

EVA AIRWAYS CORP.
Financial Statements
December 31, 2004 and 2003
(With Auditors' Report Thereon)

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The Board of Directors
EVA Airways Corp.:

We have audited the balance sheets of EVA Airways Corp. as of December 31, 2004 and 2003, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain non-consolidated investee companies. The Company's investments in these companies as of December 31, 2004 and 2003, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$2,204,586 thousand (US\$69,072 thousand) and NT\$2,117,640 thousand (US\$62,320 thousand), respectively. The resulting investment gains amounted to NT\$206,836 thousand (US\$6,192 thousand) and investment losses amounted to NT\$22,745 thousand (US\$660 thousand) for the years 2004 and 2003, respectively. The financial statements of these companies were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to these amounts included for the said investee companies, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements of EVA Airways Corp. referred to in the first paragraph present fairly, in all material respects, the financial position of EVA Airways Corp. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with Republic of China generally accepted accounting principles.

February 18, 2005

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the 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.

EVA AIRWAYS CORP.

Balance Sheets

December 31, 2004 and 2003
(expressed in thousands of dollars)

Assets	NT dollars		US dollars		Liabilities and Stockholders' Equity	NT dollars		US dollars	
	2004	2003	2004	2003		2004	2003	2004	2003
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4(1))	\$ 1,472,601	1,700,082	46,138	50,032	Short-term borrowings (notes 4(9) and 7)	\$ 1,600,000	3,360,000	50,130	98,882
Short-term investments (note 4(2))	5,350,027	6,243,203	167,623	183,731	Payable on commercial paper (note 4(9))	99,958	819,516	3,132	24,117
Notes receivable	397,163	388,354	12,444	11,429	Notes payable	242	3,805	7	112
Accounts receivable, net	7,260,497	5,757,424	227,481	169,436	Accounts payable	1,264,961	1,607,623	39,633	47,311
Accounts receivable - related parties (note 5)	46,888	34,553	1,469	1,017	Accounts payable - related parties (note 5)	1,032,424	816,351	32,347	24,024
Other receivables - related parties (note 5)	242,182	203,828	7,588	5,998	Tax payable	514,559	-	16,122	-
Other financial assets - current (note 4(3))	239,662	167,863	7,509	4,940	Accrued expenses (note 4(18))	5,764,087	4,898,068	180,596	144,146
Inventories (note 4(4))	7,246,633	6,983,468	227,046	205,517	Other payables - related parties (note 5)	98,234	69,137	3,078	2,035
Prepaid expenses	2,468,125	1,679,889	77,329	49,438	Other payables (notes 4(12) and 4(13))	2,590,916	3,520,779	81,177	103,613
Other prepayments	288,614	365,708	9,043	10,762	Unearned revenue	7,430,350	5,323,404	232,802	156,663
Deferred income tax assets - current (note 4(15))	454,783	973,875	14,249	28,660	Current portion of long-term liabilities (notes 4(10), 4(11) and 6, 7)	12,480,472	8,018,157	391,029	235,967
Other current assets (note 4(18))	295,264	196,188	9,251	5,774	Other current liabilities (note 4(18))	520,333	426,614	16,303	12,555
Total current assets	<u>25,762,439</u>	<u>24,694,435</u>	<u>807,170</u>	<u>726,734</u>	Lease liability - current (note 4(7))	578,659	-	18,130	-
Long-term equity investments (note 4(5)):					Total current liabilities	<u>33,975,195</u>	<u>28,863,454</u>	<u>1,064,486</u>	<u>849,425</u>
Long-term equity investments under equity method	6,714,935	6,246,480	210,387	183,828	Long-term liabilities:				
Long-term equity investments under cost method	4,067,360	4,280,626	127,436	125,975	Bonds payable (note 4(11))	6,973,154	6,410,500	218,478	188,655
Net long-term equity investments	<u>10,782,295</u>	<u>10,527,106</u>	<u>337,823</u>	<u>309,803</u>	Long-term borrowings (notes 4(10), 6 and 7)	11,679,522	21,458,585	365,934	631,506
Property, plant and equipment (notes 4(6), 4(7), 6 and 7):					Other installments payable (note 4(12))	493,905	1,673,641	15,475	49,254
Land	1,869,784	1,869,784	58,583	55,026	Aircraft payable (note 4(13))	12,764,324	15,621,978	399,922	459,740
Buildings	4,391,446	4,391,446	137,590	129,236	Lease liability - noncurrent (note 4(7))	6,025,726	-	188,794	-
Machinery and equipment	3,691,019	5,955,661	115,644	175,270	Total long-term liabilities	<u>37,936,631</u>	<u>45,164,704</u>	<u>1,188,603</u>	<u>1,329,155</u>
Aircraft	64,036,748	73,956,316	2,006,352	2,176,466	Other liabilities:				
Rotable parts	429,547	445,470	13,458	13,110	Accrued employee retirement liabilities (note 4(14))	833,969	817,121	26,129	24,047
	74,418,544	86,618,677	2,331,627	2,549,108	Other liabilities (note 4(18))	1,850,989	1,609,893	57,994	47,378
Less: accumulated depreciation	(28,318,551)	(29,740,205)	(887,256)	(875,227)	Total other liabilities	<u>2,684,958</u>	<u>2,427,014</u>	<u>84,123</u>	<u>71,425</u>
Leased assets, net	6,602,359	-	206,860	-	Total liabilities	<u>74,596,784</u>	<u>76,455,172</u>	<u>2,337,212</u>	<u>2,250,005</u>
Construction in progress	4,868	4,868	152	143	Stockholders' equity (note 4(16)):				
Advances for purchases of equipment	7,785,375	2,219,021	243,926	65,304	Common stock	32,714,259	27,534,330	1,123,557	970,537
Net property, plant and equipment	<u>60,492,595</u>	<u>59,102,361</u>	<u>1,895,309</u>	<u>1,739,328</u>	Capital surplus	3,099,862	2,599,741	102,271	87,450
Other assets:					Retained earnings:				
Deferred pension cost (note 4(14))	191,064	218,358	5,986	6,426	Legal reserve	403,372	263,754	11,690	7,636
Refundable deposits (note 7)	15,130,480	16,203,593	474,057	476,857	Retained earnings	4,708,083	2,764,841	139,411	80,054
Deferred charges (note 4(8))	3,508,848	2,883,421	109,937	84,856	Total retained earnings	<u>5,111,455</u>	<u>3,028,595</u>	<u>151,101</u>	<u>87,690</u>
Deferred income tax assets - noncurrent (note 4(15))	955,811	336,499	29,947	9,903	Other stockholders' equity adjustments:				
Other assets (note 6)	881,464	702,438	27,617	20,672	Deferred credit	334,275	193,865	10,144	5,745
Total other assets	<u>20,667,667</u>	<u>20,344,309</u>	<u>647,544</u>	<u>598,714</u>	Cumulative translation adjustments	2,067,954	4,989,232	(29,883)	(23,015)
					Net loss not yet recognized as net pension cost	(219,593)	(132,724)	(6,555)	(3,833)
					Total other stockholders' equity adjustments	<u>2,182,636</u>	<u>5,050,373</u>	<u>(26,294)</u>	<u>(21,103)</u>
					Total stockholders' equity	<u>43,108,212</u>	<u>38,213,039</u>	<u>1,350,635</u>	<u>1,124,574</u>
					Commitments and contingencies (note 7)				
Total assets	<u>\$ 117,704,996</u>	<u>114,668,211</u>	<u>3,687,846</u>	<u>3,374,579</u>	Total liabilities and stockholders' equity	<u>\$ 117,704,996</u>	<u>114,668,211</u>	<u>3,687,846</u>	<u>3,374,579</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Operations

For the years ended December 31, 2004 and 2003
(expressed in thousands of dollars, except earnings per share)

	NT dollars		US dollars	
	2004	2003	2004	2003
Operating revenue (note 5)	\$ 82,655,351	65,387,596	2,474,711	1,898,595
Operating cost (notes 4(18), 5 and 10)	<u>(71,114,492)</u>	<u>(56,835,812)</u>	<u>(2,129,176)</u>	<u>(1,650,285)</u>
Gross profit from operations	11,540,859	8,551,784	345,535	248,310
Operating expenses (notes 5 and 10)	<u>(6,825,502)</u>	<u>(6,058,097)</u>	<u>(204,357)</u>	<u>(175,903)</u>
Operating income	<u>4,715,357</u>	<u>2,493,687</u>	<u>141,178</u>	<u>72,407</u>
Non-operating income and gains:				
Interest income (note 5)	49,531	12,068	1,483	351
Investment income, net (note 4(5))	605,629	303,001	18,133	8,798
Exchange gains, net (note 4(18))	-	112,808	-	3,275
Recovery of unrealized loss on short-term investments	-	62,236	-	1,807
Other income	<u>466,965</u>	<u>414,394</u>	<u>13,981</u>	<u>12,033</u>
	<u>1,122,125</u>	<u>904,507</u>	<u>33,597</u>	<u>26,264</u>
Non-operating expenses and losses:				
Interest expenses, net of capitalized interest of NT\$140,923 thousand (US\$4,219 thousand) and NT\$56,556 thousand (US\$1,642 thousand) in 2004 and 2003, respectively (notes 4(6) and 4(18))	(1,887,263)	(2,144,560)	(56,505)	(62,269)
Exchange losses, net (note 4(18))	(173,839)	-	(5,205)	-
Other loss	<u>(93,751)</u>	<u>(37,452)</u>	<u>(2,807)</u>	<u>(1,088)</u>
	<u>(2,154,853)</u>	<u>(2,182,012)</u>	<u>(64,517)</u>	<u>(63,357)</u>
Income before income tax	3,682,629	1,216,182	110,258	35,314
Income tax benefit (expenses) (note 4(15))	<u>(439,694)</u>	<u>180,000</u>	<u>(13,164)</u>	<u>5,226</u>
Net income	<u>\$ 3,242,935</u>	<u>1,396,182</u>	<u>97,094</u>	<u>40,540</u>
Earnings per share (expressed in dollars) (note 4(17)):				
Basic earnings per share:				
Income before income tax	\$ <u>1.20</u>	<u>0.46</u>	<u>0.04</u>	<u>0.01</u>
Net income	\$ <u>1.06</u>	<u>0.53</u>	<u>0.03</u>	<u>0.02</u>
Diluted earnings per share:				
Income before income tax	\$ <u>1.09</u>	<u>0.43</u>	<u>0.03</u>	<u>0.01</u>
Net income	\$ <u>0.96</u>	<u>0.50</u>	<u>0.03</u>	<u>0.02</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2004 and 2003
(expressed in thousands of dollars)

	NT dollars							US dollars								
	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Total	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Total
Balance on December 31, 2002	\$ 24,250,000	2,352,079	-	2,637,542	115,228	5,788,070	(96,898)	35,046,021	875,214	80,261	-	76,252	3,431	(23,860)	(2,779)	1,008,519
Appropriation of earnings (note 4(16)):																
Legal reserve	-	-	263,754	(263,754)	-	-	-	-	-	-	7,636	(7,636)	-	-	-	-
Stock dividends	485,000	-	-	(485,000)	-	-	-	-	14,042	-	-	(14,042)	-	-	-	-
Cash dividends	-	-	-	(485,000)	-	-	-	(485,000)	-	-	-	(14,042)	-	-	-	(14,042)
Directors' and supervisors' remuneration	-	-	-	(10,000)	-	-	-	(10,000)	-	-	-	(290)	-	-	-	(290)
Employees' bonuses	-	-	-	(25,129)	-	-	-	(25,129)	-	-	-	(728)	-	-	-	(728)
Convertible bonds converted into common stock	2,799,330	250,170	-	-	-	-	-	3,049,500	81,281	7,264	-	-	-	-	-	88,545
Transfer of interest-premium arising from conversion option exercised to capital surplus	-	3,728	-	-	-	-	-	3,728	-	110	-	-	-	-	-	110
Decrease in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	(6,236)	-	-	-	-	-	(6,236)	-	(185)	-	-	-	-	-	(185)
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	-	(35,826)	(35,826)	-	-	-	-	-	-	(1,054)	(1,054)
Deferred credit	-	-	-	-	78,637	-	-	78,637	-	-	-	-	2,314	-	-	2,314
Net income for the year ended December 31, 2003	-	-	-	1,396,182	-	-	-	1,396,182	-	-	-	40,540	-	-	-	40,540
Translation adjustments for the year ended December 31, 2003	-	-	-	-	-	(798,838)	-	(798,838)	-	-	-	-	-	845	-	845
Balance on December 31, 2003	<u>27,534,330</u>	<u>2,599,741</u>	<u>263,754</u>	<u>2,764,841</u>	<u>193,865</u>	<u>4,989,232</u>	<u>(132,724)</u>	<u>38,213,039</u>	<u>970,537</u>	<u>87,450</u>	<u>7,636</u>	<u>80,054</u>	<u>5,745</u>	<u>(23,015)</u>	<u>(3,833)</u>	<u>1,124,574</u>
Appropriation of earnings (note 4(16)):																
Legal reserve	-	-	139,618	(139,618)	-	-	-	-	-	-	4,054	(4,054)	-	-	-	-
Stock dividends	1,121,073	-	-	(1,121,073)	-	-	-	-	32,551	-	-	(32,551)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	(10,000)	-	-	-	(10,000)	-	-	-	(290)	-	-	-	(290)
Employees' bonuses	-	-	-	(29,002)	-	-	-	(29,002)	-	-	-	(842)	-	-	-	(842)
Cash subscription	2,200,000	330,000	-	-	-	-	-	2,530,000	64,735	9,710	-	-	-	-	-	74,445
Convertible bonds converted into common stock	1,858,856	159,944	-	-	-	-	-	2,018,800	55,734	4,816	-	-	-	-	-	60,550
Transfer of interest-premium arising from conversion option exercised to capital surplus	-	6,685	-	-	-	-	-	6,685	-	192	-	-	-	-	-	192
Transfer of donated assets of investee company under equity method to capital surplus	-	30	-	-	-	-	-	30	-	1	-	-	-	-	-	1
Increase in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	3,462	-	-	-	-	-	3,462	-	102	-	-	-	-	-	102
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	-	20,429	20,429	-	-	-	-	-	-	640	640
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	-	(107,298)	(107,298)	-	-	-	-	-	-	(3,362)	(3,362)
Deferred credit	-	-	-	-	140,410	-	-	140,410	-	-	-	-	4,399	-	-	4,399
Net income for the year ended December 31, 2004	-	-	-	3,242,935	-	-	-	3,242,935	-	-	-	97,094	-	-	-	97,094
Translation adjustments for the year ended December 31, 2004	-	-	-	-	-	(2,921,278)	-	(2,921,278)	-	-	-	-	-	(6,868)	-	(6,868)
Balance on December 31, 2004	<u>\$ 32,714,259</u>	<u>3,099,862</u>	<u>403,372</u>	<u>4,708,083</u>	<u>334,275</u>	<u>2,067,954</u>	<u>(219,593)</u>	<u>43,108,212</u>	<u>1,123,557</u>	<u>102,271</u>	<u>11,690</u>	<u>139,411</u>	<u>10,144</u>	<u>(29,883)</u>	<u>(6,555)</u>	<u>1,350,635</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the years ended December 31, 2004 and 2003
(expressed in thousands of dollars)

	NT dollars		US dollars	
	2004	2003	2004	2003
Cash flows from operating activities:				
Net income	\$ 3,242,935	1,396,182	97,094	40,540
Adjustments to reconcile net income to net cash flow provided by operating activities:				
Depreciation	4,567,296	4,436,303	136,745	128,813
Amortization and maintenance expense	1,159,289	1,118,123	34,709	32,466
Recovery from loss on devaluation of short-term investments	-	(62,236)	-	(1,807)
Gain on disposal of short-term investments	(114,037)	(14,131)	(3,414)	(410)
Loss on disposal and obsolescence of property, plant and equipment	19,785	20,402	592	592
Gain on disposal of long-term equity investments	(1,016)	(1,869)	(30)	(54)
Provision for unrealized exchange loss (gain) from long-term borrowings	(17,409)	1,774	(521)	52
Investment income	(605,629)	(303,001)	(18,133)	(8,798)
Amortization of deferred gain from sale and leaseback of fixed assets	(174,800)	(231,566)	(5,234)	(6,724)
Amortization of other deferred gain	(353,281)	(168,815)	(10,577)	(4,902)
Proceeds from cash dividends on long-term equity investments	116,606	94,811	3,491	2,753
Deferred income tax benefit	(100,220)	(203,717)	(3,001)	(5,915)
Increase in notes receivable	(8,809)	(74,809)	(276)	(2,202)
Decrease (increase) in accounts receivable (including related parties)	(1,515,408)	723,174	(47,480)	21,282
Decrease (increase) in other receivables from related parties	(38,354)	87,705	(1,202)	2,581
Increase in inventories	(259,990)	(178,875)	(8,146)	(5,264)
Decrease (increase) in prepaid expenses	(788,236)	102,133	(24,696)	3,006
Decrease in other prepayments	77,094	19,122	2,415	563
Increase in other financial assets - current	(71,799)	(62,895)	(2,250)	(1,851)
Increase in other current assets	(22,112)	(6,939)	(693)	(204)
Increase in tax payable	514,559	-	16,122	-
Increase in notes and accounts payable (including related parties)	380,407	307,650	11,919	9,054
Decrease in other payables (including related parties)	(537,572)	(346,572)	(16,843)	(10,199)
Increase in accrued expenses	866,019	69,490	27,133	2,045
Increase (decrease) in unearned revenue	2,106,946	(479,998)	66,013	(14,126)
Increase (decrease) in other current liabilities	97,058	(30,661)	3,041	(902)
Increase (decrease) in accrued employee retirement liabilities	(63,156)	26,896	(1,979)	792
Increase in other liabilities	180,137	1,055,576	5,644	31,065
Net cash provided by operating activities	<u>8,656,303</u>	<u>7,293,257</u>	<u>260,443</u>	<u>212,246</u>
Cash flows from investing activities:				
Decrease (increase) in short-term investments	1,007,213	(2,302,299)	31,557	(67,755)
Proceeds from disposal of long-term equity investments	2,599	112,330	81	3,306
Payments for purchase of long-term equity investments	(148,317)	(122,545)	(4,647)	(3,606)
Withdrawal of prepaid long-term equity investments	360,000	-	10,529	-
Proceeds from disposal of property, plant and equipment	4,396,665	8,521	137,753	251
Payments for purchase of property, plant and equipment	(6,037,833)	(2,564,886)	(189,173)	(75,482)
Decrease in refundable deposits and other assets	15,505	217,956	486	6,414
Increase in deferred charges	(1,784,716)	(1,316,156)	(55,917)	(38,733)
Net cash used in investing activities	<u>(2,188,884)</u>	<u>(5,967,079)</u>	<u>(69,331)</u>	<u>(175,605)</u>
Cash flows from financing activities:				
Increase in short-term borrowings	14,067,352	23,037,158	440,748	677,962
Increase in long-term borrowings	9,610,000	6,684,804	301,093	196,728
Installment payments for purchase of property, plant and equipment	(2,000,584)	(2,035,148)	(62,681)	(59,893)
Payments of cash dividends	-	(485,000)	-	(14,042)
Repayment of short-term borrowings	(16,546,910)	(23,648,434)	(518,436)	(695,951)
Repayment of long-term borrowings	(11,983,723)	(5,422,456)	(375,465)	(159,578)
Installment payments for purchase of inventories	(1,915,872)	(932,288)	(60,027)	(27,436)
Redemption of lease liability	(416,161)	-	(13,039)	-
Proceeds from disposal of inventories	-	1,666,000	-	49,029
Proceeds from issuance of common stock	2,530,000	-	74,445	-
Payment of employees' bonuses and directors' remuneration	(39,002)	(35,129)	(1,132)	(1,018)
Net cash used in financing activities	<u>(6,694,900)</u>	<u>(1,170,493)</u>	<u>(214,494)</u>	<u>(34,199)</u>
Effect of exchange rate changes on cash	-	-	19,488	3,147
Net increase (decrease) in cash and cash equivalents	(227,481)	155,685	(3,894)	5,589
Cash and cash equivalents at beginning of year	<u>1,700,082</u>	<u>1,544,397</u>	<u>50,032</u>	<u>44,443</u>
Cash and cash equivalents at end of year	<u>\$ 1,472,601</u>	<u>1,700,082</u>	<u>46,138</u>	<u>50,032</u>
Additional disclosure of cash flow information:				
Cash payments of interest (excluding capitalized interest expense)	\$ <u>1,892,176</u>	<u>2,261,506</u>	<u>56,652</u>	<u>65,665</u>
Cash payments of income tax	\$ <u>24,747</u>	<u>23,489</u>	<u>741</u>	<u>682</u>
Supplemental schedule of noncash investing and financing activities:				
Current portion of long-term borrowings	\$ <u>12,480,472</u>	<u>8,018,157</u>	<u>391,029</u>	<u>235,967</u>
Inventory transferred from fixed assets	\$ <u>3,175</u>	<u>56,154</u>	<u>99</u>	<u>1,653</u>
Translation adjustments	\$ <u>(2,921,278)</u>	<u>(798,838)</u>	<u>(6,868)</u>	<u>845</u>
Deferred credit	\$ <u>140,410</u>	<u>78,637</u>	<u>4,399</u>	<u>2,314</u>
Outstanding balance of lease liability resulting from lease assets	\$ <u>(6,787,889)</u>	<u>-</u>	<u>(212,673)</u>	<u>-</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Notes to Financial Statements

December 31, 2004 and 2003

(amounts not otherwise specified are expressed in thousands of dollars)

1. Organization and Business Scope

EVA Airways Corp. (the Company) was incorporated on April 7, 1989, as a corporation limited by shares under special permission of the Ministry of Transportation and Communications and under the Company Law of the Republic of China (ROC). The Company commenced operations on July 1, 1991.

The Company's business activities are

- 1.1 to engage in fixed-wing aircraft transport business, helicopter transport business, scheduled air transport business, and nonscheduled air transport business;
- 1.2 to carry on the business of freight agent, including operations, transportation and maintenance;
- 1.3 to repair and maintain fuselages, aircraft engines, navigational instruments and related equipment, etc.;
- 1.4 to carry on the business of marketing aircraft facilities, equipment, and fittings;
- 1.5 to process and manufacture machinery and spare parts;
- 1.6 to publish magazines in the field of aviation;
- 1.7 to provide on-the-job training delegated by other organizations and entities (no recruitment from the general public is allowed);
- 1.8 to engage in maintaining flying facilities for navigational training;
- 1.9 to engage in import and export trading for the foregoing activities (excluding businesses requiring a permit);
- 1.10 to provide consultant services for business operation and management;
- 1.11 to provide general advertising services;
- 1.12 to engage in the retailing of tobacco and alcohol;
- 1.13 to engage in general merchandise activities;
- 1.14 to engage in the retailing of food and beverages;
- 1.15 to engage in the retailing of apparel;
- 1.16 to engage in the retailing of umbrellas;
- 1.17 to engage in the retailing of hats and caps;

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements**

- 1.18 to engage in the retailing of books and stationery;
- 1.19 to engage in the retailing of sporting goods;
- 1.20 to engage in the retailing of toys and amusement goods;
- 1.21 to engage in the retailing of watches and clocks;
- 1.22 to engage in the retailing of glasses;
- 1.23 to engage in the retailing of weights and measures;
- 1.24 to engage in the retailing of jewelry and precious metals;
- 1.25 to carry out any business which is not prohibited or restricted by the applicable laws and regulations, excluding those requiring licensing.

As of December 31, 2004 and 2003, the Company had hired 4,934 and 4,469 employees, respectively.

2. Summary of Significant Accounting Policies

The Company prepared the accompanying financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and ROC generally accepted accounting principles. The major accounting policies and basis of measurement used in preparing the financial statements are summarized below.

(1) Foreign currency transactions and translation

The Company maintains its books in New Taiwan dollars. Transactions negotiated and settled in foreign currencies are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date, and unrealized exchange gains or losses are reflected in the statement of operations.

For equity investments in foreign subsidiary companies which are accounted for by the equity method, the translation differences resulting from translating foreign financial statements from the functional currency to the reporting currency are reported as cumulative translation adjustments. Cumulative translation adjustments are reported as a separate component of stockholders' equity.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements**

(2) US dollar financial statement presentation

Financial statements stated in New Taiwan dollars are translated into US dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders' equity accounts, which are translated at historical rates, and revenues, costs, and expenses, which are translated at the average exchange rates during the reporting period. Translation differences resulting from translation of the financial statements into US dollars are recorded as cumulative translation adjustments, a separate component of stockholders' equity.

(3) Translation of foreign currency for foreign operating units

The Company regards the aircraft purchased with its own US dollar funds and US dollar loans and operated for international passenger and cargo transportation business as "foreign operating units".

The aircraft and the related US dollar loans at the balance sheet date are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. The translation differences resulting from the translation of the aircraft and the related US dollar loans into New Taiwan dollars at the exchange rate prevailing on the balance sheet date and historical rates are reported as cumulative translation adjustments. The aircraft stated in US dollars are depreciated by using the same method and the same useful lives, and the resulting US dollar depreciation amounts are translated into New Taiwan dollars at the current year's average exchange rate.

The lease assets and lease liability arising from capital lease of aircraft at the balance sheet date are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. The translation differences resulting from the translation of the aircraft at the exchange rate prevailing on the balance sheet date and historical rates are reported as cumulative translation adjustments. The leased aircraft stated in US dollars are depreciated by using the same method and the same useful lives, and the resulting US dollar depreciation amounts are translated into New Taiwan dollars at the current year's average exchange rate.

In addition, the translation differences resulting from the translation of the refundable deposits for aircraft leases into New Taiwan dollars at the exchange rate prevailing on the balance sheet date and historical rates are also reported as cumulative translation adjustments.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(4) Lease**

The Company sold and leased back aircraft under operating lease agreements. The translation differences resulting from the translation of the aircraft and the related US dollar loans into New Taiwan dollars at the exchange rate prevailing on the selling date and historical rates and the gains or losses from disposing of aircraft resulting from the translation of the US dollar selling price and US dollar book value of aircraft at the exchange rate prevailing on the selling date were net gains that should be deferred using the unearned gain on sales-leaseback account according to ROC Statement of Financial Accounting Standards (SFAS) No. 2, "Accounting for Leases", otherwise it should be taken as a loss.

The Company sold and leased back aircraft under capital lease agreements. The disposal gains resulting from the differences between the US dollar selling price and the US dollar book value of the aircraft at the exchange rates prevailing on the selling date were deferred using the unearned gain on sales-leaseback account according to ROC SFAS No. 2, "Accounting for Leases", otherwise, if it was disposal loss, it should be recognized as a loss.

The amortization of the unearned gain on sales-leaseback depends on the nature of the lease. For operating leases, the unearned gain should be amortized to rental expense using the lease term. For capital leases, however, the unearned gain should be amortized to depreciation expense using the leased property's useful economic life or lease term based on its nature.

The value of the leased property is the smaller of the following two values: (a) the present value of all future rental payments (less the lessee's executory costs) plus the bargain purchase price or lessee's guaranteed residual value and (b) the leased property's market value at the inception date of the lease.

All leased property under capital leases should be depreciated. If the lease contract contains a bargain purchase option or allows the transfer of ownership at the end of the term, then the depreciation should be determined based on the leased property's useful economic life. The lease term is used otherwise.

The lessee's periodic rental payment is composed of two parts: (i) the purchase of the leased property and (ii) the interest expense due to long-term or installment financing. Therefore, the lessee should recognize both a lease liability and interest expense in each period. The interest expense is determined using the following rules:

- a) If the value of the leased property is determined using the maximum borrowing rate for nonfinancial institutions (determined by the ROC Ministry of Finance, Department of Treasury) on the inception date of the lease, then the interest expense is equal to the beginning balance of the lease payable times the maximum borrowing rate.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements**

- b) If the value of the leased property is determined by its market price, then the interest expense is still equal to the beginning balance of the lease payable times the maximum borrowing rate. However, a service charge should be calculated by multiplying the beginning balance of the lease payable by the difference between the lessor's interest rate implicit in the lease and the maximum borrowing rate.

If there is any unguaranteed residual value at the end of the lease term, the lessee should calculate the imputed interest expense based on the rental payments, the guaranteed residual value and the leased property's market value using the rules described in the above two paragraphs.

The lessee's lease payable is determined by subtracting the interest expense and the service charge from the periodic rental payment.

The lease liability should be classified as either a current liability or long-term liability, depending on the expiration date.

(5) Cash and cash equivalents

Cash includes cash on hand, savings and checking deposits, fixed time deposits, cash equivalents, etc. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(6) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value on the balance sheet date. Cost is determined by using the weighted-average method.

(7) Inventories

Inventories represent parts and supplies for maintenance of aircraft, and merchandise to sell during flights. Except for merchandise, which is stated at the lower of cost or market value, parts and supplies are stated at cost less allowance for slow-moving and obsolete items. Cost is calculated by the weighted-average method, and market value represents net realizable value.

(8) Long-term equity investments

Long-term equity investments are accounted for by the equity method where the percentage of ownership in an investee is 20% or more. Otherwise, long-term equity investments are accounted for by the cost method.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements**

For a long-term equity investment accounted for by the equity method, where the investment cost is different from the Company's net equity in the investee company upon the investment, the difference is amortized over a period of 5 to 20 years. The period of amortization is assessed and determined on a case-by-case basis.

When an investee issues new shares and the Company fails to subscribe to the new shares in proportion to the Company's ownership percentage in the investee, thus resulting in a change of net equity in the investee, the resulting difference is accounted for as an increase or a decrease in capital surplus (or retained earnings, whenever there is no capital surplus resulting from long-term equity investment to be deducted) and long-term equity investment.

Unrealized transaction gains or losses from inter-company transactions between the Company and its investees accounted for by the equity method are deferred. Unrealized gains or losses derived from transactions involving depreciable or amortizable assets are amortized over the useful lives of the related assets. Gains or losses from other transactions are recognized when realized.

The Company does not prepare consolidated financial statements to include the accounts of its subsidiaries over which the Company has, directly or indirectly, over 50% ownership and has controlling influence over their operating and financial policies and decisions. This is because all such controlled subsidiaries have total assets and operating revenues not exceeding 10% of the Company's non-consolidated total assets and operating revenues and thus are not consolidated in accordance with the ruling of the ROC Securities and Futures Commission (SFC). Under ROC SFC requirements, beginning in 1995, if the combined revenues and total assets of all such unconsolidated subsidiaries exceed 30 percent of the Company's unconsolidated total assets and operating revenues, then each individual subsidiary with total assets or operating revenues greater than 3 percent of the Company's respective unconsolidated amount shall be consolidated. Such subsidiaries shall be included in the consolidated financial statements thereafter, unless the percentage of the combined total amounts of such subsidiaries decreases to less than 20 percent of the Company's respective unconsolidated amounts. As of December 31, 2004, the Company's non-consolidated subsidiaries included Evergreen Airline Services Corp., Evergreen Aviation Technologies Corp., Evergreen Airways Service (Macau) Ltd., Evergreen Air Cargo Services Corp., and Hsiang-Li Investment Corp.

(9) Property, plant, and equipment, and related depreciation

Property, plant, and equipment are stated at acquisition cost. For construction of buildings and purchase of machinery and equipment, the Company capitalizes related interest costs incurred prior to commencement of the use of such assets and includes such capitalized interest costs in the cost of related assets. Routine repairs and maintenance are charged to current operations. Major repairs and maintenance, additions, enhancements and replacements are capitalized in the cost of related assets.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements**

Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets using the straight-line method. Leasehold improvements are depreciated over the shorter of the lease term or estimate useful lives using the straight-line method. If the depreciable assets are still in use when the useful lives have expired, such assets can be depreciated by their scrap value over the estimated remaining useful lives. The useful lives of main property, plant and equipment were as follows:

Buildings: 55 years

Machinery and equipment: 3~18 years

Aircraft: 18 years

Rotable parts: 5~18 years

Gains (losses) on disposal of such asset are presented as non-operating income and gains (expenses and losses).

(10) Deferred charges

Deferred charges principally include costs for computer software, leasehold improvements, trademarks, air route development, training of navigators, and “D” check maintenance for aircraft and engines. These costs are amortized using the straight-line method over the shorter of the estimated years in which such assets are economically beneficial to the Company’s operation or the lease terms.

(11) Derivative financial instruments

All derivatives are to be recognized as assets or liabilities on the balance sheet and measured at fair value. Change in the fair value of derivatives should be recognized either in net income or in deferred debit or credit (a separate component of stockholders’ equity), depending on the designated purpose of the derivatives.

(12) Other financial assets

Other financial assets are financial assets other than cash and cash equivalents, accounts receivable and other receivables, long-term equity investments, and refundable deposits.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(13) Employee retirement plan**

The Company has established a retirement plan pursuant to the ROC Labor Standards Law and contributed retirement funds consisting of 10.7% of total salaries from January 2003 to April 2003, and 11.9% of total salaries from May 2003, on a monthly basis to an account maintained by the government-designated institution.

The Company implemented ROC Statement of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pensions". SFAS No. 18 requires the Company to recognize a minimum pension liability, as of the balance sheet date, equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets, and to recognize net periodic pension costs. The net transition assets or obligations are amortized using the straight-line method over 15 years.

(14) Convertible bonds

The discount or premium on convertible bonds, which is measured as the difference between the issued price and par value, should be amortized over the period from issuance to maturity by using the interest method. The discount or premium on convertible bonds with a put option should be amortized over the period from its issuance date to the expiry date of the put option. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, should be amortized by using the interest method and recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option.

When the holder exercises the conversion option, the issuer should write off the unamortized discount or premium, issued costs, interest payable, pay-back interest from the holder, recognized interest-premium, and par value of the convertible bonds. The net written-off carrying amount of the convertible bonds over the par value of the common stock exchange certificate should be recognized as additional paid-in capital.

If the holder of convertible bonds with a put option does not exercise the put option by the expiry date, the issuer should amortize the interest premium, which has been recognized as a liability, over the period from the expiry date to the maturity date by using the interest method. However, if the market price of exchangeable common stock is higher than the specified put price of the bond, the issuer should reclassify the interest-premium liability as additional paid-in capital.

(15) Revenue recognition

Passenger ticket sales are recorded as unearned revenue, included in current liabilities, and recognized as revenue when the services are provided.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(16) Income tax**

The Company adopted ROC SFAS No. 22, "Accounting for Income Tax". Under this method, the amounts of deferred tax liabilities or assets are recognized for future tax effects attributable to temporary differences, loss carryforwards, and investment tax credits. The measurement of deferred tax assets or liabilities is based on provisions of enacted tax law. A valuation allowance is provided on deferred tax assets that may not be realized in the future.

Deferred income tax assets or liabilities are classified as current or noncurrent based on the classification of the related assets or liabilities. If no assets or liabilities are related, deferred income tax assets or liabilities are classified according to the period of realization.

The tax imputation system was adopted in accordance with the amendment of the ROC Income Tax Law. Under the new system, the Company may retain the earnings after December 31, 1997, by paying a 10% surtax on such undistributed earnings, and the surtax is accounted for as income tax expenses when due.

(17) Earnings per share

The amount of earnings per share is computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period.

The convertible bonds issued by the Company belong to potential common stock. When computing diluted EPS, potential common shares are included in the denominator if they are dilutive. On the contrary, anti-dilutive potential common shares are ignored in calculating dilutive EPS.

The calculation of diluted EPS is consistent with the calculation of basic EPS while giving the effects of all dilutive potential common shares that were outstanding during the reporting period. When calculating diluted EPS, the net income (or loss) attributable to common stockholders and the weighted-average number of shares outstanding shall be adjusted for the effects of all dilutive potential common shares.

The weighted-average number of common shares outstanding shall be adjusted currently and retroactively for the increase in common shares outstanding from stock issuance (capitalization of retained earnings, additional paid-in capital, or employees' bonus).

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(18) Criterion to classify assets and liabilities as current or noncurrent

Current assets are cash and other assets that a business will convert to cash or use up in a relatively short period of time, one year or one operating cycle, whichever is longer. Current liabilities are debts due within one year or one operating cycle, whichever is longer.

3. The Reason for and Effect of Accounting Changes: none.**4. The Important Accounts Are Listed Below:**

(1) Cash and cash equivalents

The components as of December 31, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Cash on hand	\$ 69,278	61,411	2,170	1,807
Cash in bank	<u>1,403,323</u>	<u>1,638,671</u>	<u>43,968</u>	<u>48,225</u>
	<u>\$ 1,472,601</u>	<u>1,700,082</u>	<u>46,138</u>	<u>50,032</u>

(2) Short-term investments

The components as of December 31, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Mutual funds	\$ 5,350,027	6,193,776	167,623	182,277
Publicly traded stock	<u>-</u>	<u>49,427</u>	<u>-</u>	<u>1,454</u>
	<u>\$ 5,350,027</u>	<u>6,243,203</u>	<u>167,623</u>	<u>183,731</u>
Fair value	<u>\$ 5,397,898</u>	<u>6,277,873</u>	<u>169,123</u>	<u>184,752</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(3) Other financial assets - current

The components as of December 31, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Tax refund receivable	\$ 200,174	85,450	6,272	2,515
Non-operating revenues receivable	12,621	2,609	395	77
Other receivables	<u>26,867</u>	<u>118,201</u>	<u>842</u>	<u>3,478</u>
	239,662	206,260	7,509	6,070
Less: provision for doubtful accounts	<u>-</u>	<u>(38,397)</u>	<u>-</u>	<u>(1,130)</u>
	<u>\$ 239,662</u>	<u>167,863</u>	<u>7,509</u>	<u>4,940</u>

(4) Inventories

The components as of December 31, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Aircraft spare parts	\$ 8,312,905	7,718,824	260,454	227,158
Consumables for use and merchandise				
for sale during flight	400,846	403,957	12,559	11,888
Fuel for aircraft	35,887	29,362	1,124	864
Allowance for obsolete inventories	<u>(1,503,005)</u>	<u>(1,168,675)</u>	<u>(47,091)</u>	<u>(34,393)</u>
	<u>\$ 7,246,633</u>	<u>6,983,468</u>	<u>227,046</u>	<u>205,517</u>

The above inventories were fully insured.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(5) Long-term equity investments

Details as of and for the years ended December 31, 2004 and 2003, were as follows:

Investee	Shareholding percentage (%)	Book value		2004 Cost		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Accounted for by the equity method:							
Evergreen Airline Services Corp.	56.33	\$ 388,721	12,179	111,174	3,483	51,468	1,541
RTW Air Services(S) Pte. Ltd.	49.00	19,546	612	13,217	414	4,557	136
Green Siam Air Services Co., Ltd.	49.00	24,253	760	9,421	295	15,215	456
Evergreen Sky Catering Corp.	49.80	656,626	20,573	498,000	15,603	66,940	2,004
Evergreen Airways Service (Macau) Ltd.	99.00	724,028	22,685	148,511	4,653	169,119	5,064
Uni Airways Corp.	17.92	194,067	6,080	3,277,238	102,680	(66,807)	(2,000)
Evergreen Aviation Technologies Corp.	80.00	2,837,181	88,892	2,000,450	62,677	282,123	8,447
Evergreen Security Corp.	31.25	33,932	1,063	25,000	784	3,186	95
Evergreen Air Cargo Services Corp.	60.00	886,065	27,762	726,098	22,750	132,133	3,956
Hsiang-Li Investment Corp.	100.00	949,140	29,738	1,000,000	31,331	(52,449)	(1,570)
Uni Japan Co., Ltd.	49.50	<u>1,376</u>	<u>43</u>	<u>1,820</u>	<u>57</u>	<u>144</u>	<u>4</u>
		<u>6,714,935</u>	<u>210,387</u>	<u>7,810,929</u>	<u>244,727</u>	<u>605,629</u>	<u>18,133</u>
Accounted for by the cost method:							
Publicly traded securities							
Trade-Van Information Services Co., Ltd.	5.85	94,491	2,961	94,491	2,961	-	-
Central Reinsurance Corp.	6.14	<u>312,349</u>	<u>9,786</u>	<u>312,349</u>	<u>9,786</u>	-	-
		<u>406,840</u>	<u>12,747</u>	<u>406,840</u>	<u>12,747</u>	-	-
Non-publicly traded securities							
Abacus International Holding Ltd.	2.11	115,743	3,626	102,233	3,202	-	-
Sun Shine Finance Co., Ltd.	19.50	40,365	1,265	40,365	1,265	-	-
Taiwan High Speed Rail Corp.	1.40	1,250,000	39,164	1,250,000	39,164	-	-
Hsin-Tao Power Corp.	9.69	484,612	15,184	484,612	15,184	-	-
Technology Partner II Venture Capital Corp.	5.88	20,000	627	20,000	627	-	-
Chung Hwa Express Co., Ltd.	10.00	20,000	627	20,000	627	-	-
Taiwan Fixed Network Corporation	1.30	840,000	26,318	840,000	26,318	-	-
Evergreen Development Corp.	9.47	870,000	27,258	870,000	27,258	-	-
Pan-Pacific Venture Capital Co., Ltd.	1.50	<u>19,800</u>	<u>620</u>	<u>19,800</u>	<u>620</u>	-	-
		<u>3,660,520</u>	<u>114,689</u>	<u>3,647,010</u>	<u>114,265</u>	-	-
		<u>4,067,360</u>	<u>127,436</u>	<u>4,053,850</u>	<u>127,012</u>	-	-
Total		\$ <u>10,782,295</u>	<u>337,823</u>	<u>11,864,779</u>	<u>371,739</u>	<u>605,629</u>	<u>18,133</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Investee	Shareholding percentage (%)	Book value		2003 Cost		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Accounted for by the equity method:							
Evergreen Airline Services Corp.	56.33	\$ 367,818	10,825	111,174	3,272	54,142	1,572
RTW Air Services(S) Pte. Ltd.	49.00	16,533	486	13,217	389	1,729	50
Green Siam Air Services Co., Ltd.	49.00	22,495	662	9,421	277	12,056	350
Evergreen Sky Catering Corp.	49.80	627,535	18,468	498,000	14,656	32,729	950
Evergreen Airways Service (Macau) Ltd.	99.00	597,193	17,575	148,511	4,371	121,838	3,538
Uni Airways Corp.	17.92	275,717	8,114	3,277,238	96,446	(242,185)	(7,032)
Evergreen Aviation Technologies Corp.	80.00	2,517,315	74,082	2,000,450	58,871	182,678	5,304
Evergreen Security Corp.	31.25	30,746	905	25,000	736	5,087	148
Evergreen Air Cargo Services Corp.	60.00	775,532	22,823	726,098	21,368	113,770	3,304
Hsiang-Li Investment Corp.	100.00	1,014,332	29,851	1,000,000	29,429	21,230	616
Uni Japan Co., Ltd.	49.50	<u>1,264</u>	<u>37</u>	<u>1,820</u>	<u>54</u>	<u>(73)</u>	<u>(2)</u>
		<u>6,246,480</u>	<u>183,828</u>	<u>7,810,929</u>	<u>229,869</u>	<u>303,001</u>	<u>8,798</u>
Accounted for by the cost method:							
Publicly traded securities							
Trade-Van Information Services Co., Ltd.	5.95	96,074	2,827	96,074	2,828	-	-
Central Reinsurance Corp.	3.96	<u>164,032</u>	<u>4,828</u>	<u>164,032</u>	<u>4,827</u>	<u>-</u>	<u>-</u>
		<u>260,106</u>	<u>7,655</u>	<u>260,106</u>	<u>7,655</u>	<u>-</u>	<u>-</u>
Non-publicly traded securities							
Abacus International Holding Ltd.	2.11	115,743	3,406	102,233	3,008	-	-
Sun Shine Finance Co., Ltd.	19.50	40,365	1,188	40,365	1,188	-	-
Taiwan High Speed Rail Corp.	1.62	1,250,000	36,786	1,250,000	36,786	-	-
Hsin-Tao Power Corp.	9.69	484,612	14,262	484,612	14,262	-	-
Technology Partner II Venture Capital Corp.	5.88	20,000	589	20,000	589	-	-
Chung Hwa Express Co., Ltd.	10.00	20,000	589	20,000	589	-	-
Taiwan Fixed Network Corporation	1.30	1,200,000	35,315	1,200,000	35,315	-	-
Evergreen Development Corp.	9.47	870,000	25,603	870,000	25,603	-	-
Pan-Pacific Venture Capital Co., Ltd.	1.50	<u>19,800</u>	<u>582</u>	<u>19,800</u>	<u>582</u>	<u>-</u>	<u>-</u>
		<u>4,020,520</u>	<u>118,320</u>	<u>4,007,010</u>	<u>117,922</u>	<u>-</u>	<u>-</u>
		<u>4,280,626</u>	<u>125,975</u>	<u>4,267,116</u>	<u>125,577</u>	<u>-</u>	<u>-</u>
Total		\$ <u>10,527,106</u>	<u>309,803</u>	<u>12,078,045</u>	<u>355,446</u>	<u>303,001</u>	<u>8,798</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of increases in long-term equity investments of the Company in 2004 and 2003 were as follows:

Unit: thousands of shares

Investee	Shares	2004 Amounts		Shares	2003 Amounts	
		NT dollars	US dollars		NT dollars	US dollars
Accounted for by the equity method:						
Evergreen Air Cargo Services Corp.	-	\$ -	-	5,039	51,398	1,512
Uni Airways Corp.	-	-	-	4,871	48,714	1,434
Hsiang-Li Investment Corp.	-	-	-	6	60	2
		<u>-</u>	<u>-</u>		<u>100,172</u>	<u>2,948</u>
Accounted for by the cost method:						
Central Reinsurance Corp.	11,553	148,317	4,647	2,029	22,373	658
		<u>148,317</u>	<u>4,647</u>		<u>22,373</u>	<u>658</u>
		\$ <u>148,317</u>	<u>4,647</u>		<u>122,545</u>	<u>3,606</u>

Details of selling long-term equity investments of the Company in 2004 and 2003 were as below:

Unit: thousands of shares

Investee	Shares	2004 Cost		Gain on disposal of long-term investments	
		NT dollars	US dollars	NT dollars	US dollars
Accounted for by the cost method:					
Trade-Van Information Services Co., Ltd.	194	\$ 1,583	50	1,016	30
Taiwan Fixed Network Corporation	36,000	<u>360,000</u>	<u>11,279</u>	<u>(Note)</u>	<u>-</u>
		\$ <u>361,583</u>	<u>11,329</u>	<u>1,016</u>	<u>30</u>

Note: On August 15, 2004, Taiwan Fixed Network Corporation decreased issued stock by 30%, and the Company withdrew NT\$360,000 thousand (US\$11,279 thousand) in cash in proportion to the Company's ownership percentage.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Investee	Shares	Cost NT dollars	2003		Gain on disposal of long-term investments	
			US dollars	NT dollars	US dollars	US dollars
Accounted for by the equity method:						
Ever Voyage Transport Corp.	6,550	\$ <u>108,552</u>	<u>3,195</u>	<u>834</u>	<u>24</u>	
Accounted for by the cost method:						
Trade-Van Information Services Co., Ltd.	234	<u>1,909</u>	<u>56</u>	<u>1,035</u>	<u>30</u>	
		\$ <u>110,461</u>	<u>3,251</u>	<u>1,869</u>	<u>54</u>	

(6) Property, plant and equipment

In 2004 and 2003, the Company capitalized the interest expenses on construction of building and purchase of aircraft amounting to NT\$140,923 thousand (US\$4,219 thousand) and NT\$56,556 thousand (US\$1,642 thousand), respectively. The monthly interest rates on the above transactions were 0.23%~0.25% and 0.24%~0.30%, respectively.

As of December 31, 2004 and 2003, insurance coverage for property, plant and equipment and inventories amounted to approximately NT\$56,284,500 thousand (US\$1,763,465 thousand) and NT\$55,374,451 thousand (US\$1,629,619 thousand), respectively.

(7) Lease assets

The details were as follows:

Lease item	Quantity	Lessor	Lease term	Terms of lease contract
Boeing 747 aircraft	3	GECAS	2004.4.13~ 2016.11.12	Pay rent monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property
Engines	6	Taiwan Life Financing Co., Ltd.	2004.6.29~ 2011.6.28	Pay rent every three months, and the lease transfers ownership of the leased property by the end of the lease term
Computers	1	IBM	2004.7.25~ 2008.7.24	Pay rent monthly, and the lease transfers ownership of the leased property by the end of the lease term

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EVA AIRWAYS CORP.

Notes to Financial Statements

Discount rate of leased assets	Present value of leased assets at the transaction date
3.50%~6.93%	NT\$6,426,010 thousand (US\$201,335 thousand)
1.76%	NT\$540,296 thousand (US\$16,928 thousand)
2.50%	NT\$41,844 thousand (US\$1,311 thousand)

The abovementioned aircraft and engines were financed by the sale and leaseback method. The differences (named unrealized gain on sale and leaseback) between sales price and book value of equipment were recorded as a reduction of depreciation expenses by lease term.

As of December 31, 2004, the details of leased assets were as follows:

	NT dollars	US dollars
Aircraft	\$ 6,426,010	201,335
Engines	540,296	16,928
Computers	41,844	1,311
Less: accumulated depreciation	<u>(405,791)</u>	<u>(12,714)</u>
	\$ <u>6,602,359</u>	<u>206,860</u>

As of December 31, 2004, insurance coverage for leased assets amounted to approximately NT\$8,273,054 thousand (US\$259,205 thousand).

As of December 31, 2004, the book value and present value of lease liability were as follows:

Year due	NT dollars	US dollars
As of December 31, 2005	\$ 917,925	28,760
As of December 31, 2006	850,243	26,639
As of December 31, 2007	785,879	24,623
As of December 31, 2008	745,976	23,372
As of December 31, 2009	740,701	23,207
And after	<u>4,738,715</u>	<u>148,470</u>
Book value	8,779,439	275,071
Less: unrealized interest expenses	<u>(2,175,054)</u>	<u>(68,147)</u>
Present value	6,604,385	206,924
Less: current portion	<u>(578,659)</u>	<u>(18,130)</u>
	\$ <u>6,025,726</u>	<u>188,794</u>

There was no such transaction during 2003.

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Notes to Financial Statements

(8) Deferred charges

As of December 31, 2004 and 2003, deferred charges, net of amortization, consisted of the following:

	NT dollars		US dollars	
	2004	2003	2004	2003
Computer software	\$ 309,968	244,614	9,712	7,199
Leasehold improvements	718,569	79,998	22,514	2,354
Air flight route development cost	13,452	43,329	421	1,275
Navigator training costs	51,050	107,594	1,599	3,166
Major overhaul for aircraft and engines	2,323,639	2,328,620	72,803	68,529
Others	92,170	79,266	2,888	2,333
	<u>\$ 3,508,848</u>	<u>2,883,421</u>	<u>109,937</u>	<u>84,856</u>

(9) Short-term borrowings and payable on commercial paper

Details were as follows:

	NT dollars		US dollars	
	2004	2003	2004	2003
Unsecured loans	\$ 1,600,000	3,360,000	50,130	98,882
Payable on commercial paper, net of prepaid interest of NT\$42 thousand (US\$1 thousand) for 2004 and NT\$484 thousand (US\$14 thousand) for 2003	99,958	819,516	3,132	24,117
	<u>\$ 1,699,958</u>	<u>4,179,516</u>	<u>53,262</u>	<u>122,999</u>

The interest expenses on the aforementioned short-term borrowings were calculated based on floating interest rates. For the years ended December 31, 2004 and 2003, the interest rates were 0.90%~1.30% and 0.74%~1.47%, respectively. As of December 31, 2004 and 2003, the unused credit lines amounted to approximately NT\$7,475,887 thousand (US\$234,229 thousand) and NT\$5,293,521 thousand (US\$155,783 thousand), respectively.

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Notes to Financial Statements

(10) Long-term borrowings

As of December 31, 2004 and 2003, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2004		Interest rate (%)	2003	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	2.25~4.50	\$ <u>1,400,000</u>	<u>43,864</u>	3.25~6.00	<u>1,820,000</u>	<u>53,561</u>
Aircraft						
NT\$ loans	1.76~4.95	4,689,046	146,914	1.22~5.83	6,246,285	183,822
US\$ loans	1.95~3.58	<u>3,426,787</u>	<u>107,365</u>	1.95~2.72	<u>4,907,551</u>	<u>144,425</u>
		<u>8,115,833</u>	<u>254,279</u>		<u>11,153,836</u>	<u>328,247</u>
Simulators						
NT\$ loans	-	-	-	4.55~5.43	500,000	14,714
US\$ loans	1.59~2.11	<u>282,338</u>	<u>8,846</u>	1.69~1.78	<u>338,295</u>	<u>9,956</u>
		<u>282,338</u>	<u>8,846</u>		<u>838,295</u>	<u>24,670</u>
Subtotal		<u>9,798,171</u>	<u>306,989</u>		<u>13,812,131</u>	<u>406,478</u>
Unsecured loans:	1.25~6.50	<u>10,401,823</u>	<u>325,902</u>	1.30~6.50	<u>14,464,611</u>	<u>425,680</u>
Total		20,199,994	632,891		28,276,742	832,158
Less: current portion		<u>(8,520,472)</u>	<u>(266,957)</u>		<u>(6,818,157)</u>	<u>(200,652)</u>
		\$ <u>11,679,522</u>	<u>365,934</u>		<u>21,458,585</u>	<u>631,506</u>

As of December 31, 2004, the remaining balances of the loans were due as follows:

Year due	NT dollars	US dollars
2005	\$ 8,520,472	266,957
2006	4,785,213	149,927
2007	3,151,570	98,743
2008	1,724,502	54,031
2009	1,386,667	43,446
2010 and after	<u>631,570</u>	<u>19,787</u>
	\$ <u>20,199,994</u>	<u>632,891</u>

Pursuant to the syndication loan agreement signed with Chiao-Tung Bank and fourteen other banks, the Company's liabilities-to-equity ratio and current ratio must be maintained at 300% and 75%, respectively, at the year-end. If any aircraft purchased with the financing of such loans is disposed of or sold, the Company must repay the loan immediately.

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Notes to Financial Statements

As of December 31, 2004 and 2003, the unused credit lines for long-term borrowings amounted to NT\$2,600,000 thousand (US\$81,461 thousand) and NT\$1,094,000 thousand (US\$32,195 thousand), respectively. The pledges for long-term borrowings are disclosed in note 6.

(11) Bonds payable

Details of bonds payable as of December 31, 2004 and 2003, are as follows:

	Description	Annual interest rate	Issue date	NT dollars		US dollars	
				2004	2003	2004	2003
Bonds payable	Bank of Taiwan	6.450%	1999.01	\$ -	500,000	-	14,714
Bonds payable	Central Trust of China	5.750%~ 6.080%	1999.07	-	300,000	-	8,829
	Bank of Taiwan	5.750%~ 6.080%	1999.07	-	400,000	-	11,772
Bonds payable	Farmers Bank	5.525%	2000.01	160,000	160,000	5,013	4,709
	Bank of Taiwan	5.525%	2000.01	400,000	400,000	12,532	11,772
Bonds payable	Shanghai Commercial & Savings Bank	5.470%	2000.07	300,000	300,000	9,399	8,829
	Chinatrust Commerical Bank	5.530%	2000.07	1,000,000	1,000,000	31,331	29,428
	Bank of Panhsin	5.640%	2000.07	300,000	300,000	9,399	8,829
Bonds payable	International Commercial Bank of China	5.250%	2000.12	500,000	500,000	15,666	14,714
	Cathay United Bank	5.250%	2000.12	500,000	500,000	15,666	14,714
	Bank of Taiwan	5.250%	2000.12	400,000	400,000	12,532	11,772
	Farmers Bank	5.250%	2000.12	400,000	400,000	12,532	11,772
Bonds payable	Taipei Bank	3.700%	2001.07	500,000	500,000	15,666	14,714
Bonds payable	Taiwan Cooperative Bank	Floating	2004.02	500,000	-	15,666	-
Bonds payable	Land Bank	2.25%	2004.07	500,000	-	15,666	-
	Chang Hwa Bank	2.25%	2004.07	500,000	-	15,666	-
	Taipei Bank	2.25%	2004.07	500,000	-	15,666	-
Convertible bonds payable		-	2003.06	-	1,950,500	-	57,402
Convertible bonds payable		-	2004.08	4,473,154	-	140,150	-
Subtotal				10,933,154	7,610,500	342,550	223,970
Less: current portion				(3,960,000)	(1,200,000)	(124,072)	(35,315)
				\$ <u>6,973,154</u>	<u>6,410,500</u>	<u>218,478</u>	<u>188,655</u>

(a) Second convertible bonds payable

The Company issued NT\$4.5 billion of Taiwan domestic convertible bonds on August 9, 2004, for which the final terms and conditions were as follows:

(i) Coupon rate: 0%

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements**

- (ii) Issue period: From August 9, 2004, to August 8, 2009
- (iii) Redemption: Except for the bonds that have already been redeemed, converted, or purchased and cancelled, the bonds can be redeemed on the fifth anniversary of the issue date at par value.
- (iv) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 150% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the issue amount.
- (v) Redemption at the option of the bondholders: The Company will, at the option of the bondholders, redeem such bond on the third anniversary of the issue date at par value.
- (vi) Conversion
 - A) The bondholders can ask the Company to convert the convertible bonds to common stock during the period from one month after the issue date to ten days before the maturity date.
 - B) Conversion price:

The conversion price is set at NT\$14.50, which is a premium of 111% over the base price. The base price is defined as the average of the closing prices of the issuer's common shares traded on the Taiwan Stock Exchange for a period of 1, 3 or 5 trading days, whichever is chosen, immediately preceding but excluding the pricing date, which is July 26, 2004. The conversion price will be subject to adjustments in the event that any change occurs to the capital structure. As of December 31, 2004, the conversion price was NT\$13.80.

(b) First convertible bonds payable

The Company issued NT\$5 billion Taiwan Domestic Convertible Bonds on June 6, 2003, for which the final terms and conditions were as follows:

- (i) Coupon rate: 0%
- (ii) Issue period: From June 6, 2003, to June 5, 2008

(Continued)

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Notes to Financial Statements

(iii) Redemption: Except for bonds that have already been redeemed, converted, or purchased and cancelled, the bonds can be redeemed on the fifth anniversary of the issue date at par value.

(iv) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 150% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the issue amount.

(v) Redemption at the option of the bondholders: The Company will, at the option of the bondholders, redeem such bonds on the third anniversary of the issue date at 100.6%.

(c) Conversion

(i) The bondholders can ask the Company to convert the convertible bonds to common stock during the period from three months after the issue date to ten days before the maturity date.

(ii) Conversion price

The conversion price is set at NT\$10.98, which is a premium of 104% of the base price. The base price is defined as the average of the closing prices of the issuer's common shares traded on the Taiwan Stock Exchange for a period of 10, 15 or 20 trading days, whichever is the lowest, immediately preceding but excluding the pricing date, which is May 9, 2003. The conversion price will be subject to adjustments in the event that change occurs to the capital structure. The convertible bonds were all converted on July 15, 2004.

(12) Other installments payable

The Company purchased aircraft spare parts by installments. As of December 31, 2004 and 2003, the details were as follows:

	NT dollars		US dollars	
	2004	2003	2004	2003
Installment amount payable	\$ 1,173,635	3,089,507	36,772	90,921
Less: current portion	<u>(679,730)</u>	<u>(1,415,866)</u>	<u>(21,297)</u>	<u>(41,667)</u>
	<u>\$ 493,905</u>	<u>1,673,641</u>	<u>15,475</u>	<u>49,254</u>

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Notes to Financial Statements

The current portion of other installments payable was recorded as other payables. As of December 31, 2004, the remaining balances of other installments payable were due as follows:

Year due	NT dollars	US dollars
2005	\$ 679,730	21,297
2006	<u>493,905</u>	<u>15,475</u>
	\$ <u>1,173,635</u>	<u>36,772</u>

The interest expenses of the aforementioned installments are calculated based on floating interest rates. For the years ended December 31, 2004 and 2003, the average interest rates were 2.33%~3.19% and 2.11%~3.91%, respectively.

(13) Aircraft payable

The Company purchased aircraft by installments. As of December 31, 2004 and 2003, the details were as follows:

	NT dollars		US dollars	
	2004	2003	2004	2003
Aircraft payable	\$ 14,656,281	17,651,552	459,200	519,469
Less: current portion	<u>(1,891,957)</u>	<u>(2,029,574)</u>	<u>(59,278)</u>	<u>(59,729)</u>
	\$ <u>12,764,324</u>	<u>15,621,978</u>	<u>399,922</u>	<u>459,740</u>

The current portion of aircraft payable was recorded as other payables. As of December 31, 2004, the remaining balances of the aircraft payables were due as follows:

Year due	NT dollars	US dollars
2005	\$ 1,891,957	59,278
2006	2,103,857	65,917
2007	1,804,812	56,547
2008	1,722,476	53,967
2009	1,749,252	54,806
2010 and after	<u>5,383,927</u>	<u>168,685</u>
	\$ <u>14,656,281</u>	<u>459,200</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the years ended December 31, 2004 and 2003, the average interest rates were 1.12%~6.77% and 1.11%~6.77%, respectively. The pledges for the aircraft payable are disclosed at note 6.

(14) Retirement plans

Net retirement plan liabilities based on the actuarial computation at December 31, 2004 and 2003, are detailed as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Benefit obligation:				
Vested benefit obligation	\$ (86,487)	(2,710)	(70,741)	(2,082)
Nonvested benefit obligation	<u>(1,658,727)</u>	<u>(51,970)</u>	<u>(1,358,455)</u>	<u>(39,978)</u>
Accumulated benefit obligation	(1,745,214)	(54,680)	(1,429,196)	(42,060)
Projected effects of salary adjustments	<u>(237,964)</u>	<u>(7,456)</u>	<u>(568,309)</u>	<u>(16,725)</u>
Projected benefit obligation	(1,983,178)	(62,136)	(1,997,505)	(58,785)
Plan assets at fair value	<u>911,245</u>	<u>28,551</u>	<u>612,075</u>	<u>18,013</u>
Projected benefit obligation in excess of plan assets	(1,071,933)	(33,585)	(1,385,430)	(40,772)
Unrecognized net transition obligation	191,064	5,986	218,358	6,426
Unrecognized pension loss	443,831	13,906	666,878	19,626
Pension liabilities that need to be accrued	<u>(396,931)</u>	<u>(12,436)</u>	<u>(316,927)</u>	<u>(9,327)</u>
Accrued employee retirement liabilities	\$ <u><u>(833,969)</u></u>	<u><u>(26,129)</u></u>	<u><u>(817,121)</u></u>	<u><u>(24,047)</u></u>

The components of net pension cost are summarized as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Service cost	\$ 210,281	6,296	205,001	5,952
Interest cost	68,675	2,056	62,288	1,809
Actual return on plan assets	(9,043)	(271)	(7,261)	(211)
Amortization:				
Unrecognized net transition obligation	<u>34,958</u>	<u>1,047</u>	<u>34,323</u>	<u>997</u>
Net pension cost	\$ <u><u>304,871</u></u>	<u><u>9,128</u></u>	<u><u>294,351</u></u>	<u><u>8,547</u></u>

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Notes to Financial Statements

Actuarial assumptions at December 31, 2004 and 2003, are summarized as follows:

	2004	2003
Discount rate	3.50%	3.50%
Rate of increase in future compensation levels	1.00%	2.50%
Expected long-term rate of return on plan assets	3.50%	3.50%

As of December 31, 2004 and 2003, the retirement fund deposited in the Central Trust of China was NT\$911,245 thousand (US\$28,551 thousand) and NT\$612,075 thousand (US\$18,013 thousand), respectively.

(15) Income tax

- (a) The Company's earnings are subject to a maximum income tax rate of 25%. For the years ended December 31, 2004 and 2003, the components of estimated income tax benefits (expenses) were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expenses - current	\$ (539,914)	(16,165)	(23,717)	(689)
Income tax benefits - deferred	<u>100,220</u>	<u>3,001</u>	<u>203,717</u>	<u>5,915</u>
	<u>\$ (439,694)</u>	<u>(13,164)</u>	<u>180,000</u>	<u>5,226</u>

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Notes to Financial Statements

- (b) For the years ended December 31, 2004 and 2003, the differences between expected income tax expenses at statutory rates and income tax benefits (expenses) as reported in the accompanying financial statements were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Expected income tax expenses	\$ (920,657)	(27,565)	(304,046)	(8,828)
Gain on disposal of investments	28,949	867	8,344	242
Investment income recognized under equity method - unrealized	151,407	4,533	75,750	2,199
Surtax on undistributed earnings	(105,021)	(3,144)	(89,832)	(2,608)
Dividend income	15,557	466	19,016	552
Permanent difference in depreciation expenses	(94,549)	(2,831)	(133,421)	(3,874)
Exchange losses recorded as translation adjustments	105,061	3,145	115,724	3,360
Increase in investment tax credits	50,790	1,521	97,952	2,844
Valuation allowance for deferred tax assets, net	467,629	14,001	222,461	6,459
Others	(138,860)	(4,157)	168,052	4,880
	<u>\$ (439,694)</u>	<u>(13,164)</u>	<u>180,000</u>	<u>5,226</u>

- (c) For the years ended December 31, 2004 and 2003, the deferred income tax benefits were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ (522,588)	(15,646)	(353,052)	(10,251)
Unrealized exchange losses	32,676	978	(9,295)	(270)
Investment tax credits	(112,772)	(3,376)	(40,394)	(1,173)
Provision for reducing inventory to market price	83,592	2,503	99,132	2,878
Purchase of fixed assets by installments, adjusted for tax purposes	126,967	3,801	134,887	3,917
Deferred gains on disposal of fixed assets, adjusted for tax purposes	24,716	740	166,537	4,836
Valuation allowance for deferred tax assets, net	467,629	14,001	222,461	6,459
Others	-	-	(16,559)	(481)
	<u>\$ 100,220</u>	<u>3,001</u>	<u>203,717</u>	<u>5,915</u>

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Notes to Financial Statements

- (d) The components of the deferred income tax assets as of December 31, 2004 and 2003, are summarized as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Deferred income tax assets – current:				
Unrealized exchange losses	\$ 79,032	2,476	46,356	1,364
Loss carryforwards	-	-	522,588	15,379
Investment tax credits	-	-	112,772	3,319
Allowance for obsolete inventories	<u>375,751</u>	<u>11,773</u>	<u>292,159</u>	<u>8,598</u>
	<u>\$ 454,783</u>	<u>14,249</u>	<u>973,875</u>	<u>28,660</u>
Deferred income tax assets – noncurrent:				
Purchase of fixed assets by installments, adjusted for tax purposes	\$ 631,511	19,786	504,544	14,848
Deferred gains on disposal of fixed assets, adjusted for tax purposes	324,300	10,161	299,584	8,817
Less: valuation allowance for deferred income tax assets	<u>-</u>	<u>-</u>	<u>(467,629)</u>	<u>(13,762)</u>
	<u>\$ 955,811</u>	<u>29,947</u>	<u>336,499</u>	<u>9,903</u>

The above-mentioned investment tax credits as of December 31, 2004, means that application tax credits for investing in equipment, personnel training, venture investment business, tourism or important investment business had been used in full.

The Company's income tax returns have been examined and assessed through 2001 by the ROC income tax authority.

(16) Stockholders' equity

(a) Common stock

As of December 31, 2004, the Company's authorized share capital consisted of 4,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 3,271,426 thousand shares were issued and outstanding.

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EVA AIRWAYS CORP.

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As of December 31, 2003, the Company's authorized share capital consisted of 3,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 2,753,433 thousand shares were issued and outstanding.

On June 11, 2003, the Company's stockholders resolved to transfer unappropriated earnings of NT\$485,000 thousand by issuing 48,500 thousand shares of common stock, at NT\$10 par value per share. The stock issuance was authorized by and registered with the government authorities on October 19, 2003.

On June 15, 2004, the Company's stockholders resolved to transfer unappropriated earnings of NT\$1,121,073 thousand by issuing 112,107 thousand shares of common stock, at NT\$10 par value per share. The stock issuance was authorized by and registered with the government authorities on September 13, 2004.

(b) Capital surplus, legal reserve, and restrictions on appropriations of earnings

The details as of December 31, 2004 and 2003, were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Cash subscription in excess of par value of shares	\$ 1,794,333	61,794	1,464,333	52,084
Gain on disposal of property, plant and equipment of investee company	1,668	53	1,668	53
Additional paid-in capital from bond conversion	420,527	12,382	253,898	7,374
Increase in net equity due to change in percentage of ownership in long-term investments under equity method	234,600	6,816	231,138	6,714
Donated assets	<u>648,734</u>	<u>21,226</u>	<u>648,704</u>	<u>21,225</u>
	<u>\$ 3,099,862</u>	<u>102,271</u>	<u>2,599,741</u>	<u>87,450</u>

The ROC Company Law stipulates that realized capital surplus should not be credited to capital except for making up deficiencies of the Company. The realized capital surplus includes the premiums on shares issued above their par value. In addition, the transferred capital surplus from issuance of shares or other events in accordance with Article 8 of the ROC Securities and Exchange Law and the ROC Company Law can be credited to capital upon the condition that the aforementioned capital surplus has been approved by and registered with the competent authority in the previous year.

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Furthermore, the amount of the capital surplus from the premiums on shares issued above their par value and earnings from gifts received credited to capital should not exceed 10 percent of the amount of paid-in capital in one year.

The ROC Company Law stipulates that the Company must retain 10% of its annual earnings, as defined in the Law, until such retention equals the amount of authorized share capital. This retention is accounted for by transfers to legal reserve, upon approval at the stockholders' meeting. Legal reserve may be used to offset an accumulated deficit and cannot be distributed as cash dividends to stockholders. However, one-half of legal reserve may be converted to share capital when it reaches an amount equal to one-half of issued share capital, upon approval by the Company's stockholders.

The Company's articles of incorporation stipulate that the Company must appropriate employees' bonuses of not less than 1% of estimated earnings to appropriate of each year, and remuneration of directors and supervisors of not more than 5% of estimated earnings to appropriate of each year. Such appropriations can only be made after offsetting accumulated deficit and appropriation of legal reserve, and must be accounted for as a reduction in retained earnings.

To promote long-term development, the Company has adopted a steady dividend policy, in which a cash dividend of around 0~50% of the appropriated dividend is distributed and a stock dividend of around 50%~100% of the appropriated dividend is distributed. However, if the predicted earnings per share of a year in which stock dividends are distributed decline to 20% or working capital is low, a cash dividend of 50%~100% of the appropriated dividend is distributed and a stock dividend of 0~50% of the appropriated dividend is distributed.

The related information on employees' bonuses and directors' and supervisors' remuneration appropriated from 2003 earnings was as follows:

	2003	
	NT dollars	US dollars
Employees' bonuses - cash	\$ 29,002	842
Directors' and supervisors' remuneration	<u>10,000</u>	<u>290</u>
	\$ <u>39,002</u>	<u>1,132</u>

If the related expenditures listed above were taken as expenses incurred in 2003, the related imputed earnings per share (after tax) would be NT\$1.05 (US\$0.03).

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According to ROC SFC regulations, beginning 2002, information related to the appropriation of employees' bonuses and bonuses for directors and supervisors can be found on web sites such as the Market Observation Post System after the stockholders' meeting.

(c) Unappropriated earnings, imputation credit account, and creditable ratio

The details of unappropriated earnings as of December 31, 2004 and 2003, were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Unappropriated earnings after 1998	\$ <u>4,708,083</u>	<u>139,411</u>	<u>2,764,841</u>	<u>80,054</u>

The details of the ICA for the years ended December 31, 2004 and 2003, and the related creditable ratio for the year ended, 2003 and 2002, were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
ICA	\$ <u>116,460</u>	<u>3,649</u>	<u>158,274</u>	<u>4,658</u>

	2003	2002
Creditable ratio	<u>6.94%</u>	<u>6.14%</u>

(17) Earnings per share

	Dollars		NT dollars 2004		Dollars		US dollars 2004		Earnings per Share	
	Before Income Tax	After Income Tax	Shares	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Shares	Before Income Tax	After Income Tax
Net income	\$ 3,682,629	3,242,935				110,258	97,094			
Basic earnings per share:										
Net income belonging to common stockholders	\$ <u>3,682,629</u>	<u>3,242,935</u>	<u>3,057,121</u>	\$ <u>1.20</u>	<u>1.06</u>	<u>110,258</u>	<u>97,094</u>	<u>3,057,121</u>	<u>0.04</u>	<u>0.03</u>
Diluted earnings per share:										
Net income belonging to common stockholders	\$ 3,682,629	3,242,935	3,057,121			110,258	97,094	3,057,121		
Effect in the period of dilutive potential common shares	-	-	310,345			-	-	310,345		
	\$ <u>3,682,629</u>	<u>3,242,935</u>	<u>3,367,466</u>	\$ <u>1.09</u>	<u>0.96</u>	<u>110,258</u>	<u>97,094</u>	<u>3,367,466</u>	<u>0.03</u>	<u>0.03</u>

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	Dollars		NT dollars	Earnings per Share		Dollars		US dollars	Earnings per Share	
	Before Income Tax	After Income Tax	Shares	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Shares	Before Income Tax	After Income Tax
Net income	\$ 1,216,182	1,396,182				35,314	40,540			
Basic earnings per share:										
Net income belonging to common stockholders	\$ <u>1,216,182</u>	<u>1,396,182</u>	<u>2,640,897</u>	\$ <u>0.46</u>	<u>0.53</u>	<u>35,314</u>	<u>40,540</u>	<u>2,640,897</u>	<u>0.01</u>	<u>0.02</u>
Diluted earnings per share:										
Net income belonging to common stockholders	\$ 1,216,182	1,396,182	2,640,897			35,314	40,540	2,640,897		
Effect in the period of dilutive potential common shares	<u>6,827</u>	<u>6,827</u>	<u>180,937</u>	<u>0.43</u>	<u>0.50</u>	<u>198</u>	<u>198</u>	<u>180,937</u>	<u>0.01</u>	<u>0.02</u>
	\$ <u>1,223,009</u>	<u>1,403,009</u>	<u>2,821,834</u>	\$ <u>0.43</u>	<u>0.50</u>	<u>35,512</u>	<u>40,738</u>	<u>2,821,834</u>	<u>0.01</u>	<u>0.02</u>

(18) Financial instruments

(a) Derivative financial instruments

- (i) As of December 31, 2004 and 2003, the nominal amounts and market value of derivative financial instruments were as follows:

	2004		2003	
	Nominal Amount	Market Value	Nominal Amount	Market Value
Interest rate swap agreements (recorded as other current liabilities)	USD 120,000	USD 1,564	NTD 700,000	NTD (3,339)
Option agreements (recorded as other liabilities)	USD -	USD -	USD 13,000	USD 136
Forward exchange contracts (recorded as other current liabilities)	USD 19,000	USD (101)	-	-
Fuel price option agreements (recorded as other current assets and other assets)	-	USD 8,909	-	USD 5,804

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EVA AIRWAYS CORP.

Notes to Financial Statements

- (ii) The Company engaged in derivative financial instruments for the years ended December 31, 2004 and 2003. Details were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Interest rate swap agreements:				
Interest expenses (recorded as nonoperating expenses and losses – interest expenses)	\$ 36,225	1,085	125,431	3,642
Interest receivable (recorded as other financial assets – current) and interest payable (recorded as accrued expenses)	6,875	215	1,234	36
Option agreements:				
Gain on derivatives (recorded as nonoperating income and gains)	18,370	550	6,183	180
Future net cash outflow	-	-	101,940	3,000
Future net cash inflow	-	-	103,650	3,050
Forward exchange contracts:				
Future net cash outflow	609,657	19,101	-	-
Future net cash inflow	606,423	19,000	-	-
Fuel price option agreements:				
Net gains (recorded as adjustment of operating cost)	1,264,493	37,859	1,081,494	31,402

- (iii) Purposes and risks of engaging in derivative financial instruments

1) Interest rate swap agreements

For the years ended December 31, 2004 and 2003, the Company had several interest rate swap agreements to hedge its exposure to fluctuations in interest rates on long-term borrowings.

The counter-parties to the swap transactions were international financial institutions with excellent reputations. Management believed that the risk of loss due to non-performance of the counter-parties was remote.

2) Option agreements

The Company entered into several interest rate and currency option agreements for hedging purposes.

The related option agreements were all expired for the year ended December 31, 2004.

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3) Forward exchange contracts

The Company enter into several forward exchange contracts to hedge the risk of changes in exchange rates of foreign currency receivable and payables.

4) Fuel price option agreements

The Company entered into several fuel price option agreements to hedge the risk of fluctuations in fuel price.

(b) Fair value of non-derivative financial instruments

There were no significant differences between the book value and the fair value for cash and cash equivalents, notes and accounts receivable (including related parties), other receivables (including related parties), prepaid expenses, other prepayments, other current assets, short-term borrowings, notes and accounts payable (including related parties), other payables (including related parties), tax payable, accrued expenses, unearned revenue, other current liabilities, current portion of long-term liabilities, and lease payable because of the proximity of their due dates.

The details of other non-derivative instruments as of December 31, 2004 and 2003, are summarized as follows:

Non-derivative financial instruments	2004			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 5,350,027	5,397,898	167,623	169,123
Long-term equity investments:				
Fair value can be estimated in fact	406,840	449,671	12,747	14,089
Fair value can not be estimated in fact	10,375,455	-	325,076	-
Long-term liabilities:				
Bonds payable	6,973,154	7,290,045	218,478	228,406
Long-term borrowings	11,679,522	11,679,522	365,934	365,934
Other installments payable	493,905	493,905	15,475	15,475
Aircraft payable	12,764,324	12,764,324	399,922	399,922
Lease payable	6,025,726	6,025,726	188,794	188,794
Off-balance-sheet financial instruments:				
Letters of credit	-	517,952	-	16,228
Financing guaranty	-	-	-	-

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EVA AIRWAYS CORP.

Notes to Financial Statements

Non-derivative financial instruments	2003			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 6,243,203	6,277,873	183,731	184,752
Long-term equity investments:				
Fair value can be estimated in fact	260,106	321,515	7,655	9,462
Fair value can not be estimated in fact	10,267,000	-	302,148	-
Long-term liabilities:				
Bonds payable	6,410,500	6,730,239	188,655	198,065
Long-term borrowings	21,458,585	21,458,585	631,506	631,506
Other installments payable	1,673,641	1,673,641	49,254	49,254
Aircraft payable	15,621,978	15,621,978	459,740	459,740
Off-balance-sheet financial instruments:				
Letters of credit	-	571,480	-	16,818
Financing guaranty	-	80,000	-	2,354

(c) Methods and assumptions to measure the fair value of financial instruments

- 1) The fair value of short-term investments is market value.
- 2) The fair value of long-term equity investments is market value if they are traded on the public market.
- 3) The fair value of convertible bonds is market value.
- 4) The fair value of long-term liabilities (except convertible bonds) is the discounted future cash flows, and the discount rates during 2004 and 2003 were 2.93% and 3.18%, respectively.
- 5) The fair value of letters of credit and financing guaranty is based on the contract.
- 6) The fair value of the derivative instruments is based on the receipt or payment if the Company terminates the contracts on the balance sheet date, and generally includes the unrealized gain or loss of the unexpired contracts. Most of the derivative financial instruments have quotations from financial institutions.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(d) Off-balance-sheet credit risk financial instruments

Financing guaranty: As of December 31, 2004 and 2003, the Company had provided a guaranty for an investee company amounting to NT\$0 and NT\$80,000 thousand (US\$2,354 thousand), respectively. The guaranty was used to guarantee financial borrowings, which have an off-balance-sheet credit risk. Credit risk means the probable accounting loss from a counter-party who violates the contract and/or a significant decrease in the value of a mortgage. If the credit line of the guarantee is used up and the borrowing still cannot be redeemed, the Company's credit risk is equal to the amount of the contract. The counter-party did not provide a mortgage when the Company promised to provide the financing guaranty.

(e) Concentrations of credit risk

The Company's primary potential credit risk is accounts receivable. However, there was no concentration of credit risk because there was more than one counter-party. To decrease the credit risk of accounts receivable, the Company continually evaluated the collectibility of accounts receivable and recognized allowance for doubtful accounts. All bad debts were within management's expectations.

5. Transactions with Related Parties

(1) Name and relationship of related parties

Name	Relationship with the Company
Evergreen Marine Corp.	Major shareholder
Evergreen International Corp.	Major shareholder
Evergreen International Storage & Transport Corp.	Investee company of the Company's major shareholders
Ever Voyage Transport Corp. (merged with Evergreen International Storage & Transport Corp. on May 1, 2003)	Ex-investee company accounted for by equity method
Evergreen Airline Services Corp.	Subsidiary
RTW Air Services (S) Pte. Ltd.	Investee company accounted for by equity method
Green Siam Air Services Co., Ltd.	Investee company accounted for by equity method
Uni Airways Corp.	Investee company accounted for by equity method
Evergreen Sky Catering Corp.	Investee company accounted for by equity method
Evergreen Aviation Technologies Corp.	Subsidiary
Evergreen Security Corp.	Investee company accounted for by equity method
Evergreen Air Cargo Services Corp.	Subsidiary
Hsiang-Li Investment Corp.	Subsidiary
Uni Japan Co., Ltd.	Investee company accounted for by equity method
Evergreen Airways Service (Macau) Ltd.	Subsidiary

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Notes to Financial Statements

(2) Significant transactions with related parties

(a) Revenue, costs and expenses

During the years ended December 31, 2004, and 2003, the Company's transactions with related parties were as follows:

Revenue	NT dollars		US dollars		Percentage	
	2004	2003	2004	2003	2004	2003
Evergreen Airline Services Corp.	\$ 1,845	1,812	55	53	-	-
Uni Airways Corp.	43,454	36,175	1,301	1,050	0.06	0.06
Evergreen Aviation Technologies Corp.	198,225	244,954	5,935	7,113	0.24	0.37
Evergreen Air Cargo Services Corp.	8,489	14,124	254	410	0.01	0.02
Evergreen International Corp.	3,639	4,279	109	124	-	0.01
Others	2,544	2,390	76	69	-	-
	<u>\$ 258,196</u>	<u>303,734</u>	<u>7,730</u>	<u>8,819</u>	<u>0.31</u>	<u>0.46</u>
Cost	NT dollars		US dollars		Percentage	
	2004	2003	2004	2003	2004	2003
Evergreen International Corp.	\$ 45,785	60,350	1,371	1,752	0.06	0.11
Evergreen International Storage & Transport Corp.	60,429	60,404	1,809	1,754	0.09	0.10
Evergreen Airline Services Corp.	807,976	778,477	24,191	22,604	1.14	1.37
Evergreen Sky Catering Corp.	811,471	711,913	24,296	20,671	1.14	1.25
Uni Airways Corp.	707,956	476,859	21,196	13,846	1.00	0.84
Evergreen Aviation Technologies Corp.	3,892,027	4,018,645	116,528	116,686	5.47	7.07
Evergreen Air Cargo Services Corp.	358,647	244,663	10,738	7,104	0.50	0.43
Others	1,305	3,044	39	88	-	0.01
	<u>\$ 6,685,596</u>	<u>6,354,355</u>	<u>200,168</u>	<u>184,505</u>	<u>9.40</u>	<u>11.18</u>
Expenses	NT dollars		US dollars		Percentage	
	2004	2003	2004	2003	2004	2003
Evergreen International Corp.	\$ 121,931	99,411	3,651	2,886	1.79	1.64
Evergreen International Storage & Transport Corp.	21,809	15,814	653	459	0.32	0.26
Evergreen Airline Services Corp.	26,053	24,081	780	699	0.38	0.40
Evergreen Sky Catering Corp.	24,207	19,518	725	567	0.35	0.32
Uni Airways Corp.	112,532	4,916	3,369	143	1.65	0.08
Evergreen Aviation Technologies Corp.	16,212	12,847	485	373	0.24	0.21
Evergreen Security Corp.	43,108	43,288	1,291	1,257	0.63	0.72
RTW Air Services (S) Pte. Ltd.	47,956	40,165	1,436	1,166	0.70	0.66
Green Siam Air Services Co., Ltd.	75,931	68,873	2,273	2,000	1.11	1.14
Others	21,114	4,396	632	128	0.31	0.07
	<u>\$ 510,853</u>	<u>333,309</u>	<u>15,295</u>	<u>9,678</u>	<u>7.48</u>	<u>5.50</u>

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(b) Financing to others

The Company's financing to a related party for the year ended December 31, 2003, was as follows:

	Maximum balance		Ending balance		Interest rate (p.a.)	Interest income	
	NT dollars	US dollars	NT dollars	US dollars		NT dollars	US dollars
Uni Airways Corp.	\$ <u>150,000</u>	<u>4,414</u>	<u>-</u>	<u>-</u>	<u>4.0%</u>	<u>1,496</u>	<u>43</u>

There were no such transactions during the year ended December 31, 2004.

There was no security for the abovementioned transaction.

(c) Guaranty

The Company's guaranties to a related party for the nine months ended December 31, 2004 and 2003, were as follows:

	2004		2003	
	Maximum balance NT dollars	US dollars	Ending balance NT dollars	US dollars
Uni Airways Corp.	\$ <u>80,000</u>	<u>2,507</u>	<u>-</u>	<u>-</u>
	Maximum balance NT dollars	US dollars	Ending balance NT dollars	US dollars
Uni Airways Corp.	\$ <u>80,000</u>	<u>2,354</u>	<u>80,000</u>	<u>2,354</u>

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- (d) The abovementioned transactions with related parties were made with no significant difference from those with non-related parties, but sometimes the payments were overdue. Receivables and payables as of December 31, 2004 and 2003, resulting from the aforementioned transactions are summarized as follows:

	NT dollars		US dollars	
	2004	2003	2004	2003
Accounts receivable - related parties:				
Uni Airways Corp.	\$ 13,809	7,208	433	212
Evergreen Aviation Technologies Corp.	32,550	25,302	1,020	745
Others	<u>529</u>	<u>2,043</u>	<u>16</u>	<u>60</u>
	<u>46,888</u>	<u>34,553</u>	<u>1,469</u>	<u>1,017</u>
Other receivables - related parties:				
Uni Airways Corp.	163,934	170,698	5,136	5,023
Evergreen Air Cargo Services Corp.	3,822	3,996	120	117
Evergreen Aviation Technologies Corp.	48,246	25,103	1,512	739
Evergreen Airline Services Corp.	8,538	104	267	3
Evergreen International Corp.	3,100	2,871	97	85
Uni Japan Co., Ltd.	12,376	-	388	-
Others	<u>2,166</u>	<u>1,056</u>	<u>68</u>	<u>31</u>
	<u>242,182</u>	<u>203,828</u>	<u>7,588</u>	<u>5,998</u>
Total receivables - related parties	\$ <u>289,070</u>	<u>238,381</u>	<u>9,057</u>	<u>7,015</u>

Note: As of December 31, 2004 and 2003, the overdue accounts receivable transferred to other receivables were NT\$34,687 thousand (US\$1,087 thousand) and NT\$28,481 thousand (US\$838 thousand), respectively. The aging reports for the abovementioned overdue accounts receivable were as shown below:

	2004							
	Amount		Aging report for overdue accounts receivable					
	NT dollars	US dollars	Over 1~6 months NT dollars	Over 1~6 months US dollars	Over 7~12 months NT dollars	Over 7~12 months US dollars	Over one year NT dollars	Over one year US dollars
Uni Airways Corp.	\$ <u>34,687</u>	<u>1,087</u>	<u>13,671</u>	<u>429</u>	<u>13,127</u>	<u>411</u>	<u>7,889</u>	<u>247</u>

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		2003							
		Aging report for overdue accounts receivable							
		Amount		Over 1~6 months		Over 7~12 months		Over one year	
		NT	US	NT	US	NT	US	NT	US
		dollars	dollars	dollars	dollars	dollars	dollars	dollars	dollars
Uni Airways Corp.	\$	<u>28,481</u>	<u>838</u>	<u>6,548</u>	<u>193</u>	<u>10,425</u>	<u>307</u>	<u>11,508</u>	<u>338</u>
		NT dollars				US dollars			
		2004		2003		2004		2003	
Accounts payable - related parties:									
Evergreen International Corp.	\$	9,435		19,208		296		565	
Evergreen Airline Services Corp.		160,386		143,871		5,025		4,234	
Evergreen Sky Catering Corp.		130,810		133,906		4,098		3,941	
Uni Airways Corp.		142,577		111,437		4,467		3,279	
Evergreen Aviation Technologies Corp.		520,568		362,676		16,310		10,673	
Evergreen Air Cargo Services Corp.		56,754		29,346		1,778		864	
Green Siam Air Services Co., Ltd.		7,490		6,635		235		195	
RTW Air Services (S) Pte. Ltd.		4,057		3,328		127		98	
Others		347		5,944		11		175	
		<u>1,032,424</u>		<u>816,351</u>		<u>32,347</u>		<u>24,024</u>	
Other payables - related parties:									
Evergreen International Corp.		28,350		24,033		888		707	
Evergreen Airline Services Corp.		32,827		30,097		1,029		886	
Evergreen Sky Catering Corp.		2,436		424		76		12	
Uni Airways Corp.		19,406		5,049		608		149	
Evergreen Aviation Technologies Corp.		2,817		2,075		88		61	
Evergreen Air Cargo Services Corp.		2,328		2,356		73		69	
Evergreen International Storage & Transport Corp.		6,053		1,171		190		35	
Others		4,017		3,932		126		116	
		<u>98,234</u>		<u>69,137</u>		<u>3,078</u>		<u>2,035</u>	
Total payables - related parties	\$	<u>1,130,658</u>		<u>885,488</u>		<u>35,425</u>		<u>26,059</u>	

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Notes to Financial Statements

6. Pledged Assets

The book values of the pledged assets as of December 31, 2004 and 2003, were as follows:

Pledged assets	Object	NT dollars		US dollars	
		2004	2003	2004	2003
Land	Long-term borrowings	\$ 1,864,122	1,864,122	58,405	54,859
Buildings	Long-term borrowings	2,667,079	2,766,601	83,563	81,419
Aircraft	Long-term borrowings	34,488,218	43,818,771	1,080,559	1,289,546
Engines - included in machinery and equipment	Long-term borrowings	137,712	1,210,719	4,315	35,630
Simulators - included in machinery and equipment	Long-term borrowings	343,221	602,274	10,754	17,724
Time deposit - included in other assets	Customs duty and contract performance guaranties	605,242	475,297	18,963	13,988
		<u>\$ 40,105,594</u>	<u>50,737,784</u>	<u>1,256,559</u>	<u>1,493,166</u>

7. Commitments and Contingencies

(1) As of December 31, 2004, the outstanding contracts for purchases of aircraft were as follows:

Entering date	Type of aircraft	Quantity	Total price of contract		Prepayments (Note)
			USD unit: thousand dollars		
June 2000	Boeing 777	7	US\$ 1,260,851	NT\$4,140,625 (US\$129,731)	
March 2001	Airbus A330-200	2	US\$ 234,269	NT\$2,296,143 (US\$71,941)	
April 2004	Boeing 777	8	US\$ 1,491,496	NT\$194,515 (US\$6,094)	
November 2004	Airbus A330-200	1	US\$ 138,608	NT\$673,440 (US\$21,100)	

Note: The prepayments were recorded as advances for purchases of equipment.

(2) As of December 31, 2004, the Company had issued a total of NT\$5,929,116 thousand (US\$185,767 thousand) in promissory notes to banks for obtaining guaranties for credit lines. As of December 31, 2004, the Company had obtained guaranties from ABN-AMRO Bank, Citibank, Bank of America, HSBC Bank, and Cathay United Bank amounting to NT\$539,332 thousand (US\$16,898 thousand).

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

- (3) The Company entered into aircraft, land and engine lease contracts using the operating lease or capital lease method. As of December 31, 2004, the Company had paid \$15,067,043 thousand (US\$472,070 thousand) as refundable deposits. According to the contracts, future lease payments in the following five years are as follows:

Year due	NT dollars	US dollars
As of December 31, 2005	\$ 8,688,920	272,235
As of December 31, 2006	6,458,429	202,351
As of December 31, 2007	4,303,728	134,841
As of December 31, 2008	2,825,437	88,525
As of December 31, 2009	<u>2,528,859</u>	<u>79,232</u>
	\$ <u>24,805,373</u>	<u>777,184</u>

8. Important Damage Losses: none**9. Important Subsequent Events: none****10. Others**

- (1) Total personnel, depreciation and amortization expenses for the years ended December 31, 2004 and 2003, are summarized below:

By function By item	Operating cost	2004		NT dollars		2003	
		Operating expenses	Total	Operating cost	Operating expenses	Total	
Personnel expenses							
Salaries	\$ 3,310,924	2,812,000	6,122,924	2,939,446	2,305,920	5,245,366	
Insurance	114,902	102,091	216,993	112,253	100,296	212,549	
Pension	177,837	127,034	304,871	154,728	139,623	294,351	
Others (meal allowances, etc.)	1,161,367	198,255	1,359,622	1,051,435	195,271	1,246,706	
Depreciation	4,356,802	210,494	4,567,296	4,226,426	209,877	4,436,303	
Amortization	942,512	216,777	1,159,289	867,837	250,286	1,118,123	

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

By function By item	Operating cost	US dollars				2003 Operating expenses	Total
		2004 Operating expenses	Total	Operating cost	Total		
Personnel expenses							
Salaries	\$ 99,129	84,192	183,321	85,350	66,954	152,304	
Insurance	3,440	3,057	6,497	3,260	2,912	6,172	
Pension	5,325	3,803	9,128	4,493	4,054	8,547	
Others (meal allowances, etc.)	34,771	5,936	40,707	30,529	5,670	36,199	
Depreciation	130,443	6,302	136,745	122,719	6,094	128,813	
Amortization	28,219	6,490	34,709	25,199	7,267	32,466	

(2) Reclassification

Certain amounts of the financial statements for the year ended December 31, 2003, have been reclassified to conform with the presentation of the financial statements for the year ended December 31, 2004, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

11. Segment Financial Information

(1) Diversified industry:

The Company mainly operates an international air transportation business.

(2) Geographic area information:

	NT dollars		US dollars	
	2004	2003	2004	2003
South East Asia:				
Operating revenue	\$ <u>22,452,705</u>	<u>20,125,540</u>	<u>672,237</u>	<u>584,365</u>
Income from operations	\$ <u>1,348,505</u>	<u>941,137</u>	<u>40,374</u>	<u>27,327</u>
Identifiable assets	\$ <u>291,944</u>	<u>635,261</u>	<u>9,147</u>	<u>18,695</u>
North America:				
Operating revenue	\$ <u>11,401,497</u>	<u>8,657,559</u>	<u>341,362</u>	<u>251,381</u>
Income from operations	\$ <u>684,772</u>	<u>404,856</u>	<u>20,502</u>	<u>11,755</u>
Identifiable assets	\$ <u>447,225</u>	<u>281,181</u>	<u>14,012</u>	<u>8,275</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

	NT dollars		US dollars	
	2004	2003	2004	2003
Other foreign areas:				
Operating revenue	\$ <u>16,447,653</u>	<u>10,639,722</u>	<u>492,445</u>	<u>308,935</u>
Income from operations	\$ <u>987,842</u>	<u>497,549</u>	<u>29,576</u>	<u>14,447</u>
Identifiable assets	\$ <u>1,136,626</u>	<u>499,877</u>	<u>35,612</u>	<u>14,711</u>
Domestic:				
Operating revenue	\$ <u>32,353,496</u>	<u>25,964,775</u>	<u>968,667</u>	<u>753,914</u>
Income from operations	\$ <u>1,943,144</u>	<u>1,214,199</u>	<u>58,178</u>	<u>35,256</u>
Identifiable assets	\$ <u>105,046,906</u>	<u>102,724,786</u>	<u>3,291,252</u>	<u>3,023,095</u>
Total operating revenue	\$ <u>82,655,351</u>	<u>65,387,596</u>	<u>2,474,711</u>	<u>1,898,595</u>
Income from operations	\$ 4,964,263	3,057,741	148,630	88,785
Investment income, net	605,629	303,001	18,133	8,798
Interest expenses	(1,887,263)	(2,144,560)	(56,505)	(62,269)
Income before income tax	\$ <u>3,682,629</u>	<u>1,216,182</u>	<u>110,258</u>	<u>35,314</u>
Total identifiable assets	\$ 106,922,701	104,141,105	3,350,023	3,064,776
Long-term equity investments	<u>10,782,295</u>	<u>10,527,106</u>	<u>337,823</u>	<u>309,803</u>
Total assets	\$ <u>117,704,996</u>	<u>114,668,211</u>	<u>3,687,846</u>	<u>3,374,579</u>

- (3) Major customer information - The Company operates an air transportation business with no specific major customers.
- (4) Export sales information - The main business of the Company is international air transportation services. Consequently, it is not practical to separate export and domestic sales.