

China Airlines, Ltd.

**Financial Statements for the
Six Months Ended June 30, 2006 and 2005 and
Independent Auditors' Report**

CHINA AIRLINES, LTD.

CONTENTS

	Page
Independent auditors' report	1-2
Balance sheets	3
Statements of income	4-5
Statements of changes in stockholders' equity	6
Statements of cash flows	7-8
Notes to the financial statements	9-54

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, 2006 and 2005 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of June 30, 2006 and 2005 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.

As stated in Note 3 to the accompanying financial statements, effective January 1, 2006, the Company adopted the recently released Statements of Financial Accounting Standards ("Statements") No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released Statements.

We have also reviewed the consolidated financial statements of China Airlines, Ltd. and its subsidiaries as of and for the six months ended June 30, 2006 and 2005 for which we have issued a review report dated August 14, 2006 with an explanatory paragraph.

August 14, 2006

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, 2006 AND 2005

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

ASSETS	2006		2005		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 2,896,893	1	\$ 4,564,684	2	Short-term loans (Note 14)	\$ 4,900,000	2	\$ -	-
Financial assets at fair value through profit or loss - current (Notes 2, 3 and 5)	4,032,931	2	3,715,000	2	Commercial paper (Note 15)	1,698,314	1	1,149,197	-
Available-for-sale financial assets - current (Notes 2, 3 and 6)	195,907	-	203,718	-	Financial liabilities at fair value through profit or loss - current (Notes 2, 3 and 5)	123,435	-	1,194	-
Derivative financial assets for hedging - current (Notes 2, 3, 26 and 27)	227,009	-	205,172	-	Derivative financial liabilities for hedging - current (Notes 2, 3, 26 and 27)	231,676	-	93,604	-
Receivables:					Accounts payable	269,476	-	210,137	-
Notes and accounts, net (Notes 2 and 7)	9,000,015	4	9,952,720	4	Accounts payable to related parties (Note 28)	1,328,792	-	1,024,972	-
Related parties (Note 28)	346,348	-	143,300	-	Accrued expenses (Notes 2 and 3)	8,928,904	4	8,877,887	4
Other receivables (Note 8)	1,350,864	1	1,291,022	1	Bonds issued - current portion (Notes 2, 16 and 26)	10,001,900	4	2,700,000	1
Inventories, net (Notes 2 and 9)	5,476,862	2	5,077,831	2	Advance ticket sales (Note 2)	6,287,982	3	6,163,159	3
Prepaid expenses (Note 10)	148,597	-	512,173	-	Loans and debts - current portion (Notes 17 and 29)	16,017,888	6	20,350,232	9
Deferred income tax assets - current (Notes 2 and 22)	-	-	229,187	-	Capital lease obligations - current portion (Notes 2 and 18)	1,400,719	1	1,249,296	1
Other current assets	187,976	-	478,944	-	Deferred income tax liabilities - current (Notes 2 and 22)	39,196	-	-	-
					Other current liabilities	682,757	-	1,360,799	1
Total current assets	23,863,402	10	26,373,751	11	Total current liabilities	51,911,039	21	43,180,477	19
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Available-for-sale financial assets - noncurrent (Notes 2, 3 and 6)	321,979	-	414,217	-	Derivative financial liabilities for hedging - noncurrent (Notes 2, 3, 26 and 27)	403,607	-	-	-
Derivative financial assets for hedging - noncurrent (Notes 2, 3, 26 and 27)	95,808	-	-	-	Bonds issued - noncurrent (Notes 2, 16 and 26)	10,845,700	4	12,380,400	5
Financial assets carried at cost - noncurrent (Notes 2, 3, 11 and 26)	502,367	-	494,731	-	Loans and debts - noncurrent (Notes 17 and 29)	104,280,252	43	103,376,155	45
Investments accounted for using equity method (Notes 2 and 12)	8,428,595	4	6,781,132	3	Capital lease obligations - noncurrent (Notes 2 and 18)	8,946,697	4	9,925,734	4
Other financial assets - noncurrent	11,802	-	10,455	-	Total long-term debts	124,476,256	51	125,682,289	54
Total long-term investments	9,360,551	4	7,700,535	3	OTHER LIABILITIES				
PROPERTIES (Notes 2, 13 and 29)					Accrued pension costs (Notes 2 and 19)	5,539,956	2	5,203,055	2
Cost					Deferred profits on sale-leaseback (Note 2)	6,391,470	3	3,927,264	2
Land	2,106,788	1	2,106,788	1	Others	578,297	-	649,528	-
Buildings	7,511,718	3	7,438,752	3	Total other liabilities	12,509,723	5	9,779,847	4
Machinery and equipment	3,315,746	1	3,150,800	2	Total liabilities	188,897,018	77	178,642,613	77
Flight equipment	202,201,186	83	176,101,758	76	STOCKHOLDERS' EQUITY				
Furniture	819,271	-	758,172	-	Capital stock, \$10 par value				
Leased flight and other equipment	22,819,368	10	22,088,114	10	Authorized - 5,000,000 thousand shares				
Leasehold improvements	676,480	-	603,885	-	Issued and outstanding - 3,573,858 thousand shares in 2006 and 3,145,578 thousand shares in 2005	35,738,580	15	31,455,777	14
Revaluation increment	50,335	-	50,335	-	Capital stock to be distributed	1,814,427	1	3,326,250	1
Total cost and revaluation increment	239,500,892	98	212,298,604	92	Total capital stock	37,553,007	16	34,782,027	15
Accumulated depreciation	(49,999,905)	(21)	(43,695,876)	(19)	Capital surplus	7,891,259	3	8,196,343	4
Advance payments for equipment purchase contracts (Notes 27 and 30)	189,500,987	77	168,602,728	73	Retained earnings				
	9,572,421	4	19,890,021	9	Legal reserve	4,654,914	2	4,590,391	2
Net properties	199,073,408	81	188,492,749	82	Special reserve	1,271,622	-	1,530,165	1
INTANGIBLE ASSETS (Note 2)					Unappropriated earnings	4,373,214	2	5,033,118	2
Computer software, net (Note 2)	312,719	-	189,615	-	Total retained earnings	10,299,750	4	11,153,674	5
Deferred pension costs (Note 2)	2,010,636	1	2,377,282	1	Unrealized gain or loss on financial instruments	(245,485)	-	(52,421)	-
Net intangible assets	2,323,355	1	2,566,897	1	Cumulative translation adjustments	(184,119)	-	(1,357,974)	(1)
OTHER ASSETS (Note 2)					Net loss not recognized as pension cost	(1,237,988)	-	(641,023)	-
Idle properties, net	195,925	-	338,013	-	Unrealized revaluation increment	830,471	-	830,471	-
Deposits (Notes 29 and 30)	5,647,109	2	3,746,129	2	Company shares held by subsidiaries reclassified into treasury stock	(36,554)	-	(36,554)	-
Deferred charges (Note 2)	958,979	1	769,328	-	Total stockholders' equity	54,870,341	23	52,874,543	23
Deferred income tax assets - noncurrent (Notes 2 and 22)	2,083,192	1	1,278,970	1	TOTAL	\$ 243,767,359	100	\$ 231,517,156	100
Pledged certificates of deposit (Note 29)	261,438	-	250,784	-					
Net other assets	9,146,643	4	6,383,224	3					
TOTAL	\$ 243,767,359	100	\$ 231,517,156	100					

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

(With Deloitte & Touche audit report dated August 14, 2006)

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
REVENUES (Notes 2 and 28)				
Passenger	\$ 29,458,910	52	\$ 26,141,531	53
Cargo	24,329,923	43	20,985,147	42
Others	<u>2,859,140</u>	<u>5</u>	<u>2,686,969</u>	<u>5</u>
Total revenues	<u>56,647,973</u>	<u>100</u>	<u>49,813,647</u>	<u>100</u>
COSTS (Notes 23 and 28)				
Flying operations	32,669,758	58	24,882,994	50
Terminal and landing fees	8,002,104	14	7,850,341	16
Passenger services	3,921,672	7	4,029,270	8
Aircraft maintenance	3,370,318	6	2,963,303	6
Others	<u>1,721,048</u>	<u>3</u>	<u>1,575,549</u>	<u>3</u>
Total costs	<u>49,684,900</u>	<u>88</u>	<u>41,301,457</u>	<u>83</u>
GROSS PROFIT	<u>6,963,073</u>	<u>12</u>	<u>8,512,190</u>	<u>17</u>
OPERATING EXPENSES (Note 23)				
Marketing and selling	5,975,606	10	5,523,606	11
General and administrative	<u>1,171,374</u>	<u>2</u>	<u>1,162,410</u>	<u>2</u>
Total operating expenses	<u>7,146,980</u>	<u>12</u>	<u>6,686,016</u>	<u>13</u>
OPERATING INCOME (LOSS)	<u>(183,907)</u>	<u>-</u>	<u>1,826,174</u>	<u>4</u>
NONOPERATING INCOME AND GAINS				
Valuation gain on financial assets, net (Note 2)	747,916	1	-	-
Interest income	66,575	-	42,018	-
Equity in earnings of equity-method investees, net (Notes 2 and 12)	376,483	1	373,031	1
Dividend income	165,377	-	144,547	-
Gain on disposal of properties, net (Note 2)	60,884	-	2,167	-
Foreign exchange gain, net (Note 2)	185,119	1	28,735	-
Gain on disposal of investments, net	28,170	-	23,402	-
Others	<u>651,391</u>	<u>1</u>	<u>253,899</u>	<u>1</u>
Total nonoperating income and gains	<u>2,281,915</u>	<u>4</u>	<u>867,799</u>	<u>2</u>

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest expense	\$ 2,579,880	5	\$ 1,940,985	4
Other investment loss (Notes 2 and 6)	83,323	-	-	-
Valuation loss on financial liabilities, net (Note 2)	55,404	-	-	-
Others	<u>120,394</u>	<u>-</u>	<u>239,080</u>	<u>1</u>
Total nonoperating expenses and losses	<u>2,839,001</u>	<u>5</u>	<u>2,180,065</u>	<u>5</u>
PRETAX INCOME (LOSS)	(740,993)	(1)	513,908	1
INCOME TAX BENEFIT (Notes 2 and 22)	<u>364,630</u>	<u>-</u>	<u>180,924</u>	<u>-</u>
NET INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	(376,363)	(1)	694,832	1
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT\$167,974 THOUSAND (Notes 3 and 22)	<u>504,430</u>	<u>1</u>	<u>-</u>	<u>-</u>
NET INCOME	<u>\$ 128,067</u>	<u>-</u>	<u>\$ 694,832</u>	<u>1</u>
	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS (LOSS) PER SHARE (Note 24)				
Basic				
Net income (loss) before cumulative effect of changes in accounting principles	\$ (0.21)	\$ (0.10)	\$ 0.15	\$ 0.20
Cumulative effect of changes in accounting principles	<u>0.19</u>	<u>0.14</u>	<u>-</u>	<u>-</u>
	<u>\$ (0.02)</u>	<u>\$ 0.04</u>	<u>\$ 0.15</u>	<u>\$ 0.20</u>
Diluted				
Net income (loss) before cumulative effect of changes in accounting principles	\$ (0.16)	\$ (0.08)	\$ 0.13	\$ 0.18
Cumulative effect of changes in accounting principles	<u>0.15</u>	<u>0.11</u>	<u>-</u>	<u>-</u>
	<u>\$ (0.01)</u>	<u>\$ 0.03</u>	<u>\$ 0.13</u>	<u>\$ 0.18</u>

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

(With Deloitte & Touche audit report dated August 14, 2006)

(Concluded)

CHINA AIRLINES, LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Cash Dividend Per Share)

	Capital Stock Issued and Outstanding		Capital Stock to Be Distributed (Note 20)	Capital Surplus (Notes 2 and 20)	Retained Earnings (Notes 2 and 20)				Unrealized Gain or Loss on Financial Instruments (Note 3)	Cumulative Translation Adjustments (Notes 2 and 20)	Net Loss not Recognized as Pension Cost (Notes 2 and 20)	Unrealized Revaluation Increment (Notes 2 and 13)	Company Shares Held by Subsidiaries Reclassified into Treasury Stock (Notes 2, 20 and 21)	Total Stockholders' Equity
	Shares (in Thousands)	Amount			Legal Reserve	Special Reserve	Unappropriated Earnings	Total						
BALANCE, JANUARY 1, 2006	3,513,836	\$ 35,138,362	\$ -	\$ 8,404,613	\$ 4,590,391	\$ 1,530,165	\$ 4,983,518	\$ 11,104,074	\$ (127,966)	\$ 94,332	\$ (1,237,988)	\$ 830,471	\$ (36,554)	\$ 54,169,344
Cumulative effect of changes in accounting principles	-	-	-	-	-	-	-	-	(758,435)	-	-	-	-	(758,435)
Appropriation of the 2005 earnings														
Legal reserve	-	-	-	-	64,523	-	(64,523)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(258,543)	258,543	-	-	-	-	-	-	-
Bonus to employees	-	-	50,355	-	-	-	(50,355)	(50,355)	-	-	-	-	-	-
Stock dividends - 2.5%	-	-	882,036	-	-	-	(882,036)	(882,036)	-	-	-	-	-	-
Conversion of capital surplus to capital stock	-	-	882,036	(882,036)	-	-	-	-	-	-	-	-	-	-
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	-	-	35,984	-	-	-	35,984
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	-	(314,435)	-	-	-	(314,435)
Conversion of bonds into capital stock	60,022	600,218	-	368,682	-	-	-	-	-	-	-	-	-	968,900
Net income in the six months ended June 30, 2006	-	-	-	-	-	-	128,067	128,067	-	-	-	-	-	128,067
Unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	25,290	-	-	-	-	25,290
Unrealized gain or loss on cash flow hedge	-	-	-	-	-	-	-	-	614,366	-	-	-	-	614,366
Unrealized gain or loss on financial instruments of equity method investees	-	-	-	-	-	-	-	-	1,260	-	-	-	-	1,260
BALANCE, JUNE 30, 2006	3,573,858	\$ 35,738,580	\$ 1,814,427	\$ 7,891,259	\$ 4,654,914	\$ 1,271,622	\$ 4,373,214	\$ 10,299,750	\$ (245,485)	\$ (184,119)	\$ (1,237,988)	\$ 830,471	\$ (36,554)	\$ 54,870,341
BALANCE, JANUARY 1, 2005	3,103,698	\$ 31,036,983	\$ -	\$ 7,919,937	\$ 4,172,117	\$ 194,184	\$ 10,062,707	\$ 14,429,008	\$ (62,697)	\$ (826,444)	\$ (641,023)	\$ 830,471	\$ (35,493)	\$ 52,650,742
Appropriation of the 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 shares	-	-	-	-	-	-	(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 into capital stock	41,880	418,794	-	276,406	-	-	-	-	-	-	-	-	-	695,200
Adjustment of treasury stocks due to a nonproportional subscription for investees' issuance of new shares	-	-	-	-	-	-	-	-	-	-	-	-	(1,061)	(1,061)
Unrealized gain or loss on available-for-sales financial assets	-	-	-	-	-	-	-	-	10,276	-	-	-	-	10,276
Adjustment due to nonproportional subscription for investees' issuance of new shares	-	-	-	-	-	-	(7,808)	(7,808)	-	-	-	-	-	(7,808)
Net income in the six months ended June 30, 2005	-	-	-	-	-	-	694,832	694,832	-	-	-	-	-	694,832
BALANCE, JUNE 30, 2005	3,145,578	\$ 31,455,777	\$ 3,326,250	\$ 8,196,343	\$ 4,590,391	\$ 1,530,165	\$ 5,033,118	\$ 11,153,674	\$ (52,421)	\$ (1,357,974)	\$ (641,023)	\$ 830,471	\$ (36,554)	\$ 52,874,543

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

(With Deloitte & Touche audit report dated August 14, 2006)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 128,067	\$ 694,832
Cumulative effect of changes in accounting principles	(504,430)	-
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,452,924	4,735,535
Gain on disposal of properties, net	(60,884)	(2,167)
Net loss on inventories, properties and idle properties	51,650	224,199
Loss (gain) on disposal of idle properties, net	70,500	(17,480)
Gain on disposal of investments, net	(1,415)	-
Equity in investees' net gain less cash dividends received	(241,760)	(151,139)
Amortization of deferred profit on sale-leaseback	(322,315)	(386,208)
Amortization of deferred credits	(33,207)	(33,207)
Other investment loss	83,323	-
Deferred income taxes	(196,657)	(226,461)
Net changes in operating assets and liabilities:		
Financial assets and liabilities held for trading	1,213,927	(408,806)
Notes and accounts receivable	290,626	(2,096,394)
Notes and accounts receivable - related parties	(184,667)	261,999
Other receivables	206,263	(196,864)
Inventories	(330,513)	374,080
Prepaid expenses	(75,306)	183,966
Other current assets	308,746	386,440
Accounts payable	(55,837)	(222,932)
Accounts payable to related parties	316,936	(251,727)
Accrued expenses	(2,710,807)	(1,486,522)
Advance ticket sales	847,377	2,450,549
Other current liabilities	(10,216)	(108,708)
Accrued pension cost	124,558	99,278
Net cash provided by operating activities	<u>4,366,883</u>	<u>3,822,263</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale financial assets	56,676	-
Disposal of derivative financial instruments for hedging	(93,241)	(479,594)
Increase in investments accounted for using equity method	-	(905,671)
Decrease in pledged certificates of deposit	53,463	7,281
Investees' return of capital	-	30,000
Proceeds from disposal of properties	10,088,030	1,170,949
Proceeds from disposal of idle properties	53,782	40,544
Additions to properties	(9,241,874)	(20,161,465)
Increase in other financial assets - noncurrent	(1,217)	(101)
Increase in computer software	(11,702)	(35,124)

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
Decrease (increase) in deposits made	\$ (1,937,069)	\$ 224,876
Decrease (increase) in deferred charges	<u>14,675</u>	<u>(391,653)</u>
Net cash used in investing activities	<u>(1,018,477)</u>	<u>(20,499,958)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	3,900,000	(500,000)
Proceeds from commercial paper issuance	849,199	249,571
Proceeds from long-term loans and capital lease obligations	9,945,305	26,741,980
Repayments of long-term loans and capital lease obligations	(15,389,608)	(9,395,216)
Redemption of bonds issued	(1,800,000)	(600,000)
Decrease in deposits-in	(677)	(2,087)
Decrease in deferred profit on sale - leaseback	<u>-</u>	<u>(210,000)</u>
Net cash provided by (used in) financing activities	<u>(2,495,781)</u>	<u>16,284,248</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	852,625	(393,447)
EFFECTS OF EXCHANGE RATE CHANGES	(4,859)	(124,349)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>2,049,127</u>	<u>5,082,480</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,896,893</u>	<u>\$ 4,564,684</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 2,557,083	\$ 1,927,142
Less: Capitalized interest	<u>219,172</u>	<u>136,682</u>
Interest paid (excluding capitalized interest)	<u>\$ 2,337,911</u>	<u>\$ 1,790,460</u>
Income tax paid	<u>\$ 49,826</u>	<u>\$ 254,877</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term loans and debts	<u>\$ 16,017,888</u>	<u>\$ 20,350,232</u>
Current portion of capital lease obligations	<u>\$ 1,400,719</u>	<u>\$ 1,249,296</u>
Current portion of bonds issued	<u>\$ 10,001,900</u>	<u>\$ 2,700,000</u>
Convertible bonds transferred to common stock	<u>\$ 968,900</u>	<u>\$ -</u>

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

(With Deloitte & Touche audit report dated August 14, 2006)

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

The Company is a subsidiary of China Aviation Development Foundation, which held 64.53% and 66.61% of the Company’s shares as of June 30, 2006 and 2005, respectively. The Company had 9,907 and 9,553 employees as of June 30, 2006 and 2005, 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 accounts, loss on market value decline of inventories, property depreciation, asset impairment, accrued expenses - frequent flyer program, 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, assets held mainly for trading, and other assets to be realized, received or used up within a year are classified as current. Liabilities resulting mainly from trading and liabilities to be paid off or settled within a year are classified as current. Properties, intangible assets, and all other assets and liabilities are classified as noncurrent.

Cash Equivalents

Cash equivalents are bonds purchased under agreements to resell and due in three months from the date of investment. Their carrying amount approximates their fair value.

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments at fair value through profit or loss are any financial assets and liabilities held for trading. The derivatives are initially recognized at fair value with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value, with the changes in fair value recognized as current earnings. Cash dividends received are accounted for as current revenue. A regular way purchase or sale of financial assets is recognized and derecognized using transaction date accounting.

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

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

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

Available-for-sale Financial Assets

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

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

If there is objective evidence that a financial asset is impaired, a loss is recognized. If the impairment loss decreases in a subsequent period, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity.

Allowances for Doubtful Accounts

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

Inventories

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

Financial Assets Carried at Cost

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

Investments Accounted for Using Equity Method

Investments in companies in which the Company exercises significant influence on the investees' operating and financial policy decisions are accounted for using equity method. Under this method, investments are stated at cost on the acquisition date and subsequently adjusted for the Company's proportionate share or equity in the investees' net income or net loss. Cash dividends received are accounted for as a reduction of the carrying values of the investments. On investment acquisition, the difference, if any, between the cost of investment and the Company's share in the investee's net equity is amortized using the straight-line method over five years. However, effective January 1, 2006, based on the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities," investment premiums for the cost of investment is greater than the Company share of the investee's identified net assets, representing goodwill, are no longer amortized but tested annually for impairment or if there is objective evidence that the goodwill is impaired. If the Company subscribes for an investee's additionally issued shares at a percentage different from its current equity interest in the investee, the resulting difference in the investee's net assets is charged or credited to capital surplus. If capital surplus is not enough for debiting purposes, the remaining difference is debited to unappropriated earnings.

If cost-method investments are later accounted for by the equity method because of increases in the Company's holdings in the investees as a result of the subscription for the investees' newly issued shares, a retroactive adjustment is not required for any difference between the cost and the increased share in the investee's net assets. The differences derived from investments in previous year and the year of change are then calculated individually and amortized over five years. However, since January 1, 2006, the differences are no longer being amortized like goodwill and are instead tested annually for impairment.

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

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

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

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

Properties

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

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

Upon property sale or other disposal, the cost, revaluation increment (if any) and the related accumulated depreciation are removed from the accounts, and gain or loss is credited or charged to nonoperating 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 (a) the present value of all payments required under the lease agreements plus the bargain purchase price or (b) the fair value of the leased assets on the starting dates of the agreements. Interests implicit in lease payments are recorded as interest expense.

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

Computer Software Costs

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

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 bonds or loans.

Frequent-flyer Program

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

Convertible Bonds

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

Pension Costs

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

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

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

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

Deferred profits on Sale-leaseback

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

Income Tax

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

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

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

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

The R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act"), which took effect on January 1, 2006. The taxable income for calculating the AMT includes most of the income that is exempt from income tax under various laws and statutes. The Company has considered the impact of the AMT in the determination of its tax liabilities. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at 10%, which is payable if the income tax payable determined under the Income Tax Law is below the minimum amount prescribed under the AMT Act.

Asset Impairment

The Company began applying ROC Statement of Financial Accounting Standards (SFAS) No. 35, "Impairment of Assets" on January 1, 2005, which requires that certain assets - properties, intangible assets and other assets - be subject to an impairment review.

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

The adoption of SFAS No. 35 had no significant effect on the Company's financial statements for the years ended December 31, 2005 and 2006.

Revenues

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

Foreign-currency Transactions 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 foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the settlement period.

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

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

Under a regulation 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.

Hedge Accounting

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

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

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

Reclassifications

Certain 2005 accounts have been reclassified to be consistent with the 2006 financial statement presentation.

3. ACCOUNTING CHANGES

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Financial Instruments: Recognition and Measurement" and No. 36 - "Financial Instruments: Disclosure and Presentation" and related revisions of previously released Statements.

a. Effects of accounting changes

The Company recategorized its financial assets and liabilities upon initial adoption of the newly released Statements. The adjustments made to the carrying amounts of the financial instruments recategorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles. On the other hand, the adjustments made to the carrying amounts of those assets recategorized as available-for-sale financial assets or stated at amortized cost, and of derivative instruments classified as for cash flow hedge were recognized as adjustments to stockholders' equity.

In addition, if foreign-currency equity investments accounted for by the cost method are recategorized into financial assets carried at cost, they should be remeasured at the historical exchange rate of the acquisition date, and resulting cumulative translation adjustments that decrease stockholders' equity and financial assets should be offset against each other.

The effect of account reclassification based on the accounting changes is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Stockholders' Equity (Net of Tax)
Financial assets at fair value through profit or loss - current	\$ 580,076,449	\$ -
Available-for-sale financial assets	-	(39,069,379)
Derivative financial assets for hedging	-	63,425,979
Financial assets carried at cost	-	3,572,088
Financial liabilities at fair value through profit or loss - current	(75,645,980)	-
Derivative financial liabilities for hedging	<u>-</u>	<u>(786,363,368)</u>
	<u>\$ 504,430,469</u>	<u>\$ (758,434,680)</u>

b. Reclassifications

Under an explanation issued by the Accounting Research and Development Foundation of the Republic of China, when the Company adopted SFAS No. 34 effective January 1, 2006, the Company had to reclassify the accounts in the comparative financial statements for the year ended 2005 instead of restating these statements. In addition, the Company had to state the different valuation methods for certain account items in the notes to the financial statements. It is not necessary to disclose the pro forma information of previous years because of difficulties in practice.

Certain accounting policies before the adoption of SFAS Nos. 34 and 36 are summarized as follows:

1) Short-term investments

Short-term investments that were publicly traded, easily converted to cash, and not acquired for the purpose of controlling the investees or establishing close business relationship with the investees were carried at the lower of cost or market value at the balance sheet date, with any temporary decline in value charged to current income. The market value of publicly traded stocks was determined at the average closing prices of the last month of the reporting period.

2) Long-term equity investments

Long-term equity investments are accounted for by the cost method if the Company does not have significant influence over the investees. For listed stocks accounted for by the cost method, when the aggregate market value is lower than the total carrying amount, an allowance for decline in market value is provided and the unrealized loss is charged against stockholders' equity.

3) Foreign-currency long-term investments accounted for by the cost method

Cost-method investments in foreign subsidiaries are restated at the prevailing exchange rates on the balance sheet date, and the differences are recorded as translation adjustments under stockholders' equity if the translated New Taiwan dollar amounts result in a lower amount; otherwise, no adjustment is made.

4) 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 rate, 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 date, the gains or losses on the contracts, computed by multiplying the contract amounts by the difference between the spot rates on the contract starting dates and spot rates on the balance sheet date (or the spot rates last used to measure a gain or loss on that contract for an earlier period), are charged to income, fuel costs or adjusted to “advances for equipment acquisition” in the properties section of the balance sheets since advance payment for equipment is a hedged item. Also, the receivables and payables on forward contracts open as of the balance sheet date are netted out, and the resulting amount is presented as an asset or a liability.

5) 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.

Based on a pronouncement issued by Accounting Research and Development Foundation of the Republic of China, effective in the fourth quarter of 2004, written currency option contracts should not be designated as hedging instruments (except for those used to offset the position of purchasing options, which are equivalent to options written in terms of currency, account and terms). On the balance sheet date, the carrying value of the option written is restated at fair value, and the resulting difference is credited or charged to current income.

6) Interest rate swaps

The contract (notional) amounts of interest rate swap agreements, which are entered into as hedges of 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 date and on the settlement dates are recognized as adjustments to the interest income or expense of the hedged obligations.

7) Currency swap

Foreign-currency spot-position assets or liabilities on 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 date, receivables and payables on open contracts are netted out, and the net amount is recorded as an asset or a liability.

8) Fuel price hedging contracts

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

Certain accounts in the financial statements as of and for the six months ended June 30, 2005 have been reclassified to be consistent with the classifications prescribed under the newly released and revised Statements. The reclassifications of all or a part of the account balances of certain accounts are summarized as follows:

	Before Reclassification	After Reclassification
<u>Balance sheet</u>		
Short-term investments	\$ 3,918,718,329	\$ -
Other receivables	179,931,023	-
Other current assets	25,241,377	-
Long-term investments accounted for using cost method	908,947,842	-
Accrued expenses	(88,031,218)	-
Other current liabilities	(6,766,503)	-
Unrealized loss on investments in shares of stock	52,420,588	-
Financial assets at fair value through profit or loss - current	-	3,715,000,000
Available-for-sale financial assets - current	-	203,718,329
Available-for-sale financial assets - noncurrent	-	414,216,772
Derivative financial assets for hedging - current	-	205,172,400
Financial assets carried at cost - noncurrent	-	494,731,070
Financial liabilities at fair value through profit or loss - current	-	(1,193,668)
Derivative financial liabilities for hedging - current	-	(93,604,053)
Unrealized gain or loss on financial instruments	-	52,420,588

Effective January 1, 2006, the Company adopted the newly revised SFAS Nos. 1, 5, and 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment instead of being amortized. This change resulted in an increase of \$5,575,000 in pretax income for the first half of 2006 instead of a recognition of a cumulative effect of changes in accounting principles.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2006	2005
Cash on hand	\$ 46,529,701	\$ 45,278,611
Revolving fund	152,990,791	46,395,835
Cash in banks	2,468,614,002	3,229,592,586
Certificates of deposit	196,078,432	1,243,417,314
Reverse repurchase bonds	<u>32,679,739</u>	<u>-</u>
	<u>\$ 2,896,892,665</u>	<u>\$ 4,564,684,346</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments held for trading are summarized as follows:

	June 30	
	2006	2005
<u>Financial assets held for trading</u>		
Beneficiary certificates	\$ 3,390,649,206	\$ 3,715,000,000
Fuel price contracts	639,855,661	-
Currency option contracts	2,235,943	-
Forward exchange contracts	<u>189,895</u>	<u>-</u>
	<u>\$ 4,032,930,705</u>	<u>\$ 3,715,000,000</u>
<u>Financial liabilities held for trading</u>		
Interest rate swap contracts	\$ 123,434,695	\$ -
Currency option contracts	<u>-</u>	<u>1,193,668</u>
	<u>\$ 123,434,695</u>	<u>\$ 1,193,668</u>

The gains on financial assets and liabilities held for trading in the six months ended June 30, 2006 and 2005 were \$707,089,000 and \$23,402,000, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30			
	2006	% of	2005	% of
	Carrying Value	Owner-Ship	Carrying Value	Owner-Ship
<u>Current</u>				
Domestic marketable equity securities				
Chunghwa Telecom	\$ 60,606,000	-	\$ 114,755,878	-
Foreign marketable equity securities				
France Telecom	<u>135,301,130</u>	-	<u>88,962,451</u>	-
	<u>\$ 195,907,130</u>		<u>\$ 203,718,329</u>	
<u>Noncurrent</u>				
Domestic marketable equity securities				
Far Eastern Air Transport	\$ 200,172,240	7.61	\$ 321,896,724	7.61
Trade-Van Information Service	<u>121,807,027</u>	5.98	<u>92,320,048</u>	5.98
	<u>\$ 321,979,267</u>		<u>\$ 414,216,772</u>	

In their special meeting, the stockholders of Far Eastern Air Transport resolved the make-up of accumulated deficit through capital reduction in May of 2006, and the Company thus recognized an investment loss of \$83,323,000 based on a decrease in its equity in the investee.

7. NOTES AND ACCOUNTS RECEIVABLE, NET

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Notes receivable	\$ 297,615,833	\$ 272,212,777
Accounts receivable	8,756,683,688	9,741,658,668
	<u>9,054,299,521</u>	<u>10,013,871,445</u>
Less: Allowance for doubtful accounts	<u>54,284,292</u>	<u>61,151,861</u>
	<u>\$ 9,000,015,229</u>	<u>\$ 9,952,719,584</u>

8. OTHER RECEIVABLES

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Accrued revenue	\$ 1,057,608,642	\$ 860,136,542
Tax refunds	173,103,501	167,201,319
Credit notes receivable for concessions from aircraft or engine manufacturers	108,801,446	-
Others	<u>11,350,708</u>	<u>263,684,237</u>
	<u>\$ 1,350,864,297</u>	<u>\$ 1,291,022,098</u>

9. INVENTORIES, NET

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Aircraft spare parts	\$ 4,639,997,449	\$ 4,301,488,956
Items for in-flight sale	337,328,774	343,285,916
Work-in-process - maintenance services	<u>549,548,124</u>	<u>483,097,262</u>
	5,526,874,347	5,127,872,134
Less: Allowance for losses	<u>50,011,877</u>	<u>50,041,571</u>
	<u>\$ 5,476,862,470</u>	<u>\$ 5,077,830,563</u>

10. PREPAID EXPENSES

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Prepaid insurance	\$ 67,267,640	\$ 311,300,209
Prepaid aircraft rentals	21,645,011	38,174,915
Others	<u>59,684,087</u>	<u>162,697,959</u>
	<u>\$ 148,596,738</u>	<u>\$ 512,173,083</u>

11. FINANCIAL ASSETS CARRIED AT COST

	June 30			
	2006		2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted common stocks				
Abacus International Holdings Ltd.	\$ 297,946,451	13.59	\$ 297,946,451	13.59
Fat Capital Management	120,000,000	10.00	120,000,000	10.00
Jardine Air Terminal Services	56,022,929	15.00	48,387,097	15.00
Chung Hwa Express Co.	22,000,000	11.00	22,000,000	11.00
Regal International Advertising	<u>5,925,000</u>	6.58	<u>5,925,000</u>	6.58
	501,894,380		494,258,548	
Unlisted preferred stocks				
Abacus International Holdings Ltd.	<u>472,522</u>	-	<u>472,522</u>	-
	<u>\$ 502,366,902</u>		<u>\$ 494,731,070</u>	

In their meeting on June 24, 2005, the stockholders of Fat Capital Management (FCM) resolved to reduce its capital. The Company thus received a return of capital of \$30,000,000 based on its equity in FCM on the date of the authorities' approval of the capital reduction.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	June 30			
	2006		2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Investees on which the Company exercises significant influence</u>				
Taiwan Air Cargo Terminal	\$ 1,655,818,926	54.00	\$ 1,641,943,463	54.00
Mandarin Airlines	1,495,752,520	93.99	1,372,211,936	93.99
Cal-Asia Investment	1,395,640,588	100.00	213,759,373	100.00
Cal-Dynasty International	855,942,875	100.00	791,672,256	100.00
Taoyuan International Airport Services	802,839,731	49.00	793,541,786	49.00
China Pacific Catering Services	582,230,879	51.00	579,056,864	51.00
Abacus Distribution Systems (Taiwan)	366,833,016	93.93	381,823,593	93.93
Taiwan Airport Services	343,048,701	47.35	353,632,999	47.35
China Aircraft Services Limited	261,486,896	20.00	-	-
Science Park Logistics Co.	159,255,110	28.48	153,048,849	28.48
Kaohsiung Catering Services	159,097,467	31.76	153,221,616	31.76
China Pacific Laundry Services	109,385,909	55.00	108,448,365	55.00
Asian Compressor Technology Services	105,135,708	24.50	120,451,940	24.50
Hwa Hsia	77,011,439	100.00	70,491,552	100.00
Yestrip Co., Ltd.	30,640,020	100.00	-	-
Dynasty Holidays	22,823,359	51.00	22,499,956	51.00
Global Sky Express	5,548,859	25.00	4,972,621	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
ICAS Co., Ltd.	<u>-</u>	48.21	<u>20,252,189</u>	48.21
	<u>\$ 8,428,594,588</u>		<u>\$ 6,781,131,943</u>	

The difference between the investment cost and the investee's net assets derives from goodwill and related-party transaction of depreciable assets between the Company and its subsidiary. The information for the six months ended June 30, 2006 is as follows:

	Beginning	Increase	Decrease	Ending
Goodwill	\$ 53,843,702	\$ -	\$ -	\$ 53,843,702
Transaction between Company and subsidiary	<u>(314,987,144)</u>	<u>-</u>	<u>16,434,112</u>	<u>(298,553,032)</u>
	<u>\$ (261,143,442)</u>	<u>\$ -</u>	<u>\$ 16,434,112</u>	<u>\$ (244,709,330)</u>

In January 2005, the Company bought new common shares of a subsidiary, Mandarin Airlines (MA), for \$799,322,000. After the subscription, the Company's equity in MA increased to 93.99%. In October and December of 2005, the Company invested cash totaling \$1,242,217,000 in Cal-Asia Investment to invest in Yangtze River Express Airlines.

In November 2005, the Company bought all of the issued shares of Yestrip Co., Ltd. from a subsidiary, Abacus Distribution Systems (Taiwan).

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

The equity in net income or loss on all equity-method investments (except those in Freighter Princess Ltd., Freighter Queen Ltd., Freighter Prince Ltd., China Aircraft Service Ltd., Dynasty Holidays, Science Park Logistic, and ICAS Co., Ltd.) was calculated on the basis of the current year's audited financial statements. Since the total paid-in capital of Freighter Princess Ltd., Freighter Queen Ltd. and Freighter Prince Ltd. is individually less than \$30 million and of their total operating revenue was individually less than \$50 million or collectively less than 10% of the Company's total operating revenues, the recognition of equity in net income was based on unaudited financial statements. The book value of investments in China Aircraft Service Ltd., Dynasty Holidays as of June 30, 2006 and in Dynasty Holidays, ICAS Co., Ltd. and Science Park Logistics Co. as of June 30, 2005 and the calculation of related investment income or loss in the first half of 2006 and 2005 was 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. In addition, ICAS Co., Ltd. was liquidated under a resolution passed in the special stockholders' meeting held in August 2005. Thus, the Company wrote off the carrying value of the investment in ICAS Co., Ltd. to zero. The equity in net income or loss on all equity-method investments is shown in Table 6 (attached).

13. PROPERTIES

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Revaluation increment - cost		
Building	<u>\$ 50,335,009</u>	<u>\$ 50,335,009</u>
Accumulated depreciation		
Building	\$ 2,767,103,870	\$ 2,597,465,823
Machinery and equipment	2,637,752,380	2,546,214,277
Flight equipment	37,090,537,111	32,135,183,588
Furniture	622,948,033	594,841,906
Leased flight and other equipment	6,441,283,113	5,449,968,871
Leasehold improvements	<u>440,280,872</u>	<u>372,201,955</u>
	<u>\$ 49,999,905,379</u>	<u>\$ 43,695,876,420</u>

Interests capitalized in the six months ended June 30, 2006 and 2005 amounted to \$219,172,000 and \$136,682,000, respectively. These interests were calculated at rates ranging from 3.7256% to 3.9518% and from 1.2927% to 1.3445% in the six months ended June 30, 2006 and 2005, respectively.

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

14. SHORT-TERM LOANS

	<u>June 30</u>	
	2006	2005
Unsecured loans. Interest - 1.57% to 1.70% in the six months ended June 30, 2006	<u>\$ 4,900,000,000</u>	<u>\$ -</u>

15. COMMERCIAL PAPER

	<u>June 30</u>	
	2006	2005
Aggregate face value - discounted interest of 1.638% to 1.678% and 1.288% to 1.380% in the six months ended June 30, 2006 and 2005, respectively	\$ 1,700,000,000	\$ 1,150,000,000
Less: Unamortized discount	<u>1,686,100</u>	<u>802,701</u>
	<u>\$ 1,698,313,900</u>	<u>\$ 1,149,197,299</u>

16. BONDS ISSUED

	<u>June 30</u>	
	2006	2005
Current		
Second issue of unsecured bonds in 2001	\$ 1,200,000,000	\$ 900,000,000
First issue of secured bonds in 2002	800,000,000	600,000,000
First issue of secured bonds in 2003	1,200,000,000	1,200,000,000
Second issue of unsecured domestic convertible bonds	<u>6,801,900,000</u>	<u>-</u>
	<u>\$ 10,001,900,000</u>	<u>\$ 2,700,000,000</u>
Noncurrent		
Second issue of unsecured bonds in 2001	\$ -	\$ 1,200,000,000
First issue of secured bonds in 2002	-	800,000,000
First issue of secured bonds in 2003	1,600,000,000	2,800,000,000
Second issue of unsecured domestic convertible bonds	-	7,580,400,000
Third issue of unsecured domestic convertible bonds	<u>9,245,700,000</u>	<u>-</u>
	<u>\$ 10,845,700,000</u>	<u>\$ 12,380,400,000</u>

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

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. On August 7, 2008, the holders can require the Company to redeem their bonds at 99.7% of face value.
- c. The Company may redeem the bonds piecemeal between September 8, 2005 and June 28, 2010 under certain conditions.
- d. Between September 8, 2005 and July 28, 2010 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT\$18.25, subject to adjustment if there is capital injection by cash, stock dividend distribution, or issuance of stock as employee stock bonus. The conversion price was NT\$16.50 on June 30, 2006.
- e. As of June 30, 2006, bonds with aggregate face value of \$754,300,000 had been converted into 45,715,000 common shares of the Company.

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 the Company's common shares. The initial conversion price was set at NT\$17.50, 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 NT\$15.00 on June 30, 2006.
- e. As of June 30, 2006, bonds with aggregate face value of \$3,198,100,000 had been converted into 195,699,000 common shares of the Company.

On May 20 to 23, 2003 (4 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 maturities of three, four and five years, respectively. The bonds are repayable in lump sum payment on maturity. The interests, 1.45% for Type A bonds and 1.60% for Type B bonds, are calculated and payable annually. The interest on Type C bonds is 4% minus floating interest rate, calculated semiannually and payable annually. The guarantor institutions for these three bond types 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 (10 business days). The bonds will mature on May 28, 2007 at an annual interest rate of 2.84%. The three consecutive annual repayments at 30%, 30% and 40% of the principal started on May 28, 2005. The guarantor institutions are Land Bank and Taipei Fubon Bank.

The second issue of unsecured bonds, with an aggregate face value of \$3,000,000,000, was made between July 18, 2001 and August 6, 2001 (14 business days). The bonds will mature on August 6, 2006, with 4.9% annual interest payable annually. The consecutive annual repayments of the principal at 30%, 30% and 40% started on August 6, 2004.

17. LONG-TERM LOANS

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Bank loans	\$ 103,777,835,824	\$ 110,852,032,016
Commercial paper, net of unamortized discounts of \$54,696,093 and \$40,645,902 in the six months ended June 30, 2006 and 2005, respectively	16,520,303,907	12,874,354,098
Less: Current portion	<u>16,017,888,278</u>	<u>20,350,231,647</u>
	<u>\$ 104,280,251,453</u>	<u>\$ 103,376,154,467</u>

Bank loans (New Taiwan dollars, Japanese yen and U.S. dollars) are repayable either quarterly or semiannually or through a lump sum payment upon maturity in September 2017. The related information is summarized as follows:

	<u>Currency</u>		
	<u>New Taiwan Dollars</u>	<u>U.S. Dollars</u>	<u>Japanese Yen</u>
<u>Amounts</u>			
Original currency			
2006	NT\$ 43,972,340,000	US\$ 1,824,834,928	JPY 600,000,000
2005	NT\$ 50,055,004,000	US\$ 1,922,923,297	JPY 1,800,000,000
New Taiwan dollars			
2006	43,972,340,000	59,635,128,398	170,367,426
2005	50,055,004,000	60,279,727,179	517,300,837
<u>Interest rates</u>			
2006	1.583%-2.597%	4.3575%-5.5%	0.6461%
2005	1.990%-3.3675%	2.56438%-4.84%	0.5860%
<u>Periods</u>			
2006	2001/2/27-2017/5/11	2000/7/6-2017/9/21	2001/9/28-2006/9/28
2005	1997/1/31-2017/5/11	1997/1/31-2017/6/16	2001/9/28-2006/9/28

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until February 2016, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 1.459% to 2.176% and 1.6363% to 2.0896% in the six months ended June 30, 2006 and 2005, respectively.

18. LONG-TERM CAPITAL LEASE OBLIGATIONS

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Capital lease obligations	\$ 10,347,415,788	\$ 11,175,030,193
Less: Current portion	<u>1,400,718,644</u>	<u>1,249,295,926</u>
	<u>\$ 8,946,697,144</u>	<u>\$ 9,925,734,267</u>

As of June 30, 2006, the Company was leasing aircraft and related parts from certain foreign companies under capital lease agreements expiring on various dates until February 2014.

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

Period	Amount
July to December 2006	\$ 687,613,574
2007	1,452,648,241
2008	1,562,364,408
2009	1,680,381,502
2010	1,273,283,653
2011	1,188,402,638

Total rentals from 2012 onwards is \$2,502,722,000, and if discounted at the 2.075% interest rate of a one-year time deposit, the present value would be \$2,281,788,000.

19. PENSION PLAN

The Labor Pension Act (the "Act") took effect on July 1, 2005. Company employees who were subject to the pension mechanism under the Labor Standards Law (the "Law") as of June 30, 2005 were allowed to choose to continue to be subject to the pension scheme under the Law or to be subject instead to the pension mechanism under the Act, with their service years accumulated before the enforcement of the Act to be retained. Those hired on or after July 1, 2005 automatically become subject to the Act.

Based on the defined contribution pension plan under the Act, the rate of the Company's required monthly contributions to the employees' individual pension accounts under the custody of the Bureau of Labor Insurance is at 6% of salaries and wages. The Company recognized a defined contribution pension cost of \$35,214,000 in the first half of 2006.

The pension plan under the Law is a defined benefit pension plan. Benefits are based on the service years accumulated and the average basic salaries and wages of the six months before retirement. The Company makes monthly contributions to a pension fund at 10% of salaries and wages. The fund is administered by a pension fund committee and deposited in the committee's name in the Central Trust of China. Other information on the defined benefit pension fund is as follows:

a. Pension fund movements

	<u>Six Months Ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning of period	\$ 1,559,316,321	\$ 1,289,412,040
Contributions	390,637,020	311,845,587
Income from pension fund investments	10,113,468	-
Payment	<u>(363,396,044)</u>	<u>(348,095,018)</u>
Balance, end of period	<u>\$ 1,596,670,765</u>	<u>\$ 1,253,162,609</u>

b. Accrued pension cost movements

	<u>January 1 to June 30</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning of period	\$ 5,415,398,368	\$ 5,103,776,938
Pension cost recognized	525,805,208	472,113,521
Contributions	(390,637,020)	(311,845,587)
Payment	<u>(10,610,500)</u>	<u>(60,989,605)</u>
Balance, end of period	<u>\$ 5,539,956,056</u>	<u>\$ 5,203,055,267</u>

20. STOCKHOLDERS' EQUITY

As of June 23, 2006 and June 10, 2005, the appropriation of the 2005 and 2004 earnings, respectively, had been resolved by the stockholders, as follows:

	Appropriation		Dividend per Share	
	(in Thousands of			
	<u>New Taiwan Dollars</u>)			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Legal reserve	\$ 64,523	\$ 418,274		
Special reserve (reversal of special reserve)	(258,543)	1,335,981		
Cash dividends	-	636,108	\$ -	\$ 0.2
Stock dividends	882,036	3,180,542	0.25	1.0
Stock bonus for employees	<u>50,355</u>	<u>145,708</u>		
	<u>\$ 738,371</u>	<u>\$ 5,716,613</u>		

In their meeting on June 23, 2006, the stockholders resolved the conversion of capital surplus of \$882,036,000 to capital stock.

The above appropriations were the same as those proposed by the board of directors. Moreover, the Company's registration of the capital increase was approved by the Securities and Futures Bureau, and this increase will be effected on August 23, 2006.

The third issue of unsecured domestic convertible bonds with an aggregate face value of \$754,300,000 had been converted into the Company's 45,715,000 common shares in the second quarter of 2006. Under the related regulations, the Company can issue the shares first and then apply to the authorities for approval of the related capital increase. The Company completed the registration of capital increase on July 6, 2006.

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.

Capital surplus is summarized as follows:

(In Thousand of New Taiwan Dollars)

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Issue of stock in excess of par value	\$ 7,813,674	\$ 8,119,463
Gain on sale of treasury shares held by subsidiaries	72,541	71,836
Others	<u>5,044</u>	<u>5,044</u>
	<u>\$ 7,891,259</u>	<u>\$ 8,196,343</u>

The Company's Articles of Incorporation provide that the following should be appropriated from annual net income (less any deficit): (a) 10% as legal reserve, and (b) special reserve equivalent to a debit balance of any stockholders' equity account. From the remainder, the Company should also appropriate at least 3% as bonus to employees. Of the final remainder, at least 50% should be distributed to stockholders as both cash and stock dividends (cash dividend should not 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 meet the foregoing guidelines. All earnings appropriations should be made and approved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

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

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 exceeds 50% of the Company's paid-in capital, the Company (a) may distribute the portion of the reserve exceeding 50% of paid-in capital as dividends and bonus if it has no retained earnings or (b) may capitalize into common stock the excess portion that is over 25% of paid-in capital if the Company has no deficit as of the balance sheet date.

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.

21. TREASURY STOCK

(In Thousands of Shares)

Reason	Shares		
	Shares at Beginning of Period	(Decrease) During the Period	Shares at End of Period
<u>2006</u>			
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>3,855</u>	-	<u>3,855</u>
<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>

The shares reclassified as treasury stock amounted to \$36,554,000 in the six months ended June 30, 2006 and 2005. The market values of the treasury shares as of June 30, 2006 and 2005 were \$56,810,000 and \$60,135,000, 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, except the right to subscribe for the Company's new shares. However, under the amended Company Law, the subsidiaries will no longer have voting rights effective June 22, 2005.

22. INCOME TAX

- 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>2006</u>	<u>2005</u>
Income tax expense on income before income tax at statutory rate (25%)	\$ (17,157,224)	\$ 128,466,891
Add (deduct) tax effects of:		
Permanent differences	158,056,210	(103,963,870)
Temporary differences	<u>(140,898,986)</u>	<u>36,720,587</u>
Income tax expense - current	<u>\$ -</u>	<u>\$ 61,223,608</u>

- b. Income tax expense (benefit) consisted of the following:

Income tax expense - current	\$ -	\$ 61,223,608
Investment income tax credit	-	(61,223,608)

(Continued)

	Six Months Ended June 30	
	2006	2005
Net changes in deferred income tax expense (benefit):		
Allowance for loss on inventories	\$ (126,770)	\$ (160,151)
Reversal (allowance) for loss on idle properties	7,622,245	(19,221,883)
Equity in net loss of foreign equity-method investees	(1,675,745)	(668,888)
Depreciation difference between accounting and tax on properties	(9,086,133)	(67,284,364)
Accrued expense for frequent-flyer program	4,656,708	(1,499,873)
Valuation gain on financial instruments	131,546,647	-
Provision for pension cost	(32,071,970)	(24,819,583)
Unrealized foreign exchange gain	33,669,968	68,540,459
Difference between accounting and tax on interest	6,364,036	8,393,696
Investment income tax credits	(268,765,225)	(841,670,623)
Carryforward of unused tax losses	(257,585,654)	-
Adjustment of prior years' tax	-	45,537,175
Provision of valuation allowance	<u>188,796,336</u>	<u>651,929,978</u>
Income tax benefit before cumulative effect of changes in accounting principles	(196,655,557)	(180,924,057)
Income tax expense allocated to cumulative effect of changes in accounting principles	<u>167,973,583</u>	<u>-</u>
Income tax benefit	<u>\$ (364,629,140)</u>	<u>\$ (180,924,057)</u>

(Concluded)

c. Deferred income tax assets (liabilities) as of June 30, 2006 and 2005 were as follows:

	June 30	
	2006	2005
Current		
Allowance for loss on inventories	\$ 12,502,969	\$ 8,716,870
Accrued expenses for frequent-flyer program	40,325,189	42,758,958
Unrealized foreign exchange loss	98,265,415	177,710,677
Valuation gain or loss on financial instruments	(131,546,647)	-
Unrealized gain or loss on financial instruments	<u>(58,742,477)</u>	<u>-</u>
Deferred income tax assets (liabilities)	<u>\$ (39,195,551)</u>	<u>\$ 229,186,505</u>
Noncurrent		
Provision for pension cost	\$ 573,618,803	\$ 546,040,505
Difference between accounting and tax on interest	188,574,870	203,471,725
Allowance for loss on idle properties	227,191,179	309,526,548
Unrealized gain or loss on financial instruments	197,770,899	-
Carry forward of unused tax losses	257,585,654	-
Investment income tax credit	<u>3,019,513,396</u>	<u>2,066,067,327</u>
Deferred income tax assets	4,464,254,801	3,125,106,105
Less: Valuation allowance	<u>(2,031,797,611)</u>	<u>(1,239,640,396)</u>
Deferred income tax assets, net	2,432,457,190	1,885,465,709
Depreciation difference between accounting and tax on properties	(320,954,843)	(582,517,226)
Cumulative equity in net gain of foreign equity-method investees	<u>(28,310,545)</u>	<u>(23,977,985)</u>
Deferred income tax assets, net	<u>\$ 2,083,191,802</u>	<u>\$ 1,278,970,498</u>

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

	June 30	
	2006	2005
Balance of ICA	<u>\$ 69,330,413</u>	<u>\$ 304,318,814</u>

The expected and actual creditable tax ratios for dividend distribution to each qualified stockholder from earnings generated as of December 31, 2006 and 2005 were 7.74% and 8.57%, respectively.

The actual creditable tax ratio to be used for distributing the earnings generated as of December 31, 2005 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, 2006 and 2005 included earnings of \$4,346,093,000 and \$5,644,645,000 generated as of December 31, 1997, respectively.

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

- f. Unused investment income tax credits as of June 30, 2006 were as follows:

Regulatory Basis of Tax Credits	Source of the Tax Credit	Total Amount of the Tax Credits	Remaining Tax Credits	Expiry Year
Article 6 of the Statute for Upgrading Industries	R&D expenses, personnel	\$ 691,221,339	\$ 184,939,404	2006
	training expenses and	728,009,810	158,180,920	2007
	purchases of eligible	1,413,493,056	769,884,880	2008
	Equipment	1,710,959,868	1,710,959,868	2009
		195,548,324	195,548,324	2010

- g. Unused tax loss carryforwards as of June 30, 2006 were as follows:

Expiry Year	Amount
2011	\$ 1,030,342,616

The income tax returns through 2003 (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 imposed 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 reduced by \$1,411,146,000 the loss carryforwards generated from 1998 because they determined that the additional gains on the securities trading in 1998 by foreign investees was in violation of the Income Tax Law. The Company is claiming that this reduction is unreasonable and has thus appealed the tax authorities' decision.

23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2006		
	Included in Operating Costs	Included in Operating Expenses	Total
Personnel			
Salaries	\$ 4,040,906,348	\$ 1,067,706,231	\$ 5,108,612,579
Labor and health insurance	186,934,877	130,389,727	317,324,604
Pension cost	423,649,548	167,498,082	591,147,630
Others	946,693,787	128,409,840	1,075,103,627
Depreciation	5,205,687,497	169,548,722	5,375,236,219
Amortization	9,218,538	68,469,522	77,688,060

	Six Months Ended June 30, 2005		
	Included in Operating Cost s	Included in Operating Expenses	Total
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

24. EARNINGS PER SHARE

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

	Amount (as Numerator)		Shares (as Denominator) (Thousands)	Earnings Per Share (NT\$)	
	(Thousands)	(Thousands)		Pretax	After Tax
<u>Six months ended June 30, 2006</u>					
Basic EPS					
Net income on common stock	\$ (68,589)	\$ 128,067	3,538,574	<u>\$ (0.02)</u>	<u>\$ 0.04</u>
Dilutive effect of potential common stock					
Second and third tranche of unsecured convertible bonds	-	-	1,045,587		
Diluted EPS	<u>\$ (68,589)</u>	<u>\$ 128,067</u>	<u>4,584,161</u>	<u>\$ (0.01)</u>	<u>\$ 0.03</u>
Pro forma basic EPS reflecting stock dividend distribution after the date of the financial statements	<u>\$ (68,589)</u>	<u>\$ 128,067</u>	<u>3,720,018</u>	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Pro forma diluted EPS reflecting stock dividend distribution after the date of the financial statements	<u>\$ (68,589)</u>	<u>\$ 128,067</u>	<u>4,765,605</u>	<u>\$ (0.01)</u>	<u>\$ 0.03</u>

(Continued)

	<u>Amount (as Numerator)</u> <u>(Thousands)</u>		<u>Shares (as Denominator)</u> <u>(Thousands)</u>	<u>Earnings Per Share (NT\$)</u>	
	<u>Pretax</u>	<u>After Tax</u>		<u>Pretax</u>	<u>After Tax</u>
<u>Six months ended June 30, 2005</u>					
Basic EPS					
Net income on common stock	\$ 513,908	\$ 694,832	3,460,191	\$ <u>0.15</u>	\$ <u>0.20</u>
Dilutive effect of potential common stock					
Second tranche of unsecured convertible bonds	<u>-</u>	<u>-</u>	<u>466,061</u>		
Diluted EPS	\$ <u>513,908</u>	\$ <u>694,832</u>	<u>3,926,252</u>	\$ <u>0.13</u>	\$ <u>0.18</u>
Pro forma basic EPS reflecting stock dividend distribution after the date of the financial statements					
	\$ <u>513,908</u>	\$ <u>694,832</u>	<u>3,641,635</u>	\$ <u>0.14</u>	\$ <u>0.19</u>
Pro forma diluted EPS reflecting stock dividend distribution after the date of the financial statements					
	\$ <u>513,908</u>	\$ <u>694,832</u>	<u>4,107,696</u>	\$ <u>0.13</u>	\$ <u>0.17</u>

(Concluded)

In the EPS computation, the impact of stock dividends had been considered in the retroactive adjustment of the weighted-average number of shares used in the computation. As of June 30, 2005, basic EPS and diluted EPS after tax decreased from NT\$0.22 to NT\$0.20 and from NT\$0.19 to NT\$0.18, respectively, because of the retroactive adjustment.

25. SUBSEQUENT EVENT

On July 18, 2006, the Financial Supervisory Commission under the Executive Yuan approved the Company's first issue of secured domestic bonds in 2006 with an aggregate face value of \$6,500,000,000. The bonds are outstanding for five years and the interests are payable annually. The bonds will be settled as follows: Three consecutive annual repayments due from July 18, 2006 at 30%, 30% and 40% of the principal.

26. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

	<u>June 30</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
<u>Financial assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 19,514,468,529	\$ 19,514,468,529	\$ 19,959,093,920	\$ 19,959,093,920
Financial assets at fair value through profit or loss	4,032,930,705	4,032,930,705	3,715,000,000	3,733,953,986
Available-for-sale financial assets	517,886,397	517,886,397	617,935,101	617,935,101
Derivative financial assets for hedging	322,816,872	322,816,872	205,172,400	1,134,316,041
Financial assets carried at cost	502,366,902	-	494,731,070	-
<u>Financial liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	147,865,914,060	147,865,914,060	146,892,640,959	146,892,640,959
Financial liabilities at fair value through profit or loss	123,434,695	123,434,695	1,193,668	1,193,668
Derivative financial liabilities for hedging	635,283,283	635,283,283	93,604,053	1,426,676,995
Bonds issued	20,847,600,000	21,345,435,000	15,080,400,000	15,548,544,800

Effective January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards (“Statements”) No. 34 - “Financial Instruments: Recognition and Measurement”. The amount of the cumulative effect of these accounting changes is shown in Note 3 to the financial statements.

- b. Methods and assumptions used in estimating the fair values of financial instruments are as follows:
- 1) The carrying amounts of cash and cash equivalents, receivables, other receivables, pledged certificates of deposit, accounts deposit, other financial assets - noncurrent, short-term loans, commercial paper, accounts payable, accounts payable to related parties, accrued expenses, loans and debts - current portion, capital lease obligations - current portion, some other current liabilities and guarantee deposit received, approximate their fair values because of the short maturities of these instruments.
 - 2) For financial assets at fair value through profit or loss, available-for-sale financial assets, and derivative financial assets for hedging, fair value is best determined at quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. If quoted market prices are not available, fair values are based on estimates using indirect data and appropriate valuation methodologies. Fair values of derivatives are determined using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.
 - 3) If the Company does not have significant influence over the investees and these investees’ shares do not have a quoted market price in an active market, their fair value, which cannot be reliably measured, are measured at cost.
 - 4) Fair value of bonds issued is based on their quoted market price.
 - 5) Loans and debts and capital lease obligations are financial liabilities with floating interest rates; thus, their carrying amounts are equal to current fair value.

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

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

	<u>Quoted Market Prices</u>		<u>Fair Value Based on Estimates</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 3,390,649,206	\$ 3,733,953,986	\$ 642,281,499	\$ -
Available-for-sale financial assets	517,886,397	617,935,101	-	-
Derivative financial assets for hedging	-	-	322,816,872	1,134,316,041
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	123,434,695	1,193,668
Derivative financial liabilities for hedging	-	-	635,283,283	1,426,676,995

- d. As of June 30, 2006 and 2005, loans at fixed rate exposed to fair value interest rate risk were \$24,147,600,000 and \$13,480,400,000, respectively, and loans at floating rate exposed to cash flow interest rate risk were \$133,943,869,000 and \$137,650,614,000, respectively.

- e. The Company recognized an unrealized loss of \$11,200,000 in stockholders' equity for the changes in fair value of available-for-sale financial assets in the six months ended June 30, 2006. Of this amount, \$2,579,000 was reclassified into current profit or loss in the income statement.

27. RISK MANAGEMENT AND HEDGING STRATEGIES

a. Risk management strategy

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

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

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

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

The following table summarizes the aggregate contractual (notional) amounts, credit risk and fair value of the Company's and a subsidiary, Mandarin Airlines's derivative financial instruments as of June 30, 2006 and 2005.

	June 30					
	2006			2005		
<u>Hedge</u>	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
<u>The Company</u>						
Forward exchange contracts	\$ 3,888,888,889	\$ 44,777,258	\$ 43,234,931	\$ 971,786,834	\$ 14,286,732	\$ 14,286,732
Interest rate swaps	44,018,733,439	81,519,199	(638,894,170)	110,837,990,494	174,283,010	(1,410,177,735)
Currency options						
- Buy	620,915,032	4,581,574	4,581,574	2,068,965,517	13,044,681	12,176,562
- Sell	620,915,032	254,902	(238,018)	2,068,965,517	4,239,878	(16,499,260)
Fuel swap contracts	898,692,810	124,692,717	124,692,717	26,569,435,737	1,107,919,299	1,107,852,747
Cross-currency swaps						
- Currency swaps	9,967,320,261	31,134,022	(10,921,074)	-	-	-
- Interest swaps	9,826,454,937	122,160,382	119,936,757	-	-	-
Currency swaps	-	-	-	1,034,482,759	6,786,931	6,786,931

(Continued)

	June 30					
	2006			2005		
<u>Trade</u>	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
<u>The Company</u>						
Forward exchange contracts	\$ 163,398,693	\$ 189,895	\$ 189,895	\$ -	\$ -	\$ -
Interest rate swaps	9,000,000,000	-	(123,434,695)	-	-	-
Fuel swap contracts	27,522,467,321	639,860,785	639,855,661	-	-	-
Currency options						
Buy	163,398,693	1,361,199	1,361,199	-	-	-
Sell	163,398,693	874,744	874,744	190,813,668	-	(1,193,668)
<u>Mandarin Airlines</u>						
Interest rate swaps	-	-	-	483,870,968	-	(202,122)
Fuel swap contracts	74,509,804	641,026	641,026	-	-	-
						(Concluded)

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

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

The calculation of the fair value of each derivative contract is based on quotes from financial institutions.

The Company's most amount of exposure to risk derived from all financial instruments (not including the fair value of collateral) is equal to the credit amount.

b. Cash flow hedge

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

Hedged Items	Financial Instruments Designated as Hedging Instruments	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period
		June 30, 2006			
		Nominal Amount	Fair Value		
Floating-interest long-term debts	Interest rate swaps	\$ 44,018,733,439	\$ (638,894,170)	2006 to 2010	2006 to 2010
	Cross-currency swaps - interest swaps	9,826,454,937	119,936,757	2006 to 2007	2006 to 2007
Advance payments in U.S. dollars for the purchase of planes	Forward exchange contracts	3,888,888,889	43,234,931	2006 to 2007	2006 to 2007
	Currency options				
	Buy	620,915,032	4,581,574	2006	2006
	Sell	620,915,032	(238,018)	2006	2006
	Cross-currency swaps - currency swaps	9,967,320,261	(10,921,074)	2007	2007
Aviation fuel cost	Fuel hedging	898,692,810	124,692,717	2006 to 2008	2006 to 2008
		<u>\$ 69,841,920,400</u>	<u>\$ (357,607,283)</u>		

28. 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
Cal-Asia Investment	Subsidiary
Cal-Dynasty International	Subsidiary
Taoyuan International Airport Services	Subsidiary
China Pacific Catering Services	Subsidiary
Abacus Distribution Systems (Taiwan)	Subsidiary
Taiwan Airport Services	Subsidiary
China Aircraft Services Limited	Equity-method investee (from November of 2005)
Science Park Logistics Co.	Equity-method investee (from May of 2005)
Kaohsiung Catering Services	Equity-method investee
China Pacific Laundry Services	Subsidiary
Asian Compressor Technology Services	Equity-method investee
Hwa Hsia	Subsidiary
Yestrip Co., Ltd.	Subsidiary
Dynasty Holidays	Subsidiary
Global Sky Express	Subsidiary
Freighter Princess Ltd.	Subsidiary
Freighter Prince Ltd.	Subsidiary
Freighter Queen Ltd.	Subsidiary
ICAS Co., Ltd.	Equity-method investee
China Aviation Development Foundation	Major stockholder (64.53%)

- b. Significant transactions with related parties:

	<u>Six Months Ended June 30</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1) Revenues				
Mandarin Airlines	\$ 743,068,936	1.31	\$ 685,865,749	1.38
Global Sky Express	83,082,582	0.14	74,235,032	0.15
China Aviation Development Foundation	22,305,180	0.04	23,360,796	0.05
Taiwan Air Cargo Terminal	14,144,996	0.03	16,761,535	0.03
Taiwan Airport Services	5,186,677	0.01	4,219,409	0.01
Hwa Hsia	5,155,690	0.01	5,776,603	0.01
Others	<u>11,472,581</u>	<u>0.02</u>	<u>13,848,025</u>	<u>0.02</u>
	<u>\$ 884,416,642</u>	<u>1.56</u>	<u>\$ 824,067,149</u>	<u>1.65</u>

(Continued)

	Six Months Ended June 30			
	2006		2005	
	Amount	%	Amount	%
2) Costs				
China Pacific Catering Services	\$ 524,153,223	1.05	\$ 539,364,286	1.31
Taoyuan International Airport Services	430,340,534	0.87	411,075,390	1.00
Mandarin Airlines	387,285,433	0.78	366,435,147	0.89
Taiwan Airport Services	130,398,927	0.26	104,603,497	0.25
Taiwan Air Cargo Terminal	127,864,996	0.25	114,811,054	0.28
China Aircraft Services Limited	121,897,399	0.25	-	-
Hwa Hsia	103,723,643	0.21	101,745,732	0.25
China Aviation Development Foundation	54,489,064	0.11	49,968,772	0.12
Kaohsiung Catering Services	43,687,571	0.09	46,907,923	0.11
China Pacific Laundry Services	32,906,130	0.07	30,597,938	0.07
Dynasty Holidays	25,970,076	0.05	39,260,433	0.10
Cal-Dynasty International	21,877,023	0.04	17,486,800	0.04
Cal-Asia Investment	14,216,117	0.03	12,120,570	0.03
Others	<u>18,674,210</u>	<u>0.04</u>	<u>1,914,526</u>	<u>-</u>
	<u>\$ 2,037,484,346</u>	<u>4.10</u>	<u>\$ 1,836,292,068</u>	<u>4.45</u>

(Conclude)

	June 30			
	2006		2005	
	Amount	%	Amount	%
3) Receivables: Related parties				
Mandarin Airlines	\$ 297,058,575	85.77	\$ 118,320,340	82.57
China Aviation Development Foundation	13,133,862	3.79	13,087,217	9.13
Global Sky Express	7,494,972	2.16	6,841,274	4.77
Taiwan Air Cargo Terminal	4,146,811	1.20	3,363,135	2.35
Others	<u>24,513,953</u>	<u>7.08</u>	<u>1,688,137</u>	<u>1.18</u>
	<u>\$ 346,348,173</u>	<u>100.00</u>	<u>\$ 143,300,103</u>	<u>100.00</u>
4) Accounts payable to related parties				
Mandarin Airlines	\$ 678,252,794	51.04	\$ 390,739,288	38.12
China Pacific Catering Services	273,983,754	20.62	290,381,570	28.33
Taoyuan International Airport Services	186,958,069	14.07	212,695,056	20.75
Taiwan Airport Services	47,030,257	3.54	34,689,320	3.38
China Aircraft Services Limited	41,944,583	3.16	-	-
Taiwan Air Cargo Terminal	31,296,653	2.36	29,025,176	2.83
China Aviation Development Foundation	20,642,285	1.55	20,752,864	2.02
Hwa Hsia	20,285,124	1.53	16,795,827	1.64
Kaohsiung Catering Services	15,597,740	1.17	16,273,582	1.59
Others	<u>12,800,620</u>	<u>0.96</u>	<u>13,619,039</u>	<u>1.34</u>
	<u>\$ 1,328,791,879</u>	<u>100.00</u>	<u>\$ 1,024,971,722</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, 2006 and 2005, the rentals received amounted to \$675,013,000 and \$622,924,000, respectively.

The Company rented planes from Mandarin Airlines under an operating lease agreement from July 2003 to February 2008. The Company paid the rental by flight hours, except for the rentals of the 737-800 aircraft, which were at a fixed US\$282,000 monthly. In the six months ended June 30, 2006 and 2005, the Company paid hourly flight rentals of about \$330,553,000 and \$283,255,000, respectively.

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. As of June 30, 2006 and 2005, the Company had paid usage rentals of about \$54,489,000 and \$49,969,000, respectively.

6) Endorsements and guarantees

	June 30	
	2006	2005
Mandarin Airlines - bank loans, commercial paper and other guarantees	\$ -	\$ 280,000,000
China Pacific laundry services - bank loans	120,000,000	120,000,000
Asian Compressor Technology Services - bank loans	20,816,993	19,968,652
Freighter Queen Ltd.	447,300,704	404,988,454
Freighter Prince Ltd.	465,104,881	459,964,360
Freighter Princess Ltd.	552,495,897	610,776,089

The transactions between the Company and related parties are about air transportation industry. Because the transaction subject is limited except for the related parties, it is difficult to assess the regular transaction information. However, the transaction price is negotiated by means of normal process as regular transaction process, and the term of making collections and payments for receivables and payables is consistent with credit policy.

29. PLEDGED ASSETS

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

	June 30	
	2006	2005
Deposits (for business transactions)	\$ 2,894,800	\$ 2,894,800
Pledged certificates of deposit (for bank loans)	261,437,908	250,783,699
Properties - flight equipment (net)	<u>125,611,690,012</u>	<u>139,127,769,317</u>
	<u>\$ 125,876,022,720</u>	<u>\$ 139,381,447,816</u>

30. COMMITMENTS AND CONTINGENT LIABILITIES

- a. The Company leased certain flight equipment and hangar under various operating lease agreements expiring on various dates until October 2013. Lease deposits aggregated \$5,350,000,000.

Minimum rentals for future years are summarized as follows:

Period/Year	Amount
July to December in 2006	\$ 1,502,173,196
2007	2,870,336,494
2008	2,511,695,130
2009	1,797,691,546
2010	1,707,956,371
2011	1,414,609,597

Rentals from 2012 and on will aggregate \$5,694,643,000. The present value of these rentals, discounted using the (2.075%) discount interest rate for one-year time deposits, is \$5,085,661,000.

- b. In July 1999, the Company acquired thirteen 747-400F aircraft from the Boeing Co., which had delivered twelve planes as of June 30, 2006. The aggregate purchase price of the remaining aircraft for delivery is US\$213,836,000. As of June 30, 2006, the Company had paid about US\$55,001,000, 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, 2006. The aggregate purchase price of the remaining aircraft for delivery is US\$232,121,000. As of June 30, 2006, the Company had paid about US\$83,642,000, included in “advance payments on equipment purchase contracts” in the properties section of the balance sheets.

- c. In December 2002, the Company entered into an option contract with Airbus for the purchase of twelve A330 aircraft and then into a second option contract to buy six more A330 aircraft. The Company exercised the purchase option on two planes in December 2003. As of June 30, 2006, Airbus had delivered 10 planes. The aggregate purchase price of the remaining four planes is US\$685,834,000. As of June 30, 2006, the Company had paid about US\$142,170,000, which was included in the “advance payments on equipment purchase contracts” in the properties section of the balance sheets.
- d. 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 both on the rentals for six planes under capital lease and on prepayments for another three planes, 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 0.3% of the lawsuit fees. However, the supreme court reversed this ruling and remanded the case to the Taiwan high court on July 20, 2004 for a retrial. The Company expects a favorable outcome on this case.
- e. 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 at 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. Afterwards, the CAA claimed that the Company should pay the residual lease payments between the last date of rental payment and the delivery date. The Company claimed these lease payments were already included in

the purchase price. In May 2005, the CAA filed a lawsuit against the Company with the Taipei district court and claimed residual lease payments of \$380,570,000 and a late payment penalty of \$2,059,000. The Taipei district court required the Company pay the claim amounts, but the Company refused, explaining that the lease agreement was originally a financing lease that entitled the Company to own those planes after it has fulfilled its obligation to pay all the lease payments. However, the CAA altered the lease agreement to an operating lease because of its intention to sell those planes. The Company believed that, in its ruling, the court failed to clarify the terms of the revised lease agreement. In addition, the Company claimed that the CAA should return the excessive rentals collected during the lease term. If returned, these rentals can be used to offset the claims made by the CAA. The Company had provided more evidence to pursue its appeal with the Taiwan High Court against the CAA. It expects to have a favorable outcome on this case.

31. 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 or price of at least NT\$100 million or 20% of the paid-in capital: None
 - 6) Disposal of individual real estates at cost or prices of at least NT\$100 million or 20% of the paid-in capital: None
 - 7) Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached).
 - 9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 6 (attached).
 - 10) Derivative financial transactions (Note 27)
- b. Investment in Mainland China: Table 7 (attached)

CHINA AIRLINES, LTD. AND INVESTEEES

**ENDORSEMENT/GUARANTEE PROVIDED
SIX MONTHS ENDED JUNE 30, 2006
(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, Ltd.	China Pacific Laundry Services	55% subsidiary	\$10,974,068,112	\$ 120,000,000	\$ 120,000,000	\$ -	-	\$ 27,435,170,279
		Asian Compressor Technology Services	Subsidiary held by each stockholder proportionately, who provided an endorsement/ guarantee within joint investment arrangements	10,974,068,112	20,816,993	20,816,993	-	-	27,435,170,279
		Freighter Queen Ltd.	100% subsidiary	10,974,068,112	447,300,704	447,300,704	-	1	27,435,170,279
		Freighter Prince Ltd.	100% subsidiary	10,974,068,112	470,284,073	465,104,881	-	1	27,435,170,279
		Freighter Princess Ltd.	100% subsidiary	10,974,068,112	624,479,309	552,495,897	-	1	27,435,170,279

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, 2006

(In New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines, Ltd.	<u>Stock</u> Taiwan Air Cargo Terminal	Subsidiary	Investments accounted for using equity method	135,000,000	\$ 1,655,818,926	54.00	\$ 1,655,818,926	-
	Mandarin Airlines	Subsidiary	Investments accounted for using equity method	188,154,026	1,495,752,520	93.99	1,819,711,265	Note 1
	Cal-Asia Investment	Subsidiary	Investments accounted for using equity method	42,850,000	1,395,640,588	100.00	1,395,640,588	-
	Cal-Dynasty International	Subsidiary	Investments accounted for using equity method	2,614,500	855,942,875	100.00	855,942,875	-
	Taoyuan International Airport Services	Subsidiary	Investments accounted for using equity method	34,300,000	802,839,731	49.00	802,839,731	-
	China Pacific Catering Services	Subsidiary	Investments accounted for using equity method	43,860,000	582,230,879	51.00	582,230,879	-
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments accounted for using equity method	22,450,008	366,833,016	93.93	366,833,016	-
	Taiwan Airport Services	Subsidiary	Investments accounted for using equity method	17,188,870	343,048,701	47.35	343,048,701	-
	China Aircraft Services Limited	Equity-method investee	Investments accounted for using equity method	28,400,000	261,486,896	20.00	214,729,733	Notes 3 and 4
	Science Park Logistics Co.	Equity-method investee	Investments accounted for using equity method	13,293,000	159,255,110	28.48	152,168,571	Note 4
	Kaoshiung Catering Services	Equity-method investee	Investments accounted for using equity method	12,705,000	159,097,467	31.76	159,097,467	-
	China Pacific Laundry Services	Subsidiary	Investments accounted for using equity method	13,750,000	109,385,909	55.00	109,385,909	-
	Asian Compressor Technology Services	Equity-method investee	Investments accounted for using equity method	7,732,200	105,135,708	24.50	105,135,708	-
	Hwa Hsia	Subsidiary	Investments accounted for using equity method	50,000	77,011,439	100.00	88,237,331	Note 1
	Yestrip Co., Ltd.	Subsidiary	Investments accounted for using equity method	2,600,000	30,640,020	100.00	30,640,020	-
	Dynasty Holidays	Subsidiary	Investments accounted for using equity method	408	22,823,359	51.00	22,823,359	Note 3
	Global Sky Express	Subsidiary	Investments accounted for using equity method	250,000	5,548,859	25.00	5,548,859	-
	Freighter Princess Ltd.	Subsidiary	Investments accounted for using equity method	1,000	35,088	100.00	35,088	-
	Freighter Prince Ltd.	Subsidiary	Investments accounted for using equity method	1,000	34,602	100.00	34,602	-
	Freighter Queen Ltd.	Subsidiary	Investments accounted for using equity method	1,000	32,895	100.00	32,895	-
	ICAS Co., Ltd.	Equity-method investee	Investments accounted for using equity method	6,750,000	-	48.21	-	Note 5
	Far Eastern Air Transport	-	Available-for-sale financial assets - noncurrent	34,752,125	200,172,240	7.61	200,172,240	-
	Trade-Van Information Services	-	Available-for-sale financial assets - noncurrent	11,825,925	121,807,027	5.98	121,807,027	-
	Abacus International Holdings Ltd. - unlisted common stock	-	Financial assets carried at cost - noncurrent	1,359,368	297,946,451	13.59	1,713,321,151	Note 6

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Fat Capital Management	-	Financial assets carried at cost - noncurrent	12,000,000	\$ 120,000,000	10.00	\$ 59,090,979	Note 3
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,022,929	15.00	62,265,152	Note 3
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	2,200,000	22,000,000	11.00	22,890,334	Note 3
	Regal International Advertising	-	Financial assets carried at cost - noncurrent	592,500	5,925,000	6.58	2,668,083	Note 3
	Abacus International Holdings Ltd.- unlisted preferred stock	-	Financial assets carried at cost - noncurrent	135,937	472,522	-	1,713,321,151	Note 6
	Chunghwa Telecom	-	Available-for-sale financial assets - current	1,036,000	60,606,000	-	60,606,000	-
	France Telecom	-	Available-for-sale financial assets - current	195,587	135,301,130	-	135,301,130	-
	<u>Beneficiary certificates</u>							
	Fuhwa Bond Fund	-	Financial assets at fair value through profit or loss - current	39,383,723.49	500,252,056	-	500,252,056	-
	Chung Hsing Pion Fund	-	Financial assets at fair value through profit or loss - current	47,086,743.20	500,249,560	-	500,249,560	-
	PCA Unique Fund	-	Financial assets at fair value through profit or loss - current	32,869,652.10	500,246,522	-	500,246,522	-
	Jin Sun Bond Fund	-	Financial assets at fair value through profit or loss - current	29,531,410.35	400,295,314	-	400,295,314	-
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	30,229,060.70	400,202,535	-	400,202,535	-
	ING CHB Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	25,708,042.33	300,136,253	-	300,136,253	-
	Tlam Solomon Bond Fund	-	Financial assets at fair value through profit or loss - current	21,599,018.54	250,127,434	-	250,127,434	-
	Grand Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	19,443,904.30	250,114,719	-	250,114,719	-
	Unoin Bond Fund	-	Financial assets at fair value through profit or loss - current	12,425,241.46	150,045,973	-	150,045,973	-
	Sheng Hua 101 Global Mortgage Securitization Fund	-	Financial assets at fair value through profit or loss - current	3,000,000.00	30,124,200	-	30,124,200	-
	Sunrise Full Return Balance Fund	-	Financial assets at fair value through profit or loss - current	3,083,247.70	28,890,031	-	28,890,031	-
	Sunrise Full Return Balance Fund	-	Financial assets at fair value through profit or loss - current	2,906,976.70	28,808,139	-	28,808,139	-
	KG 100% Principal Guaranteed Fund	-	Financial assets at fair value through profit or loss - current	1,000,000.00	9,915,600	-	9,915,600	-
	Goldman Sachs Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	41,240,870	-	41,240,870	-
	<u>Reverse repurchase bonds</u>							
	EIB	-	Cash and cash equivalents	-	32,679,739	-	32,679,739	-
Taiwan Air Cargo Terminal	<u>Beneficiary certificates</u>							
	NITC Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	14,473,671.60	202,528,639	-	202,528,639	-
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	627,321.10	102,508,659	-	102,508,659	-
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	18,430,525.40	244,001,726	-	244,001,726	-
	Fuh-Hwa Albatross Fund	-	Financial assets at fair value through profit or loss - current	7,648,670.10	85,755,359	-	85,755,359	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Fuhwa Advantage Bond Fund	-	Financial assets at fair value through profit or loss - current	18,052,407.82	\$ 186,972,398	-	\$ 186,972,398	-
	Fuhwa Apex Bond Fund	-	Financial assets at fair value through profit or loss - current	13,053,875.30	153,073,658	-	153,073,658	-
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	17,847,550.74	203,920,760	-	203,920,760	-
	Fubon Chi-Hsiang III Fund	-	Financial assets at fair value through profit or loss - current	9,654,123.61	101,645,372	-	101,645,372	-
	Fubon Chi-Hsiang I Fund	-	Financial assets at fair value through profit or loss - current	14,911,730.09	193,928,541	-	193,928,541	-
	Chung Hsing Pion Fund	-	Financial assets at fair value through profit or loss - current	9,559,155.46	101,556,468	-	101,556,468	-
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit or loss - current	16,671,161.78	191,831,725	-	191,831,725	-
	Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	12,260,557.90	140,454,500	-	140,454,500	-
	Cathay Capital Income Growth Bond Fund	-	Financial assets at fair value through profit or loss - current	18,550,501.70	201,556,766	-	201,556,766	-
	Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	16,354,774.50	211,486,859	-	211,486,859	-
	Jin Sun Bond Fund	-	Financial assets at fair value through profit or loss - current	3,716,919.40	50,382,471	-	50,382,471	-
	JF (Taiwan) Taiwan Fund	-	Financial assets at fair value through profit or loss - current	3,319,159.00	50,293,557	-	50,293,557	-
	Sunrise Full Return Balance Fund	-	Financial assets at fair value through profit or loss - current	4,840,271.10	47,967,087	-	47,967,087	-
	Ri Sheng Wen Jian I Fund	-	Financial assets at fair value through profit or loss - current	4,948,388.31	50,093,030	-	50,093,030	-
Mandarin Airlines	<u>Stock</u>							
	Mandarin Airlines Sweden AB	Subsidiary	Investments accounted for using equity method	1,000	-	100.00	-	-
	Mandarin Aircraft Trading Co., Ltd.	Subsidiary	Investments accounted for using equity method	1,000	-	100.00	-	-
	China Airlines, Ltd.	Parent company	Available-for-sale financial assets - current	2,768,807.00	42,639,628	-	42,639,628	-
	France Telecom	-	Available-for-sale financial assets - current	8,274.00	5,519,283	-	5,519,283	-
	<u>Government bond</u>							
	Central Transportation Bonds - 86A10	-	Cash and cash equivalents	200,000	20,000,000	-	20,014,104	-
	Central Government Bonds - 88A1	-	Cash and cash equivalents	45,100	4,510,000	-	4,516,383	-
	Central Government Bonds - 89A2	-	Cash and cash equivalents	172,542	17,254,247	-	17,271,147	-
	Central Government Bonds - 89A6	-	Cash and cash equivalents	600,000	60,000,000	-	60,001,175	-
	Central Government Bonds - 89A13	-	Cash and cash equivalents	291,500	29,150,000	-	29,191,257	-
	Central Government Bonds - 89A14	-	Cash and cash equivalents	1,516,667	151,666,667	-	151,744,673	-
	Central Government Bonds - 91A9	-	Cash and cash equivalents	63,400	6,340,000	-	6,348,973	-
	Central Government Bonds - 91A4	-	Cash and cash equivalents	300,000	30,000,000	-	30,000,000	-
	Central Government Bonds - 92A2	-	Cash and cash equivalents	33,333	3,333,333	-	3,333,597	-
	Central Government Bonds - 93A2	-	Cash and cash equivalents	300,000	30,000,000	-	30,017,815	-
	Central Government Bonds - 93A7	-	Cash and cash equivalents	127,458	12,745,753	-	12,758,237	-
Cal-Asia Investment	<u>Stock</u>							
	Xiamen International Airport Air Cargo Terminal Co., Ltd.	Equity- method investee	Investments accounted for using equity method	-	133,481,765	12.00	133,481,765	Note 2
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Equity- method investee	Investments accounted for using equity method	-	52,523,987	12.00	9,583,340	Notes 2 and 4
	Eastern United International Logistics	Equity- method investee	Investments accounted for using equity method	600,000.00	12,277,745	20.00	12,277,745	Note 3
	Yangtze River Express Airlines Co., Ltd.	Equity- method investee	Investments accounted for using equity method	-	1,091,193,007	25.00	386,718,790	Notes 2 and 4

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Taoyuan International Airport Services	<u>Stock</u> Taiwan Whi Lin Industry Co., Ltd.	Equity-method investee	Investments accounted for using equity method	4,275,000	\$ 45,512,080	26.07	\$ 45,510,080	-
	Tao Yao Co., Ltd.	Subsidiary	Investments accounted for using equity method	1,000,000	11,103,392	100.00	11,103,392	-
	Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	76,658,284	-
	<u>Beneficiary certificates</u> HSBC Taiwan Dragon Fund	-	Financial assets at fair value through profit or loss - current	749,327.50	11,470,705	-	11,470,705	-
	ABN AMRO Income Fund	-	Financial assets at fair value through profit or loss - current	8,538,667.97	134,153,574	-	134,153,574	-
	Barits Bond Fund	-	Financial assets at fair value through profit or loss - current	4,099,077.40	49,470,945	-	49,470,945	-
	Fuhwa Bond Fund	-	Financial assets at fair value through profit or loss - current	2,498,542.52	31,736,487	-	31,736,487	-
	Fuhwa Advantage Bond Fund	-	Financial assets at fair value through profit or loss - current	4,184,558.16	43,340,306	-	43,340,306	-
	Sheng Hua 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	5,075,777.78	62,531,552	-	62,531,552	-
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	882,036.45	10,077,884	-	10,077,884	-
	Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	2,367,256.20	30,611,463	-	30,611,463	-
	JF (Taiwan) Bond Fund	-	Financial assets at fair value through profit or loss - current	2,018,992.00	30,592,776	-	30,592,776	-
	JF (Taiwan) European Bond Fund	-	Financial assets at fair value through profit or loss - current	3,000,000.00	29,286,000	-	29,286,000	-
	CITC Cash Reserves	-	Financial assets at fair value through profit or loss - current	2,587,679.20	30,139,217	-	30,139,217	-
	TIIM High Yield Fund	-	Financial assets at fair value through profit or loss - current	1,640,621.80	20,220,171	-	20,220,171	-
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit or loss - current	875,457.43	10,073,714	-	10,073,714	-
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	123,313.69	20,150,320	-	20,150,320	-
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	760,745.50	10,071,510	-	10,071,510	-
	Transcend Fortune Fund	-	Financial assets at fair value through profit or loss - current	833,340.30	10,065,667	-	10,065,667	-
	Hua Nan Global Short Term Fixed Income Fund	-	Financial assets at fair value through profit or loss - current	1,498,305.20	15,015,715	-	15,015,715	-
	SinoPac Global Fixed Income Portfolio Fund	-	Financial assets at fair value through profit or loss - current	1,500,000.00	14,990,400	-	14,990,400	-
	ABN Amro Principal Gruantee Quantita Currency Note	-	Financial assets at fair value through profit or loss - current	1,376,660.00	54,240,570	-	54,240,570	Note 7
	China Pacific Catering Services	<u>Beneficiary certificates</u> Fuhwa Classical Fund	-	Available-for-sale financial assets - current	487,367.40	4,603,702	-	4,603,702
HSBC Bric Fund		-	Available-for-sale financial assets - current	1,010,101.00	10,808,040	-	10,808,040	-
HSBC New Japan Fund Of Funds		-	Available-for-sale financial assets - current	2,000,000.00	19,100,000	-	19,100,000	-
Abacus Distribution Systems (Taiwan)	<u>Beneficiary certificates</u> Sheng Hua 5599 Bond Fund	-	Financial assets at fair value through profit or loss - current	368,605.23	4,103,424	-	4,103,424	-
	Sheng Hua 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	1,076,874.82	13,266,667	-	13,266,667	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Taiwan Airport Services	TLAM B.B. Bond fund	-	Financial assets at fair value through profit or loss - current	1,097,825.40	\$ 12,326,603	-	\$ 12,326,603	-
	Tlam Solomon Bond Fund	-	Financial assets at fair value through profit or loss - current	2,177,893.78	25,221,099	-	25,221,099	-
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	1,240,958.73	14,178,822	-	14,178,822	-
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	314,226.08	51,346,741	-	51,346,741	-
	HSBC NT\$ Money Management Fund	-	Financial assets at fair value through profit or loss - current	1,372,353.90	20,243,730	-	20,243,730	-
	The Increment Fund	-	Financial assets at fair value through profit or loss - current	332,707.84	5,028,912	-	5,028,912	-
	The Wan Pao Fund	-	Financial assets at fair value through profit or loss - current	331,912.75	5,005,908	-	5,005,908	-
	<u>Stock</u> Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	76,658,284	-
	TransAsia Airways	-	Financial assets carried at cost - noncurrent	2,899,099	26,400,000	0.60	-	Note 3
	Titan V.C. Corp.	-	Financial assets carried at cost - noncurrent	5,000,000	50,000,000	5.30	-	Note 3
	Taiwan Airport Service (Samoa)	Subsidiary	Investments accounted for using equity method	-	199,799,520	100.00	199,799,520	Note 2
	<u>Beneficiary certificates</u> Citc Safe Income Fund	-	Financial assets at fair value through profit or loss - current	2,442,407.30	36,094,384	-	36,094,384	-
	Tiim High Yield Fund	-	Financial assets at fair value through profit or loss - current	2,313,045.83	28,507,596	-	28,507,596	-
	Citc High Yield	-	Financial assets at fair value through profit or loss - current	1,497,037.20	20,286,201	-	20,286,201	-
	Prudential Financial Return Fund	-	Financial assets at fair value through profit or loss - current	8,867,945.80	124,382,695	-	124,382,695	-
	Fuhwa Apex Bond Fund	-	Financial assets at fair value through profit or loss - current	430,016.90	5,042,507	-	5,042,507	-
	Citc Cash Reserves	-	Financial assets at fair value through profit or loss - current	517,193.20	6,023,853	-	6,023,853	-
Hwa Hsia	<u>Stock</u> Hwa Shin Building Safeguard Co., Ltd.	Subsidiary	Investments accounted for using equity method	1,000,000	11,669,042	100.00	11,669,042	-
	China Airlines	Parent company	Available-for-sale financial assets - current	1,086,571	16,733,193	-	16,733,193	-
Yestrip Co., Ltd.	<u>Beneficiary certificates</u> ABN AMRO Select Bond Fund	-	Financial assets at fair value through profit or loss - current	1,445,131.15	16,265,818	-	16,265,818	-
	Sheng Hua 5599 Bond Fund	-	Financial assets at fair value through profit or loss - current	906,035.10	10,086,255	-	10,086,255	-
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	18,513.50	3,025,235	-	3,025,235	-
Taiwan Airport Service (Samoa)	<u>Stock</u> Xiamen International Airport Air Cargo Terminal Co., Ltd.	Equity-method investee	Investments accounted for using equity method	-	144,605,245	13.00	144,605,245	Note 2
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Equity-method investee	Investments accounted for using equity method	-	55,194,275	13.00	10,381,952	Notes 2 and 4

(Continued)

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

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

Note 3: The subsidiary's financial statements as of and for the half year ended June 30, 2006 were not audited.

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: The subsidiary's net asset value as of June 30, 2006 was not audited. The difference between carrying value and net asset value of ICAS Co., Ltd. was due to the Company's writing off the carrying value to zero based on the resolution passed in the special meeting in August 2005 of the stockholders, who approved the liquidation of ICAS Co., Ltd.

Note 6: The subsidiary's net asset value was \$1,713,321,151 which included common stock and preferred stock.

Note 7: The financial assets included 659,109 units recorded in euros and 717,551 units recorded in U.S. dollars.

(Concluded)

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, 2006
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units	Amount	Shares/Units	Amount (Note)	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
China Airlines, Ltd.	<u>Beneficiary certificates</u>													
	Fuhwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	\$ -	118,391,566.63	\$ 1,500,252,056	79,007,843.14	\$ 1,000,340,666	\$ 1,000,000,000	\$ 340,666	39,383,723.49	\$ 500,252,056
	Pca Unique Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	32,869,652.10	500,246,522	-	-	-	-	32,869,652.10	500,246,522
	Chung Hsing Pion Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	61,242,761.40	650,249,560	14,156,018.20	150,075,027	150,000,000	75,027	47,086,743.20	500,249,560
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss - current	-	-	22,281,308.95	300,073,528	129,483,633.43	1,750,221,786	122,233,532.03	1,650,655,946	1,650,000,000	655,946	29,531,410.35	400,295,314
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	34,218,710.80	450,051,326	174,185,875.30	2,300,151,209	178,175,525.40	2,351,511,254	2,350,000,000	1,511,254	30,229,060.70	400,202,535
	ING CHB Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	25,708,042.33	300,136,253	-	-	-	-	25,708,042.33	300,136,253
	Grand Cathay Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	19,443,904.30	250,114,719	-	-	-	-	19,443,904.30	250,114,719
	Tlam Solomon Bond Fund	Financial assets at fair value through profit or loss - current	-	-	34,783,516.09	400,048,696	233,755,711.83	2,700,078,738	246,940,209.38	2,852,137,664	2,850,000,000	2,137,664	21,599,018.54	250,127,434
	Union Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,425,241.46	150,045,973	-	-	-	-	12,425,241.46	150,045,973
	Ta Chong Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	89,077,563.10	1,150,000,000	89,077,563.10	1,150,550,802	1,150,000,000	550,802	-	-
	Ta Chong Gallop Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	18,527,782.50	200,000,000	18,527,782.50	200,122,284	200,000,000	122,284	-	-
	Mega Diamond Bond Fund	Financial assets at fair value through profit or loss - current	-	-	17,619,903.44	200,015,858	92,012,027.56	1,049,984,142	109,631,931.00	1,250,653,636	1,250,000,000	653,636	-	-
	PCA Bond Fund	Financial assets at fair value through profit or loss - current	-	-	6,519,754.90	100,000,000	6,508,721.70	100,000,000	13,028,476.60	200,128,987	200,000,000	128,987	-	-
	PCA Well Pool Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	20,152,361.90	250,000,000	20,152,361.90	250,165,280	250,000,000	165,280	-	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	13,872,030.50	200,019,421	65,678,335.10	949,980,579	79,550,365.60	1,150,684,038	1,150,000,000	684,038	-	-
	NITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	53,642,441.70	750,000,000	53,642,441.70	750,332,564	750,000,000	332,564	-	-
	NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	2,157,324.42	350,094,922	8,287,241.55	1,349,905,078	10,444,565.97	1,701,169,248	1,700,000,000	1,169,248	-	-
	Barits Bond Fund	Financial assets at fair value through profit or loss - current	-	-	20,847,926.90	250,056,290	16,609,738.30	199,943,710	37,457,665.20	450,270,910	450,000,000	270,910	-	-
	Cathay Bond Fund	Financial assets at fair value through profit or loss - current	-	-	17,573,302.60	200,028,117	52,512,050.70	599,971,883	70,085,353.30	800,259,164	800,000,000	259,164	-	-
	The Increment Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	6,634,995.62	100,000,000	6,634,995.62	100,063,032	100,000,000	63,032	-	-
	Sheng Hua 1699 Bond Fund	Financial assets at fair value through profit or loss - current	-	-	8,161,333.24	100,000,000	-	-	8,161,333.24	100,029,381	100,000,000	29,381	-	-
	Sheng Hua 5599 Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	22,512,089.90	250,000,000	22,512,089.90	250,111,718	250,000,000	111,718	-	-
	UPAMC JAMES bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	19,612,832.50	300,000,000	19,612,832.50	300,124,882	300,000,000	124,882	-	-

(Continued)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units	Amount	Shares/Units	Amount (Note)	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	16,824,253.84	\$ 250,028,601	\$ 117,464,222.31	\$ 1,749,971,399	134,288,476.15	\$ 2,001,322,375	\$ 2,000,000,000	\$ 1,322,375	-	\$ -
	KGI Victory Fund	Financial assets at fair value through profit or loss - current	-	-	18,841,617.36	200,015,073	14,066,544.13	149,984,927	32,908,161.49	350,112,339	350,000,000	112,339	-	-
	Fubon Chi-Hsiang II Fund	Financial assets at fair value through profit or loss - current	-	-	13,916,625.40	200,025,049	-	(25,049)	13,916,625.40	200,043,140	200,000,000	43,140	-	-
	Fubon Chi-HsianG III Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	19,026,237.18	200,000,000	19,026,237.18	200,097,034	200,000,000	97,034	-	-
	Truswell Bond Fund	Financial assets at fair value through profit or loss - current	-	-	15,868,104.30	200,012,694	7,914,711.10	99,987,306	23,782,815.40	300,101,448	300,000,000	101,448	-	-
	Invesco Income Fund	Financial assets at fair value through profit or loss - current	-	-	26,609,898.88	300,031,932	17,675,714.43	199,968,068	44,285,613.31	500,246,029	500,000,000	246,029	-	-
	HSBC NTS Money Management Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	35,843,321.70	500,000,000	35,843,321.70	500,240,151	500,000,000	240,151	-	-
	NTS High Yield Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	85,005,920.33	1,400,000,000	85,005,920.33	1,400,793,081	1,400,000,000	793,081	-	-
	Shinkong Chi-Shin Fund	Financial assets at fair value through profit or loss - current	-	-	14,146,672.72	200,007,074	-	(7,074)	14,146,672.72	200,113,880	200,000,000	113,880	-	-
	New Light Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	63,994,377.66	650,000,000	63,994,377.66	650,298,356	650,000,000	298,356	-	-
	Forever Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	10,438,921.87	150,000,000	10,438,921.87	150,064,721	150,000,000	64,721	-	-
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	13,287,932.90	200,024,583	29,831,165.10	449,975,417	43,119,098.00	650,488,373	650,000,000	488,373	-	-
	JF (Taiwan) First Bond Fund	Financial assets at fair value through profit or loss - current	-	-	10,819,310.30	150,028,130	14,398,640.80	199,971,870	25,217,951.10	350,391,513	350,000,000	391,513	-	-
	Polaris Di-Po Fund	Financial assets at fair value through profit or loss - current	-	-	27,438,104.20	300,032,926	82,049,825.10	899,967,074	109,487,929.30	1,200,502,417	1,200,000,000	502,417	-	-
Taiwan Air Cargo Terminal	<u>Beneficiary certificates</u> Sheng Hua 5599 Bond Fund	Financial assets at fair value through profit or loss - current	-	-	25,227,522.37	279,081,989	-	-	25,227,522.37	279,663,719	279,081,989	581,730	-	-
	The Increment Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	6,634,446.07	100,000,000	6,634,446.07	100,098,532	100,000,000	98,532	-	-
	Cathay Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,260,557.90	140,454,500	-	-	-	-	12,260,557.90	140,454,500
	Ta Chong Bond Fund	Financial assets at fair value through profit or loss - current	-	-	7,831,834.90	100,577,990	8,522,939.60	110,908,869	-	-	-	-	16,354,774.50	211,486,859
Mandarin Airlines	<u>Government bonds</u> Central Government Bonds-8914 Central Government Bonds-94A2	Cash and cash equivalents Cash and cash equivalents	- -	- -	235,400.00 300,000.00	23,540,000 30,000,000	1,516,667.00 1,000,000.00	151,666,667 100,000,000	235,400.00 1,300,000.00	27,125,472 130,113,025	23,540,000 130,000,000	3,585,472 113,025	1,516,667.00 -	151,666,667 -
Taiwan Airport Services	<u>Beneficiary certificates</u> Prudential Financial Return Fund	Financial assets at fair value through profit or loss - current	-	-	6,769,257.94	94,096,747	9,952,310.44	139,242,949	7,853,622.58	109,500,000	108,957,001	542,999	8,867,945.80	124,382,695
	CTIC Safe Income Fund	Financial assets at fair value through profit or loss - current	-	-	7,459,604.70	109,364,519	2,224,675.80	32,422,965	7,241,873.20	106,500,000	105,693,100	806,900	2,442,407.30	36,094,384

Note: Including cumulative effect of changes in accounting principles at the beginning of the period and valuation gain and loss on financial assets at the end of the period.

(Concluded)

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, 2006
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal Mandarin Airlines	Subsidiary	Purchase	\$ 127,864,996	0.25	30 days	\$ -	-	\$ (31,296,653)	(1.93)	-
		Subsidiary	Sale	(743,068,936)	(1.31)	2 months	-	-	297,058,575	3.18	-
	Taoyuan International Airport Services China Pacific Catering Services Taiwan Airport Services China Aircraft Services Limited Hwa Hsia	Subsidiary	Purchase	387,285,433	0.78	2 months	-	-	(678,252,794)	(42.44)	-
			Purchase	430,340,534	0.87	30 days	-	-	(186,958,069)	(11.70)	-
		Subsidiary	Purchase	524,153,223	1.05	60 days	-	-	(273,983,754)	(17.14)	-
		Subsidiary	Purchase	130,398,927	0.26	40 days	-	-	(47,030,257)	(2.94)	-
		Equity-method investee	Purchase	121,897,399	0.25	30 days	-	-	(41,944,583)	(2.62)	-
		Subsidiary	Purchase	103,723,643	0.21	2 months	-	-	(20,285,124)	(1.27)	-
Taiwan Air Cargo Terminal	China Airlines	Parent company	Sale	(127,864,996)	(11.70)	30 days	-	-	31,296,653	35.57	-
Mandarin Airlines	China Airlines	Parent company	Purchase	743,068,936	31.22	2 months	-	-	(297,058,575)	(88.97)	-
			Sale	(387,285,435)	(15.25)	2 months	-	-	678,252,794	84.31	-
Taoyuan International Airport Services	China Airlines	Parent company	Sale	(430,340,534)	(39.64)	30 days	-	-	186,958,069	52.81	-
China Pacific Catering Services	China Airlines	Parent company	Sale	(524,153,223)	(61.49)	60 days	-	-	273,983,754	73.14	-
Taiwan Airport Services	China Airlines	Parent company	Sale	(130,398,927)	(31.30)	40 days	-	-	47,030,257	36.99	-
China Aircraft Services Limited	China Airlines	Investor using equity method	Sale	(121,897,399)	(18.19)	30 days	-	-	41,944,583	20.12	-
Hwa Hsia	China Airlines	Parent company	Sale	(103,723,643)	(84.59)	2 months	-	-	20,285,124	76.23	-

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, 2006

(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 297,058,575	6.94	\$ -	-	\$ 78,729,417	\$ -
Mandarin Airlines	China Airlines	Parent company	678,252,794	1.38	-	-	58,411,614	-
Taoyuan International Airport Services	China Airlines	Parent company	186,958,069	4.44	-	-	75,807,273	-
China Pacific Catering Services	China Airlines	Parent company	273,983,754	4.06	-	-	89,412,217	-

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2006
(In New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2006			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2006	December 31, 2005	Shares	Percentage of Ownership	Carrying Value			
China Airlines, Ltd.	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	\$ 1,350,000,000	\$ 1,350,000,000	135,000,000	54.00	\$ 1,655,818,926	\$ 195,097,863	\$ 98,947,631	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368,252	2,042,368,252	188,154,026	93.99	1,495,752,520	52,163,921	65,463,631	Note 2
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 42,850,000	US\$ 42,850,000	42,850,000	100.00	1,395,640,588	(61,731,614)	(61,731,614)	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000,000	147,000,000	34,300,000	49.00	802,839,731	106,228,522	51,187,558	-
	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	855,942,875	22,501,522	22,501,522	Note 1
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	438,600,000	438,600,000	43,860,000	51.00	582,230,879	134,194,743	68,312,451	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	90,000,000	90,000,000	22,450,008	93.93	366,833,016	47,998,517	42,227,949	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289,100	12,289,100	17,188,870	47.35	343,048,701	23,214,994	10,768,850	-
	China Aircraft Service Ltd.	Hong Kong International Airport	Airport services	HK\$ 58,000,000	HK\$ 58,000,000	28,400,000	20.00	261,486,896	161,272,172	32,254,434	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	115,500,000	115,500,000	12,705,000	31.76	159,097,467	54,381,616	15,962,149	-
	Science Park Logistics Co.	Tainan, Taiwan	Storage and customs of services	150,654,000	150,654,000	13,293,000	28.48	159,225,110	32,534,504	8,779,419	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50	105,135,708	27,256,858	6,661,667	-
	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	109,385,909	1,301,503	715,827	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000	100.00	77,011,439	12,128,821	11,586,616	Note 2
	Yestrip Co., Ltd.	Taipei, Taiwan	Travel business	36,264,643	36,264,643	2,600,000	100.00	30,640,020	1,490,184	1,316,626	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00	22,823,359	272,677	272,677	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00	5,548,859	5,300,740	1,255,414	-
	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	-	-	-
ICAS Co., Ltd.	Taoyuan, Taiwan	Manufacture, sale and maintenance of aircraft parts and entire aircraft	67,500,000	67,500,000	6,750,000	48.21	-	-	-	-	
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	-	-	-	-
Cal-Asia Investment	Yangtze River Express Airlines Co., Ltd.	Shanghai	Forwarding and storage of air cargo	US\$ 35,538,373	US\$ 35,538,373	-	25.00	1,091,193,007	(292,354,239)	(73,088,576)	Note 3
	Xiamen International Airport Air Cargo Terminal Co., Ltd.	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 3,254,526	US\$ 3,254,526	-	12.00	133,481,765	60,671,650	7,280,583	Note 3
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Xiamen International Airport	Airport cargo and storage of air cargo	US\$ 1,626,428	US\$ 1,626,428	-	12.00	52,523,987	8,231,618	987,799	Note 3
	Eastern United International Logistics	Hong Kong International Airport	Forwarding and storage of air cargo	HK\$ 1,500,000	HK\$ 1,500,000	600,000	20.00	12,277,745	8,034,172	1,606,828	-
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	45,512,080	7,480,455	1,944,918	-
	Tao Yao Co., Ltd.	Taoyuan, Taiwan	Manpower placement and machine installation	10,000,000	10,000,000	1,000,000	100.00	11,103,392	38,702	40,173	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	TrustNet Chabers, Loteman Centre, P.O. Box 1225, Apia, Samoa	Airport services and investment	US\$ 5,294,476	US\$ 5,294,476	-	100.00	199,799,520	8,926,838	8,926,838	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	11,669,042	1,154,958	1,154,958	-
Taiwan Airport Service (Samoa)	Xiamen International Airport Air Cargo Terminal Co., Ltd.	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 3,525,726	US\$ 3,525,726	-	13.00	144,605,245	60,464,562	7,860,393	Note 3
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Xiamen International Airport	Airport cargo and storage of air cargo	US\$ 1,768,750	US\$ 1,768,750	-	13.00	55,194,275	8,203,423	1,066,445	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, 2006
(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, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of June 30, 2006	Accumulated Inward Remittance of Earnings as of June 30, 2006
					Outflow	Inflow					
Xiamen International Air Cargo Terminal Ltd.	Forwarding and storage of air cargo	\$ 916,619,028 (RMB 224,480,000)	Indirect (Note 1)	\$ 106,357,059 (US\$ 3,254,526)	\$ -	\$ -	\$ 106,357,059 (US\$ 3,254,526)	12%	\$ 7,280,583 (US\$ 224,970)	\$ 133,481,765 (US\$ 4,084,542)	\$ -
Xiamen International Airport Air Cargo Storage Co., Ltd.	Airport cargo and storage of air cargo	57,166,190 (RMB 14,000,000)	Indirect (Note 1)	53,151,242 (US\$ 1,626,428)	-	-	53,151,242 (US\$ 1,626,428)	12%	987,799 (US\$ 30,523)	52,523,987 (US\$ 1,607,234)	-
Yangtze River Express Airlines Co., Ltd.	Forwarding and storage of air cargo	2,041,649,653 (RMB 500,000,000)	Indirect (Note 1)	1,161,384,739 (US\$ 35,538,373)			1,161,384,739 (US\$ 35,538,373)	25%	(73,088,576) (US\$ -2,258,437)	1,091,193,007 (US\$ 33,390,506)	-

Accumulated Investment in Mainland China as of June 30, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,320,893,039 (US\$40,419,327)	\$1,472,222,222 (US\$45,050,000)	\$12,474,068,112 (Note 3)

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

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

Note 3: The limits based on the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China Adjustment Rule," are as follows: 40% for an NT\$5 billion investment, 30% for investments of over NT\$5 billion to NT\$10 billion, and 20% for investments of over NT\$10 billion.