12,120,570	0.03	8,653,043	0.02
Others	<u>1,914,526</u>	<u>-</u>	<u>1,165,436</u>	<u>-</u>
	<u>\$ 1,836,292,068</u>	<u>4.45</u>	<u>\$ 1,503,178,729</u>	<u>4.21</u>
	<b>June 30</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
3) Receivables: Related parties				
Mandarin Airlines	\$ 118,320,340	82.57	\$ 519,055,544	97.44
China Aviation Development Foundation	13,087,217	9.13	3,943,701	0.74
Global Sky Express	6,841,274	4.77	6,072,513	1.14
Taiwan Air Cargo Terminal	3,363,135	2.35	1,678,081	0.31
Others	<u>1,688,137</u>	<u>1.18</u>	<u>1,952,586</u>	<u>0.37</u>
	<u>\$ 143,300,103</u>	<u>100.00</u>	<u>\$ 532,702,425</u>	<u>100.00</u>

(Continued)

	<b>June 30</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
4) Payable to related parties				
Mandarin Airlines	\$ 390,739,288	32.80	\$ 569,010,496	49.53
China Pacific Catering Services	290,381,570	30.77	249,980,274	21.76
Taoyuan International Airport Services	212,695,056	22.54	204,354,404	17.79
Taiwan Airport Services	34,689,320	3.68	42,129,963	3.67
Taiwan Air Cargo Terminal	29,025,176	3.08	27,262,005	2.37
Hwa Hsia	16,795,827	1.78	19,958,084	1.74
Others	<u>50,645,485</u>	<u>5.35</u>	<u>36,108,250</u>	<u>3.14</u>
	<u>\$ 1,024,971,722</u>	<u>100.00</u>	<u>\$ 1,148,803,476</u>	<u>100.00</u>

5) Lease of property and equipment

In September 2002, the Company rented out planes to Mandarin Airlines under an operating lease agreement to help Mandarin Airlines fly the passenger and cargo routes between Kaohsiung and Hong Kong. Passenger fares, revenue and the cost of the routes were recognized at the percentages of seats sold every month; for cargo, the rent received was based on actual flights made. As of June 30, 2005 and 2004, the rentals received amounted to \$622,924,000 and \$401,667,000, respectively.

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 based on flight hours. From October 2003, rentals were at a fixed amount of US\$282,000 monthly. As of June 30, 2005 and 2004, the Company had paid about US\$1,759,000 and US\$1,692,000.

6) Endorsements and guarantees

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Mandarin Airlines - bank loans, commercial paper and other guarantees	\$ 280,000,000	\$ 1,135,000,000
China Pacific laundry services - bank loans	120,000,000	120,000,000
Asian Compressor Technology Services - bank loans	19,968,652	21,447,811
Freighter Queen Ltd.	404,988,454	433,511,437
Freighter Prince Ltd.	459,964,360	508,364,060
Freighter Princess Ltd.	610,776,089	727,061,648

These related-party transactions were conducted under normal terms.

### 23. PLEDGED ASSETS

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

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Pledged certificates of deposit	\$ 250,783,699	\$ 269,360,210
Properties - machinery and flight equipment (net)	<u>139,127,796,317</u>	<u>96,821,898,803</u>
	<u>\$ 139,378,580,016</u>	<u>\$ 97,091,259,013</u>

### 24. COMMITMENTS AND CONTINGENT LIABILITIES

- a. The Company leased certain flight equipment and hangar under various operating lease agreements expiring on various dates until October 2023. Lease deposits aggregated \$2,444,796,000 as of June 30, 2005.

Minimum rentals for future years are summarized as follows:

<b>Period/Year</b>	<b>Amount</b>
July to December in 2005	\$ 1,185,736,822
2006	1,969,557,934
2007	1,807,419,307
2008	1,477,504,991
2009	786,954,687
2010	696,889,416

Rentals from 2011 and on will aggregate \$1,412,307,000. The present value of these rentals, discounted using the 1.7% interest rate as of April 22, 2005 for one-year time deposits, is \$1,287,207,000.

- b. In July 1999, the Company acquired thirteen 747-400F aircraft from the Boeing Co., which had delivered 12 planes as of June 30, 2005. The aggregate purchase price of the remaining aircraft for delivery is US\$213,836,000. As of June 30, 2005, the Company had paid about US\$21,901,000, which was 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., which had delivered one plane as of June 30, 2005. The aggregate purchase price of the remaining aircraft for delivery is US\$222,631,000. As of June 30, 2005, the Company had paid about US\$79,209,000, included in "advance payments on equipment purchase contracts" in the properties section of the balance sheets.

- c. In November 2002, the Company entered into an option contract with Boeing Co. to buy six 747-400 aircraft. In November 2003 the Company asked that the model of two of the aircraft be changed to 747-400F. As of June 30, 2005, the Boeing Co. had delivered one 747-400F plane. The aggregate purchase price of the remaining plane is US\$222,631,000. As of June 30, 2005, the Company had paid about US\$79,209,000, which was included in the "advance payments on equipment purchase contracts" in the properties section of the balance sheets. However, the other four aircraft 747-400 had been delivered as of June 30, 2005.

- d. In December 2002, the Company entered into an option 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 four planes as of June 30, 2005. The aggregate purchase price of the remaining 10 planes is US\$1,682,906,000. As of June 30, 2005, the Company had paid about US\$294,931,000, which was included in the “advance payments on equipment purchase contracts” in the properties section of the balance sheets.
- e. 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 should 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 5% interest 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.
- f. The Company entered into an operating lease agreement with the CAA for the use of six planes. Later, the CAA decided to dispose of these planes by public auction. As a lessee, the Company was entitled to bid at the auction and subsequently won the bid in December 2003. The Company paid the purchase price in December 2003 before the delivery of the planes in January 2004. The CAA claims that the Company should pay the residual lease payments between the last date of rental payment and the delivery date. The Company claims these lease payments were already included in the purchase price. In May 2005, the CAA filed a lawsuit against the Company in the Taipei district court for the residual lease payments and penalty of \$380,570,000 and \$2,059,000 respectively. As of June 30, 2005, this case was still pending before the court.

## 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. The currency swap contracts are intended to help the Company manage its currency positions. Interest rate swaps are used to hedge the risk arising from adverse movements of interest rates. The fuel swap contracts are for hedging the volatility of fuel prices. The hedging strategy is to protect the Company from market risk by using instruments with fluctuations in their fair values that offset the changes in the fair values of the underlying exposures. The Company also periodically evaluates the effectiveness of the instruments.

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

The following table summarizes the aggregate contract (notional) amounts, credit risk and fair value of the Company's derivative financial instruments as of June 30, 2005 and 2004.

	June 30					
	2005			2004		
	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
Interest rate swaps	\$ 110,837,990,494	\$ 174,283,010	\$ (1,410,177,735)	\$ 100,470,461,513	\$ 945,082,493	\$ (430,111,677)
Forward exchange contracts	971,786,834	14,286,732	14,286,732	-	-	-
Currency swap	1,034,482,759	6,786,931	6,786,931	-	-	-
Foreign-currency options						
- Buy	2,068,965,517	13,044,681	12,176,562	774,410,774	5,506,667	(4,079,192)
- Sell	2,259,779,185	4,239,878	(17,692,928)	2,867,808,485	-	(21,169,499)
Fuel swap contracts	26,569,435,737	1,107,919,299	1,107,852,747	21,900,404,040	1,202,360,262	1,027,117,905

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

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

	Six Months Ended June 30	
	2005	2004
Forward exchange contracts		
Foreign exchange gain	\$ 38,842,254	\$ 14,336,637
Addition (reduction) of advance payments on equipment purchase contracts	(1,283,770)	4,414,011
Reduction of fuel cost	31,647,107	-
Currency swap - reductional interest expense	3,087,398	-
Interest rate swaps - additional interest expense	297,910,887	301,087,784
Foreign-currency options		
Foreign-exchange loss	6,828,086	21,448,965
Additional advances for aircraft and other equipment acquired	236,737,076	-
Reduction of fuel cost	5,815,409	-
Fuel swap contracts - reduction of fuel cost	1,145,876,598	862,883,979

b. Fair value of financial instruments as of June 30, 2005 and 2004

	June 30			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Fair value equal to carrying value	\$ 27,672,533,745	\$ 27,672,533,745	\$ 26,941,398,954	\$ 26,941,398,954
Short-term investments	3,918,718,329	4,037,963,881	7,519,786,813	7,630,606,480
Financial liabilities				
Fair value equal to carrying value	147,880,550,174	147,880,550,174	127,752,955,946	127,752,955,946
Bonds	15,080,400,000	15,548,544,800	19,000,000,000	19,848,321,000

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

- 1) The carrying values of some financial instruments reported in the balance sheets approximate fair values because of the short-term maturities of these instruments or the present receipts and payments approximate their carrying value. This assumption applies to cash and cash equivalents, receivables, receivable from related parties, other receivables, pledged certificates of deposit, deposits-in and -out, other financial assets - noncurrent, short-term loans, commercial paper, accounts payable, payable to related parties, accrued expenses, loans and debts - current portion, capital lease obligations - current portion, some other current liabilities, loans and debts.

- 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 and capital lease obligations - noncurrent are financial liabilities with floating interest. Thus, their carrying values represent fair values.

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

## **26. SUBSEQUENT EVENT**

On July 11, 2005, the Securities and Futures Bureau approved the Company's third issue of unsecured domestic convertible bonds with an aggregate face value of \$10,000,000,000 and five-year maturities. Under the bond conversion terms, the holders can convert the bonds to common stock of the Company at NT\$18.25 per share (conversion price will be adjusted if conditions on the Company's outstanding common shares change).

## **27. ADDITIONAL DISCLOSURES**

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

**CHINA AIRLINES, LTD. AND INVESTEES**

**ENDORSEMENT/GUARANTEE PROVIDED  
SIX MONTHS ENDED JUNE 30, 2005  
(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	93.99% subsidiary	\$ 10,574,908,553	\$ 490,000,000	\$ 280,000,000	\$ -	1	\$ 26,437,271,384
		China Pacific Laundry Services	55% subsidiary	10,574,908,553	120,000,000	120,000,000	-	-	26,437,271,384
		Asian Compressor Technology Services	Subsidiary held by each stockholder proportionately, who provided an endorsement/ guarantee within joint investment arrangements	10,574,908,553	20,548,387	19,968,652	-	-	26,437,271,384
		Freighter Queen Ltd.	100% subsidiary	10,574,908,553	416,746,183	404,988,454	-	1	26,437,271,384
		Freighter Prince Ltd.	100% subsidiary	10,574,908,553	473,318,164	459,964,360	-	1	26,437,271,384
		Freighter Princess Ltd.	100% subsidiary	10,574,908,553	696,571,966	610,776,089	-	1	26,437,271,384

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

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

## CHINA AIRLINES, LTD. AND INVESTEEES

## MARKETABLE SECURITIES HELD

JUNE 30, 2005

(In New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2005				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	\$ 1,641,943,463	54.00	\$ 1,641,943,463	-
	Mandarin Airlines	Subsidiary	Investments in shares of stock	188,154,026	1,372,211,936	93.99	1,729,038,373	Note 1
	Taoyuan International Airport Services	Equity-method investee	Investments in shares of stock	34,300,000	793,541,786	49.00	793,541,786	-
	Cal-Dynasty International	Subsidiary	Investments in shares of stock	2,614,500	791,672,256	100.00	791,672,256	-
	China Pacific Catering Services	Subsidiary	Investments in shares of stock	43,860,000	579,056,864	51.00	579,056,864	-
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments in shares of stock	22,450,008	381,823,593	93.93	381,823,593	-
	Taiwan Airport Services	Equity-method investee	Investments in shares of stock	17,188,870	353,632,999	47.35	353,632,999	-
	Cal-Asia Investment	Subsidiary	Investments in shares of stock	5,650,000	213,759,373	100.00	213,759,373	-
	Kaoshiung Catering Services	Equity-method investee	Investments in shares of stock	12,705,000	153,221,616	31.76	153,221,616	-
	Science Park Logistics Co.	Equity-method investee	Investments in shares of stock	13,293,000	153,048,849	28.48	140,635,560	Note 4
	Asian Compressor Technology Services	Equity-method investee	Investments in shares of stock	7,732,200	120,451,940	24.50	120,451,940	-
	China Pacific Laundry Services	Subsidiary	Investments in shares of stock	13,750,000	108,448,365	55.00	108,448,365	-
	Hwa Hsia	Subsidiary	Investments in shares of stock	50,000	70,491,552	100.00	81,717,444	Note 1
	Dynasty Holidays	Subsidiary	Investments in shares of stock	408	22,499,956	51.00	22,499,956	-
	ICAS Co., Ltd.	Equity-method investee	Investments in shares of stock	6,750,000	20,252,189	48.21	20,252,189	-
	Global Sky Express	Equity-method investee	Investments in shares of stock	250,000	4,972,621	25.00	4,972,621	-
	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	291,463,671	-
	Trade-Van Information Services	-	Investments in shares of stock	11,825,925	92,320,048	5.98	122,753,102	-
	Abacus International Holding, Ltd. - unlisted common stock	-	Investments in shares of stock	1,359,368	297,946,451	13.59	573,615,067	-
	Fat Capital Management	-	Investments in shares of stock	12,000,000	120,000,000	10.00	67,603,814	-
	Jardine Air Terminal Services	-	Investments in shares of stock	12,000,000	48,387,097	15.00	-	Note 3
	Chung Hua Express Co.	-	Investments in shares of stock	2,200,000	22,000,000	11.00	20,937,997	-
	Regal International Advertising	-	Investments in shares of stock	592,500	5,925,000	6.58	3,341,522	-
	Abacus International Holding, Ltd. - unlisted preferred stock	-	Investments in shares of stock	135,937	472,522	-	-	-
	Chunghwa Telecom	-	Short-term investments	2,000,000	114,755,878	-	126,900,000	-
	France Telecom	-	Short-term investments	195,587	88,962,451	-	177,109,896	-
	<u>Mutual funds</u>							
	Ta Chong Top25 Fund	-	Short-term investments	500,000.00	5,000,000	-	4,160,000	-
	Ta Chong Everybody's Fund	-	Short-term investments	15,702,408.00	200,000,000	-	216,065,134	-
	Sheng Hua 9966 Balanced Fund	-	Short-term investments	5,020,886.90	50,000,000	-	50,575,394	-
	Waterland Balanced Fund	-	Short-term investments	3,000,000.00	30,000,000	-	30,060,000	-
	Sunrise Full Return Balance Fund	-	Short-term investments	2,150,537.60	20,000,000	-	19,612,903	-
	NITC Bond Fund	-	Short-term investments	1,864,153.00	300,000,000	-	300,473,501	-
	Phoenix Bond Fund	-	Short-term investments	20,326,304.90	300,000,000	-	300,546,777	-
	Entrust Kirin Bond Fund	-	Short-term investments	23,053,160.60	250,000,000	-	250,129,098	-
	The First Global Investment Trust Duo Li-2 Bond Fund	-	Short-term investments	20,954,256.90	300,000,000	-	300,494,521	-
	Barits Bond Fund	-	Short-term investments	16,799,240.70	200,000,000	-	200,257,029	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	24,671,661.31	300,000,000	-	300,315,797	-
	Tiim Bond Fund	-	Short-term investments	21,625,518.11	300,000,000	-	300,311,407	-
	Jih Sun Bond Fund	-	Short-term investments	22,441,651.71	300,000,000	-	300,298,474	-
	Tlam Solomon Bond Fund	-	Short-term investments	21,896,595.52	250,000,000	-	250,122,621	-

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2005				Note	
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
Taiwan Air Cargo Terminal	Chung Hsing Ping-an fund	-	Short-term investments	23,852,685.80	\$ 250,000,000	-	\$ 250,124,034	-	
	James Bond Fund	-	Short-term investments	13,223,227.90	200,000,000	-	200,055,537	-	
	JF(Taiwan) Taiwan Fund	-	Short-term investments	13,395,488.40	200,000,000	-	200,254,514	-	
	Transcend Fortune Fund	-	Short-term investments	16,770,222.80	200,000,000	-	200,098,944	-	
	Hua Nan Global Henry Fund	-	Short-term investments	1,999,960.00	20,000,000	-	20,015,200	-	
	New Light Lucky Star Fund	-	Short-term investments	3,000,000.00	30,000,000	-	30,075,300	-	
	KG 100% Principal Guaranteed Fund	-	Short-term investments	1,000,000.00	10,000,000	-	9,907,800	-	
		<u>Mutual funds</u>							
		Jih Sun Bond Fund	-	Short-term investments	10,686,136.40	142,994,397	-	142,994,397	-
		NITC Taiwan Bond Fund	-	Short-term investments	14,473,671.60	199,833,642	-	199,833,642	-
		NITC Bond Fund	-	Short-term investments	627,321.10	101,114,752	-	101,114,752	-
		The Increment Fund	-	Short-term investments	15,002,271.78	223,860,899	-	223,860,899	-
		Fuh-Hwa Bond Fund	-	Short-term investments	14,613,032.10	190,898,806	-	190,898,806	-
		Fuh-Hwa Albatross Fund	-	Short-term investments	7,648,670.10	84,484,915	-	84,484,915	-
		Sheng Hua 5599 Bond Fund	-	Short-term investments	25,227,522.38	277,280,744	-	277,280,744	-
		Prudential Bond Fund	-	Short-term investments	2,035,309.40	31,042,742	-	31,042,742	-
		Fuhaw Bond Fund	-	Short-term investments	6,547,516.55	82,086,215	-	82,086,215	-
		Fuhwa Advavtage Bond Fund	-	Short-term investments	18,052,407.80	184,542,544	-	184,542,544	-
		Fuhwa Apex Bond Fund	-	Short-term investments	13,053,875.30	151,093,385	-	151,093,385	-
		Fuhwa Convertive Securities Strategy Fund	-	Short-term investments	2,000,000.00	20,000,000	-	20,046,000	-
		Central Diamond Bond Fund	-	Short-term investments	13,418,146.64	151,111,142	-	151,111,142	-
		Fubon Ju-I Iii Fund	-	Short-term investments	8,405,763.20	100,847,303	-	100,847,303	-
		Fubon Chi-Hsiang I Fund	-	Short-term investments	14,911,730.08	191,248,903	-	191,248,903	-
		Chung Hsing Ping-an fund	-	Short-term investments	4,801,736.28	50,351,967	-	50,351,967	-
	Sunrise Full Return Balance Fund	-	Short-term investments	6,389,776.40	60,000,000	-	58,274,761	-	
	Dresdner Bond Dam Fund	-	Short-term investments	4,417,312.29	50,130,752	-	50,130,752	-	
	Cathay Bond Fund	-	Short-term investments	9,736,938.20	110,147,166	-	110,147,166	-	
	Shinkong Chi-Shin Fund	-	Short-term investments	10,693,230.28	150,213,153	-	150,213,153	-	
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	-	45,135,210	-	
	France Telecom	-	Short-term investments	8,274	3,894,546	-	7,492,385	-	
		<u>Mutual funds</u>							
		The Increment Fund	-	Short-term investments	3,350,802.18	50,000,000	-	50,000,000	-
		<u>Government bond</u>							
		Central Government Bonds - 8604	-	Cash and cash equivalents	300,000	30,022,973	-	32,363,370	-
		Central Government Bonds - 8914	-	Cash and cash equivalents	700,000	70,000,000	-	81,566,310	-
Taoyuan International Airport Services	<u>Stock</u>								
	Taiwan Whi Lin Industry Co., Ltd.	Equity-method investee	Investments in shares of stock	4,275,000	42,609,530	26.00	42,609,530	-	
	Tao Yao Co., Ltd.	Subsidiary	Investments in shares of stock	1,000,000	11,127,573	100.00	11,127,573	-	
	Taiwan Air Cargo Terminal	Controlled by Chinal Airlines	Investments in shares of stock	6,250,000	62,500,000	3.00	91,219,081	-	
		<u>Mutual funds</u>							
		Pca Well Pool Fund	-	Short-term investments	2,455,413.80	30,000,000	-	30,176,299	-
		HSBC Ntd Incremental Return Fund	-	Short-term investments	455,576.50	6,000,000	-	6,716,665	-
		HSBC Taiwan Dragon Fund	-	Short-term investments	749,327.50	10,000,000	-	11,334,103	-
		Fuhaw Bond Fund	-	Short-term investments	2,498,542.52	30,000,000	-	31,324,228	-
		Fuhwa Advavtage Bond Fund	-	Short-term investments	4,184,558.16	41,908,350	-	42,777,064	-
		Barits Bond Fund	-	Short-term investments	4,099,077.40	48,000,000	-	48,863,462	-
		Abn Amro Kwang Hua Fund	-	Short-term investments	9,609,186.03	133,239,952	-	148,556,094	-
		Abn Amro Aggressive Taiwan Bond Fund	-	Short-term investments	795,062.66	8,000,000	-	8,624,919	-

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	June 30, 2005				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	ABN Amro Principal Guarantee Quantita Currency Note	-	Short-term investments	1,376,660.00	\$ 50,000,000	-	\$ 57,355,824	Note 5
	Sheng Hua 1699 Bond Fund	-	Short-term investments	5,075,777.78	60,000,000	-	61,784,905	-
	The Increment Fund	-	Short-term investments	2,023,977.39	30,000,000	-	30,201,386	-
	Ta Chong Bond Fund	-	Short-term investments	2,367,256.20	30,000,000	-	30,199,324	-
	JF (Taiwan) Bond Fund	-	Short-term investments	2,018,992.00	30,000,000	-	30,182,719	-
	President Home Run Bond Fund	-	Short-term investments	1,498,666.20	20,000,000	-	20,620,148	-
	James Bond Fund	-	Short-term investments	1,342,523.60	19,963,192	-	20,311,174	-
China Pacific Catering Services	<u>Mutual funds</u>							
	Fuhwa Classical Fund	-	Short-term investments	487,367.40	5,005,000	-	4,863,732	-
	Citic Safe Income Fund	-	Short-term investments	2,362,694.20	34,000,000	-	34,361,607	-
	The Rsit Enhanced Bond Fund	-	Short-term investments	1,880,948.27	20,165,429	-	20,333,427	-
	HSBC Trinity Balanced Fund	-	Short-term investments	1,000,000.00	10,000,000	-	10,018,900	-
Abacus Distribution Systems (Taiwan)	<u>Stock</u>							
	Yestrip Co., Ltd.	Subsidiary	Investments in shares of stock	2,600,000	36,264,643	100.00	36,264,643	-
	<u>Mutual funds</u>							
	The Increment Fund	-	Short-term investments	1,905,107.98	28,131,572	-	28,427,640	-
	Sheng Hua 5599 Bond Fund	-	Short-term investments	654,582.73	7,020,923	-	7,194,650	-
	Sheng Hua 1699 Bond Fund	-	Short-term investments	907,081.84	11,000,000	-	11,041,454	-
	Tlam B.B. Bond Fund	-	Short-term investments	1,097,825.40	12,000,000	-	12,164,454	-
	Prudential Bond Fund	-	Short-term investments	1,311,673.20	20,000,000	-	20,005,771	-
	HSBC Ntd Money Management Fund	-	Short-term investments	1,372,353.90	20,000,000	-	20,000,823	-
Taiwan Airport Services	<u>Stock</u>							
	Taiwan Air Cargo Terminal	Controlled by China Airlines	Investments in shares of stock	6,250,000	62,500,000	2.50	76,015,901	-
	TransAsia Airways	-	Investments in shares of stock	2,814,660	26,400,000	0.60	-	Note 3
	Titan V.C. Corp.	-	Investments in shares of stock	5,000,000	50,000,000	5.30	-	Note 3
	Taiwan Airport Service (Macau)	Equity-method investee	Investments in shares of stock	-	133,065,578	26.53	133,065,578	Note 2
	Taiwan Airport Service (Samoa)	Subsidiary	Investments in shares of stock	-	53,316,359	100.00	53,316,359	Note 2
	<u>Mutual funds</u>							
	Prudential Financial Return Fund	-	Short-term investments	7,297,709.07	100,302,411	-	100,671,897	-
	TIIM High Yield Fund	-	Short-term investments	5,302,939.49	63,005,670	-	64,297,081	-
	Fuh-Hwa Bond Fund	-	Short-term investments	1,277,625.70	16,078,164	-	16,690,391	-
	Citic Safe Income Fund	-	Short-term investments	3,101,904.80	45,000,000	-	45,112,242	-
	Citic High Yield	-	Short-term investments	526,257.10	7,000,000	-	7,008,271	-
Cal-Asia Investment	<u>Stock</u>							
	Taiwan Airport Service (Macau)	Equity-method investee	Investments in shares of stock	-	122,388,401	24.49	122,388,401	Note 2
	Eastern United International Logistics	Equity-method investee	Investments in shares of stock	600,000	12,447,461	20.00	9,983,166	-
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Equity-method investee	Investments in shares of stock	-	48,850,157	12.00	48,850,157	Note 2
Hwa Hsia	<u>Stock</u>							
	Hwa Shin Building Safeguard Co., Ltd.	Subsidiary	Investments in shares of stock	1,000,000	11,588,019	100.00	11,588,019	-
	China Airlines	Parent company	Short-term investments	987,322	11,225,890	-	17,712,557	-

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

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

Note 3: The subsidiary's financial statements as of and for the six months ended June 30, 2005 were not available as of August 10, 2004, the date of the accompanying auditors' report; thus, no information on the subsidiary's market value or net asset value was then available.

Note 4: The difference between carrying value and net asset value was the difference between the investment acquisition cost and the Company's equity in the investee's net assets.

Note 5: Included 659,109 units recorded in euros and 717,551 units recorded in U.S. dollars.

TABLE 3

## CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 2005  
(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>															
	Mandarin Airlines	Investments in shares of stock	Mandarin Airlines	Subsidiary	108,220,793	\$ 526,892,631	79,933,233	\$ 799,332,330	-	-	-	-	-	188,154,026	\$ 1,372,211,936	
	Seince Park Cargo Service	Investments in shares of stock	Seince Park Cargo Service	Equity-method investee	4,431,000	44,310,000	8,862,000	106,344,000	-	-	-	-	-	13,293,000	153,048,849	
															(Note 1)	
																(Note 2)
	<u>Mutual funds</u>															
	Ta Chong Bond Fund	Short-term investments	-	-	-	-	78,673,791.10	1,000,000,000	62,971,383.10	800,812,973	800,000,000	812,973	-	15,702,408.00	200,000,000	
	Ta Chong Top25 Fund	Short-term investments	-	-	-	500,000.00	5,000,000	-	-	-	-	-	-	500,000.00	5,000,000	
	Grand Cathay Bond Fund	Short-term investments	-	-	-	-	39,476,538.70	500,000,000	39,476,538.70	500,698,916	500,000,000	698,916	-	-	-	
	Chung Hsing Ping-an Fund	Short-term investments	-	-	-	-	42,964,009.26	450,000,000	19,111,323.46	200,164,357	200,000,000	164,357	-	23,852,685.80	250,000,000	
	The First Global Investment Trust Duo LI-2 Bond Fund	Short-term investments	-	-	-	3,515,160.90	50,000,000	1,100,000,000	59,522,354.10	850,711,678	850,000,000	711,678	-	20,954,256.90	300,000,000	
	Jih Sun Bond Fund	Short-term investments	-	-	-	-	44,972,677.26	600,000,000	22,531,025.55	300,319,246	300,000,000	319,246	-	22,441,651.71	300,000,000	
	Waterland Balanced Fund	Short-term investments	-	-	-	-	2,150,537.60	20,000,000	-	-	-	-	-	2,150,537.60	20,000,000	
	Sunrise Full Return Balance Fund	Short-term investments	-	-	-	-	3,000,000.00	30,000,000	-	-	-	-	-	3,000,000.00	30,000,000	
	Tlam Solomon Bond Fund	Short-term investments	-	-	-	17,647,110.73	200,000,000	1,300,000,000	109,936,862.01	1,251,846,862	1,250,000,000	1,846,862	-	21,896,595.52	250,000,000	
	Hua Nan Global Henry Fund	Short-term investments	-	-	-	-	1,999,960.00	20,000,000	-	-	-	-	-	1,999,960.00	20,000,000	
	Phoenix Bond Fund	Short-term investments	-	-	-	-	67,829,928.80	1,000,000,000	47,503,623.90	701,088,458	700,000,000	1,088,458	-	20,326,304.90	300,000,000	
	Entrust Kirin Bond Fund	Short-term investments	-	-	-	27,854,894.60	300,000,000	46,219,756.20	500,000,000	51,021,491.20	550,812,372	550,000,000	-	812,372	23,053,160.60	250,000,000
	Central Diamond Bond Fund	Short-term investments	-	-	-	17,904,301.51	200,000,000	17,787,738.91	200,000,000	35,692,040.42	400,628,180	400,000,000	-	628,180	-	
	Fuhaw Bond Fund	Short-term investments	-	-	-	12,051,580.77	150,000,000	15,981,333.80	200,000,000	28,032,914.57	350,790,634	350,000,000	-	790,634	-	
	Tiim Bond Fund	Short-term investments	-	-	-	-	-	83,009,938.06	1,150,000,000	61,384,419.95	850,514,245	850,000,000	-	514,245	21,625,518.11	300,000,000
	Pca Well Pool Fund	Short-term investments	-	-	-	-	-	65,322,951.60	800,000,000	65,322,951.60	800,475,293	800,000,000	-	475,293	-	
	Prudential Financial Fund	Short-term investments	-	-	-	21,086,962.70	300,000,000	42,007,596.70	600,000,000	63,094,559.40	901,228,168	900,000,000	-	1,228,168	-	
	NITC Bond Fund	Short-term investments	-	-	-	1,874,847.70	300,000,000	3,733,265.30	600,000,000	3,743,960.00	601,789,590	600,000,000	-	1,789,590	1,864,153.00	300,000,000
	Bartis Bond Fund	Short-term investments	-	-	-	12,671,380.40	150,000,000	67,297,948.80	800,000,000	63,170,088.50	750,831,454	750,000,000	-	831,454	16,799,240.70	200,000,000
	Cathay Bond Fund	Short-term investments	-	-	-	-	-	26,629,740.10	300,000,000	26,629,740.10	300,255,646	300,000,000	-	255,646	-	
	The Increment Fund	Short-term investments	-	-	-	-	-	70,656,071.27	1,050,000,000	70,656,071.27	1,050,776,946	1,050,000,000	-	776,946	-	
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	-	-	-	65,902,274.70	800,000,000	41,230,613.39	500,439,802	500,000,000	-	439,802	24,671,661.31	300,000,000
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	-	-	-	27,410,277.03	300,000,000	27,410,277.03	300,254,916	300,000,000	-	254,916	-	
	Sheng Hua 9966 Bond Fund	Short-term investments	-	-	-	10,000,000.00	100,000,000	5,020,886.90	50,000,000	10,000,000.00	100,467,000	100,000,000	-	467,000	5,020,886.90	50,000,000
	James Bond Fund	Short-term investments	-	-	-	13,319,835.90	200,000,000	46,368,188.60	700,000,000	46,464,796.60	701,020,638	700,000,000	-	1,020,638	13,223,227.90	200,000,000
	ABN AMRO Bond Fund	Short-term investments	-	-	-	-	-	40,780,429.21	600,000,000	40,780,429.21	600,978,340	600,000,000	-	978,340	-	
	KGI Victory Fund	Short-term investments	-	-	-	-	-	19,045,805.16	200,000,000	19,045,805.16	200,140,939	200,000,000	-	140,939	-	
	Fubon JU-I FUND	Short-term investments	-	-	-	-	-	16,080,996.80	250,000,000	16,080,996.80	250,413,282	250,000,000	-	413,282	-	
	Truswell Bond Fund	Short-term investments	-	-	-	-	-	56,099,125.00	700,000,000	56,099,125.00	700,833,209	700,000,000	-	833,209	-	
	Truswell Premier Fund	Short-term investments	-	-	-	18,455,803.00	200,000,000	-	-	18,455,803.00	200,332,205	200,000,000	-	332,205	-	
	Invesco GP Aggressive Income Fund	Short-term investments	-	-	-	26,971,140.88	300,000,000	49,250,928.31	550,000,000	76,222,069.19	851,369,968	850,000,000	-	1,369,968	-	
	Transcend Fortune Fund	Short-term investments	-	-	-	-	-	33,602,806.60	400,000,000	16,832,584.00	200,303,009	200,000,000	-	303,009	16,770,222.80	200,000,000
	HSBC Ntd Money Management Fund	Short-term investments	-	-	-	-	-	34,433,822.60	500,000,000	34,433,822.60	500,486,706	500,000,000	-	486,706	-	
	Shinkong Chi-Shin Fund	Short-term investments	-	-	-	21,509,693.70	300,000,000	64,240,599.94	900,000,000	85,750,293.64	1,201,328,026	1,200,000,000	-	1,328,026	-	
	United Taiwan Bond Fund	Short-term investments	-	-	-	13,836,425.77	200,000,000	13,812,631.65	200,000,000	27,649,057.42	400,377,487	400,000,000	-	377,487	-	
	The Forever Fund	Short-term investments	-	-	-	-	-	49,433,775.62	700,000,000	49,433,775.62	700,298,719	700,000,000	-	298,719	-	
	JF (Taiwan) Taiwan Fund	Short-term investments	-	-	-	13,466,290.50	200,000,000	43,586,312.20	650,000,000	43,657,114.30	650,308,901	650,000,000	-	308,901	13,395,488.40	200,000,000
	Polaris De-Li Fund	Short-term investments	-	-	-	10,211,792.60	150,000,000	-	-	10,211,792.60	150,267,549	150,000,000	-	267,549	-	
	Polaris Di-Po Fund	Short-term investments	-	-	-	-	-	36,927,699.40	400,000,000	36,927,699.40	400,642,472	400,000,000	-	642,472	-	
	New Light Lucky Star Fund	Short-term investments	-	-	-	-	-	3,000,000.00	30,000,000	-	-	-	-	3,000,000.00	30,000,000	
	KGI 100% Principal Guaranteed Fund	Short-term investments	-	-	-	-	-	1,000,000.00	10,000,000	-	-	-	-	1,000,000.00	10,000,000	
Taiwan Air Cargo Terminal	<u>Mutual funds</u>															
	Jih Sun Bond Fund	Short-term investments	-	-	-	10,686,136.43	142,055,086	10,686,136.43	142,994,397	142,055,086	939,311	-	10,686,136.40	142,994,397		
	NITC Taiwan Bond Fund	Short-term investments	-	-	-	14,473,671.60	198,507,853	14,473,671.60	199,833,642	198,507,853	1,325,789	-	14,473,671.60	199,833,642		
	NITC Bond Fund	Short-term investments	-	-	-	627,321.10	100,442,891	627,321.10	101,114,752	627,321.10	671,861	-	627,321.10	101,114,752		
	The Increment Fund	Short-term investments	-	-	-	15,002,271.78	223,860,899	15,002,271.78	223,860,899	15,002,271.78	1,492,726	-	15,002,271.78	223,860,899		
	James Bond Fund	Short-term investments	-	-	-	12,734,373.00	191,428,189	12,734,373.00	192,374,373.00	192,374,373.00	942,343	-	-	-		
	Fuh-Hwa Bond Fund	Short-term investments	-	-	-	14,613,032.10	189,494,494	14,613,032.10	190,898,806	14,613,032.10	189,494,494	1,404,312	-	14,613,032.10	190,898,806	
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	-	25,227,522.35	275,434,089	25,227,522.35	277,280,744	25,227,522.35	277,280,744	1,846,655	-	25,227,522.35	277,280,744	
	Prudential Bond Fund	Short-term investments	-	-	-	15,874,263.80	240,626,853	31,042,742	15,874,263.80	241,042,743	240,626,853	415,890	-	2,035,309.40	31,042,742	
	Fuhwa Advavtage Bond Fund	Short-term investments	-	-	-	18,052,407.83	181,766,084	18,052,407.83	184,542,544	18,052,407.83	184,542,544	2,776,460	-	18,052,407.80	184,542,544	
	Fuhwa Bond Fund	Short-term investments	-	-	-	4,368,796.30	50,227,177	13,053,875.30	251,093,385	151,093,385	866,208	-	151,093,385	251,093,385		
	Central Diamond Bond Fund	Short-term investments	-	-	-	8,967,966.42	100,000,000	13,418,146.65	201,111,142	13,418,146.65	151,111,142	151,111,142	-	151,111,142	201,111,142	
	Fubon Ju-I Ii Fund	Short-term investments	-	-	-	8,405,763.20	100,000,000	8,405,763.20	100,847,303	8,405,763.20	847,303	-	847,303	100,847,303		
	Fubon Chi-Hsiang I Fund	Short-term investments	-	-	-	7,858,916.79	100,000,000	14,911,730.10	281,248,903	14,911,730.10	191,248,903	1,248,903	-	14,911,730.08	191,248,903	
	Dresnder Bond Dam Fund	Short-term investments	-	-	-	-	-	100,130,752	4,417,312.33	50,130,752	50,000,000	130,752	-	4,417,312.29	50,130,752	
	Cathay Bond Fund	Short-term investments	-	-	-	-	-	9,736,938.20	220,147,166	9,736,938.20	110,147,166	110,000,000	-	147,166	9,736,938.20	110,147,166
	Shinkong Chi-Shin Fund	Short-term investments	-	-	-	-	-	10,693,230.28	300,213,153	10,693,230.28	150,213,153	150,000,000	-	213,153	10,693,230.28	150,213,153
Mandarin Airlines	<u>Mutual funds</u>															
	Shinkong Chi-Shin Fund	Short-term investments														

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	
Taiwan Airport Services	Mutual funds														
	Prudential Financial Return Fund	Short-term investments	-	-	-	\$ -	7,348,463.50	\$ 101,000,000	50,754.43	\$ 700,000	\$ 697,589	\$ 2,411	7,297,709.07	\$ 100,302,411	
	The Rest Enhanced Bond Fund	Short-term investments	-	-	8,323,499.90	\$ 89,061,109	4,001,050.49	43,000,000	12,324,550.39	132,704,606	132,061,109	643,497	-	-	

Note 1: The amount included equity of \$54,855,319 in the investees' net income for the six months ended June 30, 2005; adjustment the nonproportional subscription for investees' issue of new shares; reduction by \$7,806,593 of the equity in the investee's net assets; and reduction by \$1,061,751 of the subsidiaries' holdings of Company shares.

Note 2: The amount included include equity of \$2,394,849 in investees' net income for the six months ended June 30, 2005.

## CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 2005  
(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	\$ 114,811,054	0.28	30 days	\$ -	-	\$ (29,025,176)	(2.35)	-
	Mandarin Airlines	Subsidiary	Purchase	366,435,147	0.88	2 months	-	-	(390,739,288)	(31.63)	-
			Sale	(685,865,749)	(1.38)	2 months	-	-	118,320,340	1.17	-
	Taoyuan International Airport Services	Equity-method investee	Purchase	411,075,390	0.99	40 days	-	-	(212,695,056)	(17.22)	-
	China Pacific Catering Services	Subsidiary	Purchase	539,364,286	1.30	60 days	-	-	(290,381,570)	(23.51)	-
	Taiwan Airport Services	Equity-method investee	Purchase	104,603,497	0.25	40 days	-	-	(34,689,320)	(2.81)	-
	Hwa Hsia	Subsidiary	Purchase	101,745,732	0.25	2 months	-	-	(16,795,827)	(1.36)	-
Taiwan Air Cargo Terminal	China Airlines	Parent company	Sale	(114,811,054)	(10.27)	30 days	-	-	29,025,176	35.00	-
Mandarin Airlines	China Airlines	Parent company	Sale	(366,435,147)	(14.61)	2 months	-	-	390,739,288	55.22	-
			Purchase	685,865,749	28.96	2 months	-	-	(118,320,340)	(58.37)	-
Taoyuan International Airport Services	China Airlines	Parent company	Sale	(411,075,390)	(36.67)	30 days	-	-	212,695,056	56.95	-
China Pacific Catering Services	China Airlines	Parent company	Sale	(539,364,286)	(62.69)	60 days	-	-	290,381,570	72.69	-
Taiwan Airport Services	China Airlines	Parent company	Sale	(104,603,497)	(24.60)	45 days	-	-	34,689,320	27.51	-
Hwa Hsia	China Airlines	Parent company	Sale	(101,745,732)	(82.97)	2 months	-	-	16,795,827	67.49	-

## CHINA AIRLINES, LTD. AND INVESTEEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 JUNE 30, 2005

(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines	Mandarin Airlines	Subsidiary	\$ 118,320,340	5.46	\$ -	-	\$ 108,731,754	\$ -
Mandarin Airlines	China Airlines	Parent company	390,739,288	1.36	-	-	72,278,536	-
Taoyuan International Airport Services	China Airlines	Parent company	212,695,056	3.91	-	-	125,414,835	-
China Pacific Catering Services	China Airlines	Parent company	290,381,570	4.03	-	-	93,819,846	-

## CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
SIX MONTHS ENDED JUNE 30, 2005  
(In New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2005			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2005	December 31, 2004	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	\$ 1,641,943,463	\$ 211,856,187	\$ 107,758,733	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368,252	1,243,035,922	188,153,496	93.99	1,372,211,936	41,163,562	54,855,319	Note 2
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000,000	147,000,000	34,300,000	49.00	793,541,786	106,501,966	51,136,560	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate, hotel services, lease of aircraft and serving as cargo agent	US\$ 26,145,000	US\$ 26,145,000	2,614,500	100.00	791,672,256	(8,967,244)	(8,967,244)	Note 1
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	438,600,000	438,600,000	43,860,000	51.00	579,056,864	152,310,347	77,558,838	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	90,000,000	90,000,000	22,450,008	93.93	381,823,593	64,189,747	57,815,953	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289,100	12,289,100	17,188,870	47.35	353,632,999	37,139,364	17,448,006	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 5,650,000	US\$ 5,650,000	5,650,000	100.00	213,759,373	7,224,305	7,224,305	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	115,500,000	115,500,000	12,705,000	31.76	153,221,616	45,053,207	12,933,112	-
	Science Park Logistics Co.	Tainan, Taiwan	Storage and customs of services	150,654,000	44,310,000	13,293,000	28.48	153,048,849	54,876,123	2,394,849	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50	120,451,940	13,892,555	3,395,725	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the tower of airlines company, hotel, restaurant, and health club	137,500,000	137,500,000	13,750,000	55.00	108,448,365	4,242,151	2,333,183	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00	70,491,552	7,617,100	7,335,119	Note 2
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00	22,499,956	(1,828,650)	(932,611)	-
	ICAS Co., Ltd.	Taoyuan, Taiwan	Manufacture and retail of aircraft and its related parts	67,500,000	67,500,000	6,750,000	48.21	20,252,189	(41,705,733)	(20,108,122)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00	4,972,621	3,727,199	849,231	-
	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	-	-	-	
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	-	-	-	-
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	42,609,530	1,097,146	285,258	-
	Tao Yao Co., Ltd.	Taoyuan, Taiwan	Manpower placement and machine installation	10,000,000	10,000,000	1,000,000	100.00	11,127,573	69,710	80,865	-
Abacus Distribution System (Taiwan)	Yestrip Co., Ltd.	Taipei, Taiwan	Travel business	26,000,000	26,000,000	26,000,000	100.00	36,264,643	7,752,314	7,203,469	-
Taiwan Airport Services	Taiwan Airport Service (Macau)	Macau	Airport services and investment	US\$ 3,525,726	US\$ 3,525,726	-	26.53	133,065,578	31,147,660	8,263,474	Note 3
	Taiwan Airport Service (Samoa)	TrustNet Chabers, Loteman Centre, P.O. Box 1225, Apia, Samoa	Airport services and investment	US\$ 1,761,956	-	-	100.00	53,316,359	(2,343,765)	(2,343,765)	Note 3
Cal Asia Investment	Taiwan Airport Service (Macau)	Macau	Airport services and investment	US\$ 3,254,526	US\$ 3,254,526	-	24.49	122,388,401	31,147,660	7,634,241	Note 3
	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HKS 1,500,000	HKS 1,500,000	600,000	20.00	12,447,461	13,383,658	2,483,346	-
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Xiamen International Airport	Airport cargo and storage of customers monitor	US\$ 1,626,428	\$ -	-	12.00	48,850,157	1,539,176	(2,155,314)	Note 3
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	11,588,019	119,017	135,366	-
Taiwan Airport Service (Samoa)	Xiamen International Airport Air Cargo Storage Co., Ltd.	Xiamen International Airport	Airport cargo and storage of customers monitor	US\$ 1,626,428	-	-	13.00	53,136,359	1,539,176	(2,343,765)	Note 3

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

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

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

## CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENT IN MAINLAND CHINA  
SIX MONTHS ENDED JUNE 30, 2005  
(In New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2005	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2005	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of June 30, 2005	Accumulated Inward Remittance of Earnings as of June 30, 2005	Accumulated Investment in Mainland China as of June 30, 2005	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Xiamen International Air Cargo Terminal Ltd.	Air cargo and storage	\$ 941,610,728 (RMB 224,480,000)	Indirect (Note 1)	\$ 109,580,000 (US\$ 3,254,526)	\$ -	\$ -	\$ 109,580,000 (US\$ 3,254,526)	12%	\$ 7,628,062 (US\$ 241,242)	\$ 123,450,456 (US\$ 3,904,189)	\$ -	\$ 161,007,653 (US\$ 4,880,954)	\$ 1,696,969,697 (US\$52,050,000)	\$12,074,908,553 (Note 4)
Xiamen International Airport Air Cargo Storage Co., Ltd.	Air cargo and storage of customers monitor	53,487,023 (RMB 14,000,000)	Indirect (Note 2)	-	51,427,653 (US\$ 1,626,428)	-	51,427,653 (US\$ 1,626,428)	12%	(2,155,314) (US\$ 68,108)	48,850,157 (US\$ 1,588,320)	-	-	-	

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

Note 2: The Company invested in Cal-Asia Investment, which turn, invested in Mainland China.

Note 3: The accrual basis is based on the financial statements audited by the international accounting firms with cooperative relationships with R.O.C. accounting firms.

Note 4: The limits based on the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China of Adjustment Rule," are as follows: 40% for an NTS5 billion investment, 30% for investments of over NTS5 billion to NTS10 billion, and 20% for investments of over NTS10 billion.