

EVA AIRWAYS CORP.
Financial Statements
June 30, 2005 and 2004
(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 June 30, 2005 and 2004, and the related statements of operations, changes in stockholders' equity, and cash flows for the six months ended June 30, 2005 and 2004. 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 June 30, 2005 and 2004, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$2,154,282 thousand (US\$68,135 thousand) and NT\$2,178,431 thousand (US\$64,498 thousand), respectively. The resulting investment gains amounted to NT\$115,499 thousand (US\$3,669 thousand) and NT\$136,323 thousand (US\$4,085 thousand) for the six months ended June 30, 2005 and 2004, 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 the 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 June 30, 2005 and 2004, and the results of its operations and its cash flows for the six months ended June 30, 2005 and 2004, in conformity with Republic of China generally accepted accounting principles.

We have yet to review the Company's consolidated financial statements as of and for the six months ended June 30, 2005.

As discussed in Notes 2(e) and 3 to the accompanying financial statements, starting from January 1, 2005, the Company adopted ROC SFAS No. 35, "Accounting for Asset Impairment".

August 17, 2005

The accompanying non-consolidated 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

June 30, 2005 and 2004
(expressed in thousands of dollars)

Assets	NT dollars		US dollars		Liabilities and Stockholders' Equity	NT dollars		US dollars	
	2005	2004	2005	2004		2005	2004	2005	2004
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4(a))	\$ 1,090,789	1,375,746	34,499	40,733	Short-term borrowings (notes 4(i) and 7)	\$ 1,550,000	2,610,000	49,023	77,276
Short-term investments (note 4(b))	4,431,227	4,413,808	140,149	130,683	Payable on commercial paper (note 4(i))	-	1,278,903	-	37,865
Notes receivable	561,592	448,229	17,762	13,271	Notes payable	-	2,680	-	79
Accounts receivable, net	7,753,868	7,179,776	245,236	212,577	Accounts payable	1,381,084	1,449,189	43,680	42,907
Accounts receivable — related parties (note 5)	53,724	31,129	1,699	922	Accounts payable — related parties (note 5)	969,762	959,369	30,671	28,405
Other receivables — related parties (note 5)	153,631	243,184	4,859	7,200	Tax payable	197,602	64,916	6,250	1,922
Other financial assets — current (note 4(c))	669,308	399,675	21,168	11,833	Accrued expenses (note 4(r))	7,979,155	5,554,812	252,361	164,465
Inventories (note 4(d))	7,390,647	7,242,981	233,748	214,448	Other payables — related parties (note 5)	64,285	78,963	2,033	2,338
Prepaid expenses	2,714,232	2,597,339	85,844	76,901	Other payables (notes 4(l) & (m))	2,790,831	3,140,300	88,267	92,977
Other prepayments	599,084	327,320	18,948	9,691	Unearned revenue	8,297,791	7,717,683	262,439	228,503
Deferred income tax assets — current (note 4(o))	543,538	519,866	17,191	15,392	Current portion of long-term liabilities				
Other current assets (note 4(r))	915,817	330,935	28,965	9,798	(notes 4(j) & (k), 6 and 7)	10,219,845	7,942,980	323,229	235,174
Total current assets	<u>26,877,457</u>	<u>25,109,988</u>	<u>850,068</u>	<u>743,449</u>	Other current liabilities (note 4(r))	497,852	450,441	15,746	13,337
Long-term equity investments (note 4(e)):					Lease liability — current (note 4(g))	573,076	587,016	18,125	17,380
Long-term equity investments under equity method	6,906,228	6,404,462	218,427	189,621	Total current liabilities	<u>34,521,283</u>	<u>31,837,252</u>	<u>1,091,824</u>	<u>942,628</u>
Long-term equity investments under cost method	4,068,378	4,300,056	128,673	127,315	Long-term liabilities:				
Net long-term equity investments	<u>10,974,606</u>	<u>10,704,518</u>	<u>347,100</u>	<u>316,936</u>	Bonds payable (note 4(k))	6,791,254	4,593,100	214,791	135,991
Property, plant and equipment (notes 4(f) & (g), 6 and 7):					Long-term borrowings (notes 4(j), 6 and 7)	14,584,053	17,317,231	461,258	512,723
Land	1,869,784	1,869,784	59,137	55,360	Other installments payable (note 4(l))	214,204	963,829	6,775	28,537
Buildings	4,515,326	4,391,446	142,809	130,021	Aircraft payable (note 4(m))	11,463,591	14,494,254	362,565	429,141
Machinery and equipment	4,503,405	3,409,068	142,432	100,935	Lease liability — noncurrent (note 4(g))	5,691,239	6,621,477	180,000	196,047
Aircraft	58,839,373	67,757,084	1,860,945	2,006,131	Total long-term liabilities	<u>38,744,341</u>	<u>43,989,891</u>	<u>1,225,389</u>	<u>1,302,439</u>
Rotable parts	427,528	432,968	13,521	12,819	Other liabilities:				
	70,155,416	77,860,350	2,218,844	2,305,266	Accrued employee retirement liabilities (note 4(n))	779,452	771,994	24,652	22,857
Less: accumulated depreciation	(27,176,937)	(27,855,632)	(859,540)	(824,741)	Other liabilities (note 4(r))	1,934,976	1,983,399	61,198	58,724
Leased assets, net	6,257,000	7,218,530	197,894	213,724	Total other liabilities	<u>2,714,428</u>	<u>2,755,393</u>	<u>85,850</u>	<u>81,581</u>
Construction in progress	4,868	4,868	154	144	Total liabilities	<u>75,980,052</u>	<u>78,582,536</u>	<u>2,403,063</u>	<u>2,326,648</u>
Advances for purchases of equipment	11,619,999	4,555,960	367,512	134,891	Stockholders' equity (note 4(p)):				
Net property, plant and equipment	<u>60,860,346</u>	<u>61,784,076</u>	<u>1,924,864</u>	<u>1,829,284</u>	Common stock	33,567,445	29,164,566	1,150,675	1,019,854
Other assets:					Stock dividend to be distributed	329,229	1,121,073	9,866	33,192
Deferred pension cost	191,064	218,358	6,043	6,465	Capital surplus	3,424,149	2,736,270	112,578	91,540
Refundable deposits (note 7)	14,321,765	16,556,533	452,962	490,201	Retained earnings:				
Deferred charges (note 4(h))	4,126,387	3,040,804	130,508	90,031	Legal reserve	727,666	403,372	21,408	11,770
Deferred income tax assets — noncurrent					Retained earnings	2,926,276	2,736,931	87,076	79,685
(note 4(o))	880,036	877,103	27,833	25,969	Total retained earnings	<u>3,653,942</u>	<u>3,140,303</u>	<u>108,484</u>	<u>91,455</u>
Other assets (note 6)	716,819	700,326	22,671	20,735	Other stockholders' equity adjustment:				
Total other assets	<u>20,236,071</u>	<u>21,393,124</u>	<u>640,017</u>	<u>633,401</u>	Deferred credit	781,435	120,073	24,715	3,560
					Cumulative translation adjustments	1,437,627	4,259,609	(40,593)	(39,346)
					Net loss not yet recognized as net pension cost	(225,399)	(132,724)	(6,739)	(3,833)
					Total other stockholders' equity adjustments	<u>1,993,663</u>	<u>4,246,958</u>	<u>(22,617)</u>	<u>(39,619)</u>
					Total stockholders' equity	<u>42,968,428</u>	<u>40,409,170</u>	<u>1,358,986</u>	<u>1,196,422</u>
					Commitments and contingencies (notes 4(r) and 7)				
Total assets	<u>\$ 118,948,480</u>	<u>118,991,706</u>	<u>3,762,049</u>	<u>3,523,070</u>	Total liabilities and stockholders' equity	<u>\$ 118,948,480</u>	<u>118,991,706</u>	<u>3,762,049</u>	<u>3,523,070</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Operations

For the six months ended June 30, 2005 and 2004
(expressed in thousands of dollars, except earnings per share)

	NT dollars		US dollars	
	2005	2004	2005	2004
Operating revenue (note 5)	\$ 41,173,435	38,071,373	1,307,924	1,140,886
Operating cost (notes 4(r), 5 and 10)	<u>(37,087,205)</u>	<u>(33,091,760)</u>	<u>(1,178,120)</u>	<u>(991,662)</u>
Gross profit from operations	4,086,230	4,979,613	129,804	149,224
Operating expenses (notes 5 and 10)	<u>(3,301,837)</u>	<u>(3,113,810)</u>	<u>(104,887)</u>	<u>(93,311)</u>
Operating income	<u>784,393</u>	<u>1,865,803</u>	<u>24,917</u>	<u>55,913</u>
Non-operating income and gains:				
Interest income	46,075	13,209	1,463	396
Investment income, net (note 4(e))	365,357	232,836	11,606	6,977
Other income	<u>569,058</u>	<u>197,757</u>	<u>18,077</u>	<u>5,926</u>
	<u>980,490</u>	<u>443,802</u>	<u>31,146</u>	<u>13,299</u>
Non-operating expenses and losses:				
Interest expenses, net of capitalized interest of NT\$157,283 thousand (US\$4,996 thousand) and NT\$49,889 (US\$1,495 thousand) for 2005 and 2004, respectively (notes 4(f) & (r))	(795,018)	(971,552)	(25,255)	(29,114)
Exchange losses, net	(149,823)	(60,317)	(4,759)	(1,807)
Other losses	<u>(15,853)</u>	<u>(15,837)</u>	<u>(503)</u>	<u>(475)</u>
	<u>(960,694)</u>	<u>(1,047,706)</u>	<u>(30,517)</u>	<u>(31,396)</u>
Income before income tax	804,189	1,261,899	25,546	37,816
Income tax benefit (expenses) (note 4(o))	<u>(214,752)</u>	<u>9,884</u>	<u>(6,822)</u>	<u>296</u>
Net income	<u>\$ 589,437</u>	<u>1,271,783</u>	<u>18,724</u>	<u>38,112</u>
Earnings per share (expressed in dollars) (note 4(q)):				
Basic earnings per share:				
Income before income tax	<u>\$ 0.24</u>	<u>0.44</u>	<u>0.01</u>	<u>0.01</u>
Net income	<u>\$ 0.18</u>	<u>0.45</u>	<u>0.01</u>	<u>0.01</u>
Diluted earnings per share:				
Income before income tax	<u>\$ 0.23</u>	<u>0.44</u>	<u>0.01</u>	<u>0.01</u>
Net income	<u>\$ 0.17</u>	<u>0.45</u>	<u>0.01</u>	<u>0.01</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Changes in Stockholders' Equity

For the six months ended June 30, 2005 and 2004
(expressed in thousands of dollars)

	NT Dollars									US Dollars								
	Common Stock	Stock Dividend To Be Distributed	Capital Surplus	Legal Reserve	Retained Earnings	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Total	Common Stock	Stock Dividend To Be Distributed	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, 2003	\$ 27,534,330	-	2,599,741	263,754	2,764,841	193,865	4,989,232	(132,724)	38,213,039	970,537	-	87,450	7,636	80,054	5,745	(23,015)	(3,833)	1,124,574
Appropriation of earnings (note 4(p)):																		
Legal reserve	-	-	-	139,618	(139,618)	-	-	-	-	-	-	-	4,134	(4,134)	-	-	-	-
Stock dividends	-	1,121,073	-	-	(1,121,073)	-	-	-	-	-	33,192	-	-	(33,192)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	(10,000)	-	-	-	(10,000)	-	-	-	-	(296)	-	-	-	(296)
Employees' bonuses	-	-	-	-	(29,002)	-	-	-	(29,002)	-	-	-	-	(859)	-	-	-	(859)
Convertible bonds converted into common stock	1,630,236	-	133,054	-	-	-	-	-	1,763,290	49,317	-	3,988	-	-	-	-	-	53,305
Increase in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	-	3,461	-	-	-	-	-	3,461	-	-	102	-	-	-	-	-	102
Transfer of donated assets of investee company under equity method to capital surplus	-	-	14	-	-	-	-	-	14	-	-	-	-	-	-	-	-	-
Deferred credit	-	-	-	-	-	(73,792)	-	-	(73,792)	-	-	-	-	-	(2,185)	-	-	(2,185)
Net income for the six months ended June 30, 2004	-	-	-	-	1,271,783	-	-	-	1,271,783	-	-	-	-	38,112	-	-	-	38,112
Translation adjustments for the six months ended June 30, 2004	-	-	-	-	-	-	(729,623)	-	(729,623)	-	-	-	-	-	-	(16,331)	-	(16,331)
Balance on June 30, 2004	\$ 29,164,566	1,121,073	2,736,270	403,372	2,736,931	120,073	4,259,609	(132,724)	40,409,170	1,019,854	33,192	91,540	11,770	79,685	3,560	(39,346)	(3,833)	1,196,422
Balance on December 31, 2004	\$ 32,714,259	-	3,099,862	403,372	4,708,083	334,275	2,067,954	(219,593)	43,108,212	1,123,557	-	102,271	11,690	139,411	10,144	(29,883)	(6,555)	1,350,635
Appropriation of earnings (note 4(p)):																		
Legal reserve	-	-	-	324,294	(324,294)	-	-	-	-	-	-	-	9,718	(9,718)	-	-	-	-
Stock dividends	-	329,229	-	-	(329,229)	-	-	-	-	-	9,866	-	-	(9,866)	-	-	-	-
Cash dividends	-	-	-	-	(1,646,147)	-	-	-	(1,646,147)	-	-	-	-	(49,330)	-	-	-	(49,330)
Directors' and supervisors' remuneration	-	-	-	-	(20,400)	-	-	-	(20,400)	-	-	-	-	(611)	-	-	-	(611)
Employees' bonuses	-	-	-	-	(51,174)	-	-	-	(51,174)	-	-	-	-	(1,534)	-	-	-	(1,534)
Convertible bonds converted into common stock	853,186	-	324,214	-	-	-	-	-	1,177,400	27,118	-	10,305	-	-	-	-	-	37,423
Transfer of donated assets of investee company under equity method to capital surplus	-	-	73	-	-	-	-	-	73	-	-	2	-	-	-	-	-	2
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	-	-	(5,806)	(5,806)	-	-	-	-	-	-	-	(184)	(184)
Increase in net equity due to recording cumulative translation adjustments under equity method	-	-	-	-	-	-	(139)	-	(139)	-	-	-	-	-	-	(4)	-	(4)
Deferred credit	-	-	-	-	-	447,160	-	-	447,160	-	-	-	-	-	14,571	-	-	14,571
Net income for the six months ended June 30, 2005	-	-	-	-	589,437	-	-	-	589,437	-	-	-	-	18,724	-	-	-	18,724
Translation adjustments for the six months ended June 30, 2005	-	-	-	-	-	-	(630,188)	-	(630,188)	-	-	-	-	-	-	(10,706)	-	(10,706)
Balance on June 30, 2005	\$ 33,567,445	329,229	3,424,149	727,666	2,926,276	781,435	1,437,627	(225,399)	42,968,428	1,150,675	9,866	112,578	21,408	87,076	24,715	(40,593)	(6,739)	1,358,986

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the six months ended June 30, 2005 and 2004
(expressed in thousands of dollars)

	NT dollars		US dollars	
	2005	2004	2005	2004
Cash flows from operating activities:				
Net income	\$ 589,437	1,271,783	18,724	38,112
Adjustments to reconcile net income to net cash flow provided by operating activities:				
Depreciation	2,118,116	2,305,725	67,284	69,096
Amortization and maintenance expense	591,613	581,999	18,793	17,441
Gain on disposal of short-term investments	(70,293)	(40,770)	(2,233)	(1,222)
Loss (gain) on disposal and obsolescence of property, plant and equipment	(299,614)	5,903	(9,518)	177
Gain on disposal of long-term equity investments	-	(1,016)	-	(30)
Provision for unrealized exchange gain from long-term borrowings	(20,054)	(973)	(637)	(29)
Investment income	(365,357)	(232,836)	(11,606)	(6,977)
Amortization of deferred gain from sale and leaseback of fixed assets	(78,947)	(77,892)	(2,508)	(2,334)
Amortization of other deferred gain	(207,034)	(233,305)	(6,577)	(6,991)
Proceeds from cash dividends on long-term equity investments	158,141	35,449	5,024	1,062
Increase in notes receivable	(164,429)	(59,875)	(5,223)	(1,773)
Increase in accounts receivable (including related parties)	(500,207)	(1,390,447)	(15,890)	(41,168)
Decrease (increase) in other receivables from related parties	88,551	(37,271)	2,813	(1,104)
Increase in inventories	(143,929)	(256,631)	(4,572)	(7,598)
Increase in prepaid expenses	(246,107)	(917,450)	(7,818)	(27,164)
Decrease (increase) in other prepayments	(310,470)	38,388	(9,862)	1,137
Increase in other financial assets – current	(429,646)	(231,812)	(13,648)	(6,863)
Increase in other current assets	(110,950)	(31,706)	(3,524)	(939)
Decrease (increase) in other assets	102,202	(108,422)	3,247	(3,210)
Increase in notes and accounts payable (including related parties)	53,219	494,018	1,691	14,627
Increase (decrease) in other payables (including related parties)	491,781	(546,014)	15,622	(16,166)
Increase in tax payable	(316,957)	-	(10,069)	-
Increase in accrued expenses	497,347	617,742	15,799	18,290
Increase in unearned revenue	867,441	2,394,279	27,555	70,889
Increase (decrease) in other current liabilities	(22,480)	92,082	(714)	2,726
Decrease in retirement plan liabilities	(54,517)	(45,127)	(1,732)	(1,336)
Increase in other liabilities	380,604	144,607	12,090	4,281
Deferred income tax benefit	(12,980)	(86,595)	(412)	(2,564)
Net cash provided by operating activities	<u>2,584,481</u>	<u>3,683,833</u>	<u>82,099</u>	<u>110,370</u>
Cash flows from investing activities:				
Decrease in short-term investments	989,093	1,870,165	31,420	55,371
Proceeds from disposal of long-term equity investments	-	2,599	-	77
Payments for purchase of long-term equity investments	(1,018)	(21,013)	(32)	(622)
Proceeds from disposal of property, plant and equipment	1,890,079	4,394,804	60,041	131,699
Payments for purchase of property, plant and equipment	(4,833,479)	(2,398,852)	(153,541)	(71,024)
Decrease (increase) in refundable deposits	695,521	(438,978)	22,094	(12,997)
Increase in deferred charges	(1,209,152)	(739,382)	(38,410)	(21,891)
Net cash provided by (used in) investing activities	<u>(2,468,956)</u>	<u>2,669,343</u>	<u>(78,428)</u>	<u>80,613</u>
Cash flows from financing activities:				
Increase in short-term borrowings	1,550,000	10,187,898	49,238	301,640
Increase in long-term borrowings	6,680,033	1,660,000	212,199	49,149
Installment payment for purchase of inventories	(534,916)	(1,040,651)	(16,992)	(31,185)
Installment payment for purchase of property, plant and equipment	(1,247,307)	(994,112)	(39,622)	(29,791)
Redemption of short-term borrowings	(1,699,958)	(10,478,511)	(54,001)	(314,010)
Redemption of long-term borrowings	(4,951,373)	(5,882,851)	(157,286)	(176,292)
Redemption of lease liability	(293,816)	(129,285)	(9,333)	(3,874)
Net cash used in financing activities	<u>(497,337)</u>	<u>(6,677,512)</u>	<u>(15,797)</u>	<u>(204,363)</u>
Effect of exchange rate changes on cash	-	-	487	4,081
Net decrease in cash and cash equivalents	(381,812)	(324,336)	(11,639)	(9,299)
Cash and cash equivalents at beginning of period	<u>1,472,601</u>	<u>1,700,082</u>	<u>46,138</u>	<u>50,032</u>
Cash and cash equivalents at end of period	<u>\$ 1,090,789</u>	<u>1,375,746</u>	<u>34,499</u>	<u>40,733</u>
Additional disclosure of cash flow information:				
Cash payments of interest (excluding capitalized interest expense)	\$ <u>902,734</u>	<u>851,242</u>	<u>28,676</u>	<u>25,509</u>
Cash payments of income tax	\$ <u>529,044</u>	<u>11,795</u>	<u>16,806</u>	<u>353</u>
Supplemental schedule of noncash investing and financing activities:				
Current portion of long-term liabilities	\$ <u>10,219,845</u>	<u>7,942,980</u>	<u>323,229</u>	<u>235,174</u>
Inventory transferred from fixed assets	\$ <u>85</u>	<u>2,882</u>	<u>3</u>	<u>85</u>
Translation adjustments	\$ <u>609,947</u>	<u>(729,623)</u>	<u>(10,710)</u>	<u>(16,331)</u>
Employees' bonuses and directors' and supervisors' remuneration payable	\$ <u>71,574</u>	<u>39,002</u>	<u>2,145</u>	<u>1,155</u>
Cash dividends payable	\$ <u>1,646,147</u>	<u>-</u>	<u>49,330</u>	<u>-</u>
Deferred credit	\$ <u>447,160</u>	<u>(73,792)</u>	<u>14,571</u>	<u>(2,185)</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Notes to Financial Statements

June 30, 2005 and 2004

(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 operation, 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;
- 1.18 to engage in the retailing of books and stationery;

(Continued)

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

- 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 June 30, 2005 and 2004, the Company had hired 4,920 and 4,439 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.

(a) 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.

(b) 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.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(c) 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.

(d) 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.

(e) Asset impairment

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35), “Accounting for Asset Impairment”. In accordance with SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

(Continued)

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

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased.

The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

(f) 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.

(g) 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.

(h) 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.

(i) Long-term equity investments

Long-term equity investments in which the Company owns less than 20% of the investee's voting shares or is unable to exercise significant influence over the investee's operating and financial policies are accounted for as follows:

- a) The long-term investments in listed equity securities are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity.
- b) Long-term investments in nonlisted equity securities are stated at cost. If there is evidence showing that a decline in the market value of such investment is other than temporary and the possibility of recovery is remote, the carrying value of the investment is reduced to reflect the market value, and the resulting loss is recognized in the period of such reduction.

Stock dividends are not recognized as investment income but as an increase in the number of shares held. The cost of long-term equity investment sold is determined based on the weighted-average

(Continued)

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

method.

When the Company owns more than 50% of an investee's voting stock, it becomes the parent of its subsidiary. For general-purpose financial reporting, a parent and its subsidiaries present consolidated financial statements

Long-term equity investments in which the Company owns more than 20% of the investee's voting shares, or less than 20% of voting shares but has significant influence on the operating and financial policies of the investee company, are accounted for by the equity method. According to ROC SFAS No. 23, "Interim Financial Reporting and Disclosures", the Company recognizes investment gains losses under the equity method quarterly.

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 less than 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.

If the stockholders' equity of an investee company becomes negative, and the Company guaranteed the investee company's liability or made financial commitments to the investee company, or the deficit appears to be short term, then the Company should record investment losses; if the book value of long-term investment is insufficient to reduce investment losses, the Company should reduce accounts receivable and deferred credits.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(j) 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 repair and maintenance are charged to current operations. Major repairs and maintenance, additions, enhancements and replacements are capitalized in the cost of related assets.

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).

(k) Leases

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.

(Continued)

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

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 the 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 the 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 lease 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) 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.
- 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.

(Continued)

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

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.

(l) Deferred charges

Deferred charges principally include costs for computer software, leasehold improvements, trademarks, air flight 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.

(m) 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.

(n) 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.

(o) Employee retirement plan

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

The Company implemented ROC 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.

However, pursuant to ROC SFAS No. 23, "Interim Financial Reporting and Disclosure", the Company has not disclosed the information required by SFAS No. 18.

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EVA AIRWAYS CORP.**Notes to Financial Statements****(p) 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.

(q) Revenue recognition

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

(r) Income tax

The Company adopted ROC SFAS No. 22, "Accounting for Income Tax". Under this method, the amounts of deferred income tax assets or liabilities are recognized for future tax effects attributable to temporary differences, loss carryforwards and investment tax credits. The measurement of deferred income tax assets or liabilities is based on provisions of enacted tax law. A valuation allowance is provided on deferred income 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.

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

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.

(s) 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 diluted 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 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).

3. Reason for and Effect of Accounting Changes

The Company adopted Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment", in 2005. After performing an impairment test on those assets which had an indication of impairment, the Company determined that no impairment loss need be recognized as of June 30, 2005.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

4. The Important Accounts Are Listed Below:

(a) Cash and cash equivalents

The components as of June 30, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Cash on hand	\$ 81,414	77,089	2,575	2,283
Cash in bank	<u>1,009,375</u>	<u>1,298,657</u>	<u>31,924</u>	<u>38,450</u>
	<u>\$ 1,090,789</u>	<u>1,375,746</u>	<u>34,499</u>	<u>40,733</u>

(b) Short-term investments

The components as of June 30, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Mutual funds	\$ 4,431,227	4,379,440	140,149	129,665
Publicly traded stock	<u>-</u>	<u>34,368</u>	<u>-</u>	<u>1,018</u>
	<u>\$ 4,431,227</u>	<u>4,413,808</u>	<u>140,149</u>	<u>130,683</u>
Fair value	<u>\$ 4,440,142</u>	<u>4,479,914</u>	<u>140,431</u>	<u>132,640</u>

(c) Other financial assets—current

The components as of June 30, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Tax refund receivable	\$ 204,899	308,578	6,480	9,136
Non-operating revenues receivable	12,029	94	380	3
Other receivables	<u>452,380</u>	<u>129,400</u>	<u>14,308</u>	<u>3,831</u>
	669,308	438,072	21,168	12,970
Less: provision for doubtful accounts	<u>-</u>	<u>(38,397)</u>	<u>-</u>	<u>(1,137)</u>
	<u>\$ 669,308</u>	<u>399,675</u>	<u>21,168</u>	<u>11,833</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(d) Inventories

The components as of June 30, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Aircraft spare parts	\$ 8,258,867	8,047,759	261,208	238,276
Consumables for use and merchandise for sale during flight	418,580	429,676	13,239	12,722
Fuel for aircraft	58,879	59,688	1,862	1,767
Allowance for obsolete inventories	<u>(1,345,679)</u>	<u>(1,294,142)</u>	<u>(42,561)</u>	<u>(38,317)</u>
	\$ <u>7,390,647</u>	<u>7,242,981</u>	<u>233,748</u>	<u>214,448</u>

The above inventories were fully insured.

(e) Long-term equity investments

Details as of and for the six months ended June 30, 2005 and 2004, were as follows:

Investee	Shareholding percentage (%)	Book value		2005 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	\$ 378,109	11,959	111,174	3,516	19,955	634
RTW Air Services (S) Pte. Ltd.	49.00	18,203	576	13,217	418	2,863	91
Green Siam Air Services Co., Ltd.	49.00	20,392	645	9,421	298	11,333	360
Evergreen Sky Catering Corp.	49.80	637,660	20,168	498,000	15,750	18,881	600
Evergreen Airways Service (Macau) Ltd.	99.00	809,835	25,613	148,511	4,697	94,068	2,988
Uni Airways Corp.	17.92	204,366	6,463	3,277,238	103,651	16,171	514
Evergreen Aviation Technologies Corp.	80.00	3,021,707	95,569	2,000,450	63,269	184,526	5,862
Evergreen Security Corp.	31.25	38,423	1,215	25,000	791	4,491	142
Evergreen Air Cargo Services Corp.	60.00	855,169	27,047	726,098	22,965	41,104	1,306
Hsiang-Li Investment Corp.	100.00	920,404	29,110	1,000,000	31,627	(28,736)	(913)
Uni Japan Co., Ltd.	49.50	<u>1,960</u>	<u>62</u>	<u>1,820</u>	<u>58</u>	<u>701</u>	<u>22</u>
		<u>6,906,228</u>	<u>218,427</u>	<u>7,810,929</u>	<u>247,040</u>	<u>365,357</u>	<u>11,606</u>
Accounted for by the cost method:							
Publicly traded securities							
Trade-Van Information Services Co., Ltd.	5.85	94,491	2,989	94,491	2,989	-	-
Central Reinsurance Corp.	6.16	<u>313,367</u>	<u>9,911</u>	<u>313,367</u>	<u>9,911</u>	-	-
		<u>407,858</u>	<u>12,900</u>	<u>407,858</u>	<u>12,900</u>	-	-
Non-publicly traded securities							
Abacus International Holding Ltd.	2.11	115,743	3,661	102,233	3,234	-	-
Sun Shing Corp.	19.50	40,365	1,277	40,365	1,276	-	-
Taiwan High Speed Rail Corp.	1.40	1,250,000	39,534	1,250,000	39,534	-	-
Hsin-Tao Power Corp.	9.69	\$ 484,612	15,327	484,612	15,327	-	-

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of increases in long-term equity investments of the Company for the six months ended June 30, 2005 and 2004, were as follows:

Unit: thousands of shares

Investee	Shares	2005 Amounts		Shares	2004 Amounts	
		NT dollars	US dollars		NT dollars	US dollars
Accounted for by the cost method:						
Central Reinsurance Corp.	77	\$ <u>1,018</u>	<u>32</u>	1,500	<u>21,013</u>	<u>622</u>

Details of selling long-term equity investments of the Company for the six months ended June 30, 2004, were as below:

Unit: thousands of shares

Investee	Shares	2004 Cost		2004 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	\$ <u>1,583</u>	<u>47</u>	<u>1,016</u>	<u>30</u>

There were no such transaction for the six months ended June 30, 2005.

(f) Property, plant and equipment

For the six months ended June 30, 2005 and 2004, the Company capitalized the interest expenses on construction of building and purchase of aircraft amounting to NT\$157,283 thousand (US\$4,996 thousand) and NT\$49,889 thousand (US\$1,495 thousand), respectively. The monthly interest rates on the above transactions were 0.25%~0.26% and 0.24%~0.25%, respectively.

As of June 30, 2005 and 2004, insurance coverage for property, plant and equipment, and inventories amounted to approximately NT\$50,026,234 thousand (US\$1,582,207 thousand) and NT\$59,300,298 thousand (US\$1,755,745 thousand), respectively.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(g) Lease assets

The details were as follows:

Lease item	Quantity	Lessor	Lease term	The terms of lease contract
Boeing 747 aircraft	3	GECAS	2004.04.13~ 2016.11.12	Pay rent by month, 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.	2004.06.29~ 2011.06.28	Pay rent every three months, and the lease transfers ownership of the leased property by the end of the lease term
Computers	1	IBM	2004.07.25~ 2008.07.24	Pay rent monthly, and the lease transfers ownership of the leased property by the end of the lease term

Discount rate of leased assets	Present value of leased assets at the beginning of transaction date			
	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
3.50%~6.93%	6,365,811	201,335	6,800,091	201,335
1.76%	540,296	17,088	540,296	15,997
2.50%	41,844	1,324	-	-

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

As of June 30, 2005 and 2004, the details of leased assets were as follows:

	NT dollars		US dollars	
	2005	2004	2005	2004
Aircraft	\$ 6,365,811	6,800,091	201,335	201,335
Engine	540,296	540,296	17,088	15,997
Computer equipment	41,844	-	1,324	-
Less: accumulated depreciation	<u>(690,951)</u>	<u>(121,857)</u>	<u>(21,853)</u>	<u>(3,608)</u>
	<u>\$ 6,257,000</u>	<u>7,218,530</u>	<u>197,894</u>	<u>213,724</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of June 30, 2005 and 2004, insurance coverage for leased assets amounted to approximately NT\$7,929,961 thousand (US\$250,805 thousand) and NT\$8,754,658 thousand (US\$259,205 thousand), respectively.

As of June 30, 2005, the book value and present value of lease liability were as follows:

Year due	NT dollars	US dollars
As of June 30, 2006	\$ 895,314	28,317
As of June 30, 2007	869,026	27,485
As of June 30, 2008	683,338	21,612
As of June 30, 2009	739,388	23,385
As of June 30, 20010	729,614	23,076
And after	<u>4,332,880</u>	<u>137,038</u>
Book value	8,249,560	260,913
Less: unrealized interest expenses	<u>(1,985,245)</u>	<u>(62,788)</u>
Present value	6,264,315	198,125
Less: current portion	<u>(573,076)</u>	<u>(18,125)</u>
	<u>\$ 5,691,239</u>	<u>180,000</u>

(h) Deferred charges

As of June 30, 2005 and 2004, deferred charges, net of amortization, consisted of the following:

	NT dollars		US dollars	
	2005	2004	2005	2004
Computer software	\$ 303,209	233,703	9,590	6,919
Leasehold improvements	1,169,262	283,496	36,981	8,394
Air flight route development cost	2,828	27,092	89	802
Navigator training costs	32,182	78,467	1,018	2,323
Major overhaul for aircraft and engines	2,476,371	2,338,539	78,322	69,239
Other	<u>142,535</u>	<u>79,507</u>	<u>4,508</u>	<u>2,354</u>
	<u>\$ 4,126,387</u>	<u>3,040,804</u>	<u>130,508</u>	<u>90,031</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

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

The components as of June 30, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Unsecured loans	\$ 1,550,000	2,610,000	49,023	77,276
Payable on commercial paper, net of prepaid interest of NT\$1,097 thousand (US\$35 thousand) for 2004	-	1,278,903	-	37,865
	<u>\$ 1,550,000</u>	<u>3,888,903</u>	<u>49,023</u>	<u>115,141</u>

The interest expenses on the aforementioned short-term borrowings are calculated based on floating interest rates. For the six months ended June 30, 2005 and 2004, the interest rates were 1.30% and 0.72%~1.30%, respectively. As of June 30, 2005 and 2004, the unused credit line amounted to approximately NT\$7,461,027 thousand (US\$235,974 thousand) and NT\$5,385,327 thousand (US\$159,447 thousand), respectively.

(j) Long-term borrowings

As of June 30, 2005 and 2004, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2005		Interest rate (%)	2004	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	2.05~2.43	\$ <u>2,800,000</u>	<u>88,557</u>	3.25~.4.50	<u>1,610,000</u>	<u>47,669</u>
Aircraft						
NT\$ loans	1.80~5.05	4,069,594	128,711	1.42~4.95	5,718,167	169,302
US\$ loans	2.70~4.19	<u>2,608,249</u>	<u>82,493</u>	1.12~2.64	<u>3,774,300</u>	<u>111,748</u>
		<u>6,677,843</u>	<u>211,204</u>		<u>9,492,467</u>	<u>281,050</u>
Simulators						
US\$ loans	2.58~3.69	<u>279,693</u>	<u>8,846</u>	1.69	<u>298,774</u>	<u>8,846</u>
		<u>279,693</u>	<u>8,846</u>		<u>298,774</u>	<u>8,846</u>
Subtotal		<u>9,757,536</u>	<u>308,607</u>		<u>11,401,241</u>	<u>337,565</u>
Unsecured loans:	1.64~6.50	<u>11,646,362</u>	<u>368,346</u>	1.25~6.50	<u>12,598,970</u>	<u>373,026</u>
Total		21,403,898	676,953		24,000,211	710,591
Less: current portion		<u>(6,819,845)</u>	<u>(215,695)</u>		<u>(6,682,980)</u>	<u>(197,868)</u>
		<u>\$ 14,584,053</u>	<u>461,258</u>		<u>17,317,231</u>	<u>512,723</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of June 30, 2005, the remaining balances of the borrowings were due as follows:

Year due	NT dollars	US dollars
As of June 30, 2006	\$ 6,819,845	215,695
As of June 30, 2007	4,496,440	142,211
As of June 30, 2008	3,726,401	117,857
As of June 30, 2009	2,173,257	68,735
As of June 30, 2010	2,248,667	71,120
And after	<u>1,939,288</u>	<u>61,335</u>
	\$ <u>21,403,898</u>	<u>676,953</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.

As of June 30, 2005 and 2004, the unused credit line for long-term borrowings amounted to NT\$1,500,000 thousand (US\$47,441 thousand) and NT\$2,390,000 thousand (US\$70,762 thousand), respectively.

(k) Bonds payable

Details of bonds payable as of June 30, 2005 and 2004, are as follows:

	Description	Guaranteed by	Annual interest rate	Issue date	NT dollars		US dollars	
					2005	2004	2005	2004
Bonds payable	Central Trust of China		5.750%~6.080%	1999.07	\$ -	300,000	-	8,882
	Bank of Taiwan		5.750%~6.080%	1999.07	-	400,000	-	11,843
Bonds payable	Farmers Bank		5.525%	2000.01	-	160,000	-	4,738
	Bank of Taiwan		5.525%	2000.01	-	400,000	-	11,843
Bonds payable	Shanghai Commercial & Savings Bank		5.470%	2000.07	300,000	300,000	9,488	8,882
	Chinatrust Commercial Bank		5.480%~5.530%	2000.07	1,000,000	1,000,000	31,627	29,608
	Bank of Panhsin		5.640%	2000.07	300,000	300,000	9,488	8,882
Bonds payable	International Commercial Bank of China		5.250%	2000.12	500,000	500,000	15,814	14,804
	Cathay United Bank		5.250%	2000.12	500,000	500,000	15,814	14,804
Bonds payable	Bank of Taiwan		5.250%	2000.12	400,000	400,000	12,651	11,843
	Farmers Bank		5.250%	2000.12	400,000	400,000	12,651	11,843
Bonds payable	Taipei Fubon Bank		3.700%	2001.07	500,000	500,000	15,814	14,804
Bonds payable	Taiwan Cooperative Bank		Floating	2004.02	500,000	500,000	15,814	14,804
Bonds payable	Land Bank		2.250%	2004.07	500,000	-	15,814	-
Bonds payable	Chang Hwa Bank		2.250%	2004.07	\$ 500,000	-	15,814	-

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EVA AIRWAYS CORP.

Notes to Financial Statements

	Description	Annual interest rate	Issue date	NT dollars		US dollars	
				2005	2004	2005	2004
	Guaranteed by						
Bonds payable	Taipei Fubon Bank	2.250%	2004.07	500,000	-	15,814	-
	Bank of Taiwan	2.110%	2005.01	500,000	-	15,814	-
	Taiwan Cooperative Bank	2.110%	2005.01	500,000	-	15,814	-
Convertible bonds payable		-	2003.06	-	193,100	-	5,717
Convertible bonds payable		-	2004.08	<u>3,291,254</u>	<u>-</u>	<u>104,094</u>	<u>-</u>
Subtotal				10,191,254	5,853,100	322,325	173,297
Less: current portion				<u>(3,400,000)</u>	<u>(1,260,000)</u>	<u>(107,534)</u>	<u>(37,306)</u>
				\$ <u>6,791,254</u>	<u>4,593,100</u>	<u>214,791</u>	<u>135,991</u>

(1) 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%

(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.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****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 June 30, 2005, the conversion price was NT\$13.80.

(2) First convertible bonds payable

The Company issued NT\$5 billion in 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
- (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%.

(3) 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.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(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 any change occurs to the capital structure. The convertible bonds were all converted on July 15, 2004.

(l) Other installments payable

The Company purchased aircraft spare parts by installments. As of June 30, 2005 and 2004, the details were as follows:

	NT dollars		US dollars	
	2005	2004	2005	2004
Installment amount payable	\$ 638,719	2,048,858	20,201	60,662
Less: current portion	<u>(424,515)</u>	<u>(1,085,029)</u>	<u>(13,426)</u>	<u>(32,125)</u>
	<u>\$ 214,204</u>	<u>963,829</u>	<u>6,775</u>	<u>28,537</u>

The current portion of other installments payable was recorded as other payables. As of June 30, 2005, the remaining balances of other installments payable were due as follows:

Year due	NT dollars	US dollars
As of June 30, 2006	\$ 424,515	13,426
As of June 30, 2007	<u>214,204</u>	<u>6,775</u>
	<u>\$ 638,719</u>	<u>20,201</u>

The interest expenses of the aforementioned installments are calculated based on floating interest rates. For the six months ended June 30, 2005 and 2004, the average interest rates were 2.33%~2.55% and 2.15%~3.18%, respectively.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(m) Aircraft payable

The Company purchased aircraft by installments. As of June 30, 2005 and 2004, the details were as follows:

	NT dollars		US dollars	
	2005	2004	2005	2004
Aircraft payable	\$ 13,284,948	16,519,469	420,170	489,103
Less: current portion	<u>(1,821,357)</u>	<u>(2,025,215)</u>	<u>(57,605)</u>	<u>(59,962)</u>
	\$ <u>11,463,591</u>	<u>14,494,254</u>	<u>362,565</u>	<u>429,141</u>

The current portion of aircraft payable was recorded as other payables. As of June 30, 2005, the remaining balances of the aircraft payable were due as follows:

Year due	NT dollars	US dollars
As of June 30, 2006	\$ 1,821,357	57,605
As of June 30, 2007	1,811,678	57,299
As of June 30, 2008	1,729,197	54,690
As of June 30, 2009	1,719,351	54,379
As of June 30, 2010	1,746,902	55,250
And after	<u>4,456,463</u>	<u>140,947</u>
	\$ <u>13,284,948</u>	<u>420,170</u>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the six months ended June 30, 2005 and 2004, the average interest rates were 2.06%~6.77% and 1.13%~6.77%, respectively. The pledges for the aircraft payable are disclosed in note 6.

(n) Retirement plans

The net periodic pension costs for the six months ended June 30, 2005 and 2004, were NT\$127,841 thousand (US\$4,061 thousand) and NT\$155,280 thousand (US\$4,653 thousand), respectively. As of June 30, 2005 and 2004, pension liabilities were NT\$779,452 thousand (US\$24,652 thousand) and NT\$771,994 thousand (US\$22,857 thousand), respectively, and the retirement fund deposited in the Central Trust of China was NT\$1,060,134 thousand (US\$33,529 thousand) and NT\$769,792 thousand (US\$22,792 thousand), respectively.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(o) Income tax

- (1) The Company's earnings are subject to a maximum income tax rate of 25%. For the six months ended June 30, 2005 and 2004, the components of estimated income tax benefits (expenses) were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expense—current	\$ (227,732)	(7,234)	(76,711)	(2,299)
Income tax benefit—deferred	<u>12,980</u>	<u>412</u>	<u>86,595</u>	<u>2,595</u>
	\$ <u>(214,752)</u>	<u>(6,822)</u>	<u>9,884</u>	<u>296</u>

- (2) The differences between expected income tax benefits (expenses) at statutory rates and income tax expenses as reported in the accompanying financial statements for the six months ended June 30, 2005 and 2004, are summarized as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Expected income tax expenses	\$ (201,047)	(6,386)	(315,475)	(9,454)
Surtax on undistributed earnings	(134,147)	(4,261)	(106,301)	(3,186)
Gain on disposal of investments	17,573	558	10,632	319
Investment income recognized under equity method—unrealized	91,339	2,901	58,209	1,744
Dividend income	(4,432)	(141)	9,700	291
Permanent difference in depreciation expenses	(15,939)	(506)	(49,909)	(1,496)
Exchange losses recorded as translation adjustments	19,207	610	66,393	1,990
Decrease in loss carryforwards and investment tax credits	261	8	65,837	1,973
Valuation allowance for deferred income tax assets, net	-	-	467,629	14,013
Others	<u>12,433</u>	<u>395</u>	<u>(196,831)</u>	<u>(5,898)</u>
	\$ <u>(214,752)</u>	<u>(6,822)</u>	<u>9,884</u>	<u>296</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

- (3) For the six months ended June 30, 2005 and 2004, the deferred income tax benefit was as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ -	-	(522,588)	(15,660)
Investment tax credits	-	-	26,760	802
Unrealized exchange losses	(66,777)	(2,121)	10,443	313
Purchase of fixed assets by installments, adjusted for tax purposes	41,540	1,320	85,769	2,570
Provision for reducing inventory to market price	(39,331)	(1,250)	31,376	940
Deferred gains on disposal of fixed assets, adjusted for tax purposes	(117,315)	(3,727)	(12,794)	(383)
Accrued employee retirement liabilities	194,863	6,190	-	-
Valuation allowance for deferred income tax assets, net	-	-	467,629	14,013
	<u>\$ 12,980</u>	<u>412</u>	<u>86,595</u>	<u>2,595</u>

- (4) The components of the deferred income tax assets as of June 30, 2005 and 2004, are summarized as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Deferred income tax assets – current				
Unrealized exchange losses	\$ 12,255	388	56,799	1,682
Accrued employee retirement liabilities	194,863	6,163	-	-
Investment tax credits	-	-	139,532	4,131
Allowance for obsolete inventories	336,420	10,640	323,535	9,579
	<u>\$ 543,538</u>	<u>17,191</u>	<u>519,866</u>	<u>15,392</u>
Deferred income tax assets – noncurrent				
Purchase of fixed assets by installments, adjusted for tax purposes	\$ 673,051	21,287	590,313	17,478
Deferred gains on disposal of fixed assets, adjusted for tax purposes	206,985	6,546	286,790	8,491
	<u>\$ 880,036</u>	<u>27,833</u>	<u>877,103</u>	<u>25,969</u>

The Company's income tax returns have been examined and assessed through 2002 by the ROC income tax authority.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(p) Stockholders' equity

(1) Common stock

As of June 30, 2005, 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 3,356,745 thousand shares were issued and outstanding.

As of June 30, 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 2,916,457 thousand shares were issued and outstanding.

On June 16, 2005, the Company's stockholders resolved to transfer unappropriated earnings of NT\$329,229 thousand by issuing 32,923 thousand shares of common stock at NT\$10 par value per share. The stock issuance was authorized by the government authorities. The record date for subscription is August 22, 2005.

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. The record date for subscription was August 15, 2004.

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

The details of capital surplus as of June 30, 2005 and 2004, were as follows:

	2005		2004	
	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
Additional paid-in capital from bond conversion	744,741	22,687	386,952	11,362
Gain on disposal of property, plant and equipment of investee company	1,668	53	1,668	53
Increase in net equity due to change in percentage of ownership by long-term equity method	234,599	6,816	234,599	6,816
Donated assets	<u>648,808</u>	<u>21,228</u>	<u>648,718</u>	<u>21,225</u>
	<u>\$ 3,424,149</u>	<u>112,578</u>	<u>2,736,270</u>	<u>91,540</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

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.

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 are distributed.

The related information on employees' bonuses and directors' and supervisors' remuneration appropriated from 2004 earnings was as follows:

	NT dollars	US dollars
Employees' bonuses — cash	\$ 51,174	1,534
Directors' and supervisors' remuneration	<u>20,400</u>	<u>611</u>
	\$ <u><u>71,574</u></u>	<u><u>2,145</u></u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

According to the 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.

(3) Unappropriated earnings, imputation credit account, and creditable ratio:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Unappropriated earnings after 1998	\$ <u>2,926,276</u>	<u>87,076</u>	<u>2,736,931</u>	<u>79,685</u>

As of June 30, 2005 and 2004, the details of the ICA and the related creditable ratio were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
ICA	\$ <u>660,803</u>	<u>20,900</u>	<u>172,653</u>	<u>5,112</u>
Creditable ratio	<u>14.69%</u> (estimated)		<u>6.94%</u> (actual)	

(q) Earnings per share

For the six months ended June 30, 2005 and 2004, earnings per share are calculated as follows:

	NT dollars 2005				US dollars 2005					
	Dollars		Shares	Earnings per Share		Dollars		Shares	Earnings per Share	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Net income	\$ 804,189	589,437				25,546	18,724			
Basic earnings per share:										
Net income belonging to common stockholders	\$ <u>804,189</u>	<u>589,437</u>	<u>3,297,194</u>	\$ <u>0.24</u>	<u>0.18</u>	<u>25,546</u>	<u>18,724</u>	<u>3,297,194</u>	<u>0.01</u>	<u>0.01</u>
Diluted earnings per share										
Net income belonging to common stockholders	804,189	589,437	3,297,194			25,546	18,724	3,297,194		
Effect in the period of dilutive potential common shares	-	-	235,819	0.23	0.17	-	-	235,819	0.01	0.01
	\$ <u>804,189</u>	<u>589,437</u>	<u>3,533,013</u>	\$ <u>0.23</u>	<u>0.17</u>	<u>25,546</u>	<u>18,724</u>	<u>3,533,013</u>	<u>0.01</u>	<u>0.01</u>
Pro-forma basic earning per share (note):										
Net income belonging to common stockholders	\$ <u>804,189</u>	<u>589,437</u>	<u>3,330,117</u>	\$ <u>0.24</u>	<u>0.18</u>	<u>25,546</u>	<u>18,724</u>	<u>3,330,117</u>	<u>0.01</u>	<u>0.01</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

(note): On June 16, 2005, the Company's stockholders resolved to transfer unappropriated earnings of NT\$329,229 thousand by issuing 32,923 thousand shares of common stock at NT\$10 par value per share. The stock issuance was authorized by and registered with the government authorities. The record date for subscription is August 22, 2005. In accordance with ROC SFAS No. 24 "Earnings per Share", the Company disclosed the pro-forma basic earnings per share.

	NT dollars 2004					US dollars 2004				
	Dollars		Shares	Earnings per Share		Dollars		Shares	Earnings per Share	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Net income	\$ 1,261,899	1,271,783				37,816	38,112			
Basic earning per share:										
Net income belonging to common stockholders	\$ <u>1,261,899</u>	<u>1,271,783</u>	<u>2,837,909</u>	\$ <u>0.44</u>	<u>0.45</u>	<u>37,816</u>	<u>38,112</u>	<u>2,837,909</u>	<u>0.01</u>	<u>0.01</u>
Diluted earnings per share:										
Net income belonging to common stockholders	\$ 1,261,899	1,271,783	2,837,909			37,816	38,112	2,837,909		
Effect in the period of dilutive potential common shares	<u>579</u>	<u>579</u>	<u>17,913</u>			<u>17</u>	<u>17</u>	<u>17,913</u>		
	\$ <u>1,262,478</u>	<u>1,272,362</u>	<u>2,855,822</u>	\$ <u>0.44</u>	<u>0.45</u>	<u>37,833</u>	<u>38,129</u>	<u>2,855,822</u>	<u>0.01</u>	<u>0.01</u>
Pro-forma basic earning per share:										
Net income belonging to common stockholders	\$ <u>1,261,899</u>	<u>1,271,783</u>	<u>2,982,939</u>	\$ <u>0.42</u>	<u>0.43</u>	<u>37,816</u>	<u>38,112</u>	<u>2,982,939</u>	<u>0.01</u>	<u>0.01</u>

(r) Financial instruments

(1) Derivative financial instruments

(i) As of June 30, 2005 and 2004, the nominal amounts and market value of derivative financial instruments were as follows:

	2005		2004	
	Nominal Amount	Market Value	Nominal Amount	Market Value
Interest rate swap agreements (recorded as other current assets and liabilities)	USD 120,000	USD 1,352	USD 80,000	USD 299
Option agreements (recorded as other liabilities)	NTD 4,600,000	-	NTD 4,800,000	USD (608)
Forward exchange contracts (recorded as other current liabilities)	USD 40,000	USD 350		
Fuel option agreements (recorded as other current assets and other liabilities)	-	USD 23,363		USD 3,257

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

- (ii) The Company engaged in derivative financial instruments for the six months ended June 30, 2005 and 2004. Details were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Interest rate swap agreements:				
Interest expenses (recorded as non-operating expenses and losses – interest expenses)	\$ 3,917	124	2,681	80
Interest payable (recorded as accrued expenses)	-	-	1,493	44
Interest receivable (recorded as other financial assets – current)	982	31	-	-
Option agreements:				
Gain on derivatives (recorded as non-operating income and gains – exchange gains, net)	-	-	8,803	264
Future net cash outflow	-	-	5,437,775	161,000
Future net cash inflow	-	-	5,464,500	161,791
Forward exchange contracts:				
Future net cash outflow	1,253,650	39,650	-	-
Future net cash inflow	1,264,720	40,000	-	-
Fuel price option agreements:				
Net gains (recorded as adjustment of operating cost)	708,398	22,540	432,429	12,960

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

1) Interest rate swap agreements

For the six months ended June 30, 2005 and 2004, 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 believes that the risk of loss due to non-performance of the counter-parties is 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 six months ended June 30, 2005.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

3) Forward exchange contracts

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

4) Fuel option agreements

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

(2) Fair value of nonderivative financial instruments

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

The details of other nonderivative instruments as of June 30, 2005 and 2004, are summarized as follows:

Nonderivative financial instruments	2005			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 4,431,227	4,440,142	140,149	140,431
Long-term equity investments:				
Fair value can be estimated in fact	407,858	452,341	12,900	14,306
Fair value can not be estimated in fact	10,566,748	-	334,200	-
Long-term liabilities:				
Bonds payable	6,791,254	6,865,165	214,791	217,128
Long-term borrowings	14,584,053	14,584,053	461,258	461,258
Other installments payable	214,204	214,204	6,775	6,775
Aircraft payable	11,463,591	11,463,591	362,565	362,565
Lease payable	5,691,239	5,691,239	180,000	180,000
Off-balance-sheet financial instruments:				
Letters of credit	-	305,456	-	9,661

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Nonderivative financial instruments	2004		2004	
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 4,413,808	4,479,914	130,683	132,640
Long-term equity investments:				
Fair value can be estimated in fact	279,536	346,762	8,277	10,267
Fair value can not be estimated in fact	10,424,982	-	308,659	-
Long-term liabilities:				
Bonds payable	4,593,100	5,785,888	135,991	171,307
Long-term borrowings	17,317,231	17,317,231	512,723	512,723
Other installments payable	963,829	963,829	28,537	28,537
Aircraft payable	14,494,254	14,494,254	429,141	429,141
Lease payable	6,621,477	6,621,477	196,047	196,047
Off-balance-sheet financial instruments:				
Letters of credit	-	205,661	-	6,089

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

- i) The fair value of short-term investments is market value.
- ii) The fair value of long-term equity investments is market value if they are traded on the public market.
- iii) The fair value of convertible bonds is market value.
- iv) The fair value of long-term liabilities (except convertible bonds) is the discounted future cash flows, and the discount rates during the six months ended June 30, 2005 and 2004, were 3.06% p.a. and 2.96% p.a., respectively.
- v) The fair value of letters of credit and financing guaranty is based on the contract.
- vi) 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.

(Continued)

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

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

Financing guaranty: For the period from June 8, 2002, to June 8, 2004, the Company provided a guaranty for an investee company amounting to NT\$80,000 thousand. As of June 30, 2005 and 2004, the Company had provided a guaranty for an investee company amounting to NT\$0. 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.

(5) 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

(a) 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
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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EVA AIRWAYS CORP.

Notes to Financial Statements

(b) Significant transactions with related parties

(1) Revenue, cost and expenses

During the six months ended June 30, 2005, and 2004, the Company's transactions with related parties were as follows:

Revenue	NT dollars		US dollars		Percentage	
	2005	2004	2005	2004	2005	2004
Evergreen Airline Services Corp.	\$ 897	1,674	29	50	-	0.01
Uni Airways Corp.	12,984	20,541	412	616	0.03	0.05
Evergreen Aviation Technologies Corp.	84,738	116,242	2,692	3,483	0.21	0.31
Evergreen Air Cargo Services Corp.	7,119	4,299	226	129	0.02	0.01
Evergreen Sky Catering Corp.	18	5	1	-	-	-
Others	634	1,231	20	37	-	-
	<u>\$ 106,390</u>	<u>143,992</u>	<u>3,380</u>	<u>4,315</u>	<u>0.26</u>	<u>0.38</u>
Cost	NT dollars		US dollars		Percentage	
	2005	2004	2005	2004	2005	2004
Evergreen International Corp.	\$ 21,565	23,843	685	714	0.06	0.07
Evergreen International Storage & Transport Corp.	38,424	29,788	1,220	892	0.10	0.09
Evergreen Airline Services Corp.	412,046	425,124	13,089	12,740	1.11	1.28
Evergreen Sky Catering Corp.	426,929	441,892	13,562	13,242	1.15	1.33
Uni Airways Corp.	494,571	391,887	15,711	11,744	1.34	1.18
Evergreen Aviation Technologies Corp.	2,407,978	2,267,017	76,492	67,936	6.49	6.85
Evergreen Air Cargo Services Corp.	160,207	168,972	5,089	5,064	0.43	0.51
Others	868	807	28	24	-	-
	<u>\$ 3,962,588</u>	<u>3,749,330</u>	<u>125,876</u>	<u>112,356</u>	<u>10.68</u>	<u>11.31</u>
Expenses	NT dollars		US dollars		Percentage	
	2005	2004	2005	2004	2005	2004
Evergreen International Corp.	\$ 52,778	55,563	1,677	1,665	1.60	1.78
Evergreen International Storage & Transport Corp.	8,872	11,662	282	350	0.27	0.37
Evergreen Airline Services Corp.	12,739	12,451	405	373	0.39	0.40
Evergreen Sky Catering Corp.	11,057	10,290	351	308	0.34	0.33
Uni Airways Corp.	52,714	33,814	1,675	1,013	1.60	1.09
Evergreen Aviation Technologies Corp.	11,947	9,002	380	270	0.36	0.29
Evergreen Security Corp.	24,119	21,468	766	643	0.73	0.69
Evergreen Air Cargo Services Corp.	95	1,038	3	31	-	0.04
RTW Air Services (S) Pte. Ltd.	22,264	24,098	707	722	0.67	0.77
Green Siam Air Services Co., Ltd.	35,753	35,993	1,136	1,079	1.08	1.16
Uni Japan Co., Ltd.	2,296	-	73	-	0.07	-
Others	382	371	12	11	0.01	0.01
	<u>\$ 235,016</u>	<u>215,750</u>	<u>7,466</u>	<u>6,465</u>	<u>7.12</u>	<u>6.93</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

(2) Guaranty

The Company's guaranty to a related party for the six months ended June 30, 2004, were as follows:

	2004			
	Maximum balance		Ending balance	
	NT dollars	US dollars	NT dollars	US dollars
Uni Airways Corp.	\$ <u>80,000</u>	<u>2,369</u>	<u>-</u>	<u>-</u>

There were no such transaction for the six months ended June 30, 2005.

- (3) 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 June 30, 2005 and 2004, resulting from the aforementioned transactions are summarized as follows:

	NT dollars		US dollars	
	2005	2004	2005	2004
Accounts receivable—related parties:				
Uni Airways Corp.	\$ 18,183	5,329	575	158
Evergreen Airline Services Corp.	721	-	23	-
Evergreen Sky Catering Corp.	140	-	4	-
Evergreen Air Cargo Services Corp.	1,465	-	46	-
Evergreen Aviation Technologies Corp.	28,222	23,364	893	692
Evergreen Marine Corp.	3,171	-	100	-
Others	<u>1,822</u>	<u>2,436</u>	<u>58</u>	<u>72</u>
	<u>53,724</u>	<u>31,129</u>	<u>1,699</u>	<u>922</u>
Other receivables—related parties:				
Uni Airways Corp.	132,917	183,920	4,204	5,445
Evergreen Airline Services Corp.	1,947	32,530	61	963
Evergreen Sky Catering Corp.	114	86	4	3
Evergreen Aviation Technologies Corp.	10,244	22,139	324	655
Evergreen Air Cargo Services Corp.	2,865	1,330	91	40
Evergreen International Corp.	4,949	2,707	156	80
Others	<u>595</u>	<u>472</u>	<u>19</u>	<u>14</u>
	<u>153,631</u>	<u>243,184</u>	<u>4,859</u>	<u>7,200</u>
Total receivables—related parties	\$ <u>207,355</u>	<u>274,313</u>	<u>6,558</u>	<u>8,122</u>

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Notes to Financial Statements

Note: As of June 30, 2004, the overdue accounts receivable transferred to other receivables were NT\$24,909 thousand (US\$737 thousand). The aging reports for the abovementioned overdue accounts receivable are shown below:

	2004							
	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>\$24,909</u>	<u>737</u>	<u>13,217</u>	<u>391</u>	<u>8,509</u>	<u>252</u>	<u>3,183</u>	<u>94</u>

There was no such transaction for the six months ended June 30, 2005.

	NT dollars		US dollars	
	2005	2004	2005	2004
Accounts payable – related parties:				
Evergreen International Corp.	\$ 5,836	14,090	185	417
Evergreen Airline Services Corp.	169,369	145,025	5,357	4,294
Evergreen Sky Catering Corp.	160,952	153,581	5,090	4,547
Uni Airways Corp.	143,980	105,795	4,554	3,133
Evergreen Aviation Technologies Corp.	416,654	472,384	13,178	13,986
Evergreen Air Cargo Services Corp.	54,948	56,713	1,738	1,679
Green Siam Air Services Co., Ltd.	6,624	7,381	209	219
RTW Air Services (S) Pte. Ltd.	3,322	3,081	105	91
Evergreen International Storage & Transport Corp.	7,943	1,194	251	35
Evergreen Security Corp.	<u>134</u>	<u>125</u>	<u>4</u>	<u>4</u>
	<u>969,762</u>	<u>959,369</u>	<u>30,671</u>	<u>28,405</u>
Other payables – related parties:				
Evergreen International Corp.	7,442	11,007	235	326
Evergreen International Storage & Transport Corp.	1,384	5,696	44	169
Evergreen Airline Services Corp.	33,265	22,469	1,052	665
Evergreen Sky Catering Corp.	1,280	1,931	41	57
Uni Airways Corp.	9,675	29,156	306	863
Evergreen Aviation Technologies Corp.	2,406	2,468	76	73
Evergreen Security Corp.	4,343	3,785	137	112
Evergreen Air Cargo Services Corp.	2,102	2,382	66	71
Uni Japan Co., Ltd.	2,296	-	73	-
Evergreen Marine Corp.	<u>92</u>	<u>69</u>	<u>3</u>	<u>2</u>
	<u>64,285</u>	<u>78,963</u>	<u>2,033</u>	<u>2,338</u>
Total payables – related parties	\$ <u>1,034,047</u>	<u>1,038,332</u>	<u>32,704</u>	<u>30,743</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

6. Pledged Assets

The book values of the pledged assets as of June 30, 2005 and 2004, were as follows:

Pledged assets	Object	NT dollars		US dollars	
		2005	2004	2005	2004
Land	Long-term borrowings	\$ 1,864,122	1,864,122	58,958	55,192
Buildings	Long-term borrowings	2,620,444	2,716,840	82,878	80,439
Aircraft	Long-term borrowings	30,817,662	37,051,978	974,687	1,097,024
Engines – included in machinery and equipment	Long-term borrowings	129,382	146,043	4,092	4,324
Simulators – included in machinery and equipment	Long-term borrowings	328,354	543,192	10,385	16,083
Time deposit – included in other assets	Customs duty and contract performance guaranties	508,554	589,232	16,085	17,446
		<u>\$ 36,268,518</u>	<u>42,911,407</u>	<u>1,147,085</u>	<u>1,270,508</u>

7. Commitments and Contingencies

(a) As of June 30, 2005, the outstanding contracts for purchases of aircraft were as follows:

Entering date	Type of aircraft	Quantity	Total price of contract		Prepayments (Note)
June 2000	Boeing-777	7	US\$	1,260,851	NT\$ 5,997,593 (US\$189,689)
March 2001	Airbus (A330-200)	2	US\$	234,269	NT\$ 2,296,143 (US\$72,621)
April 2004	Boeing-777	8	US\$	1,491,496	NT\$ 1,293,991 (US\$40,926)
November 2004	Airbus (A330-200)	1	US\$	138,608	NT\$ 1,107,151 (US\$35,016)

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

(b) As of June 30, 2005, the Company had issued a total of NT\$6,653,583 thousand (US\$210,437 thousand) in promissory notes to banks for obtaining guaranties for credit lines. As of June 30, 2005, the Company had obtained guaranties from ABN-AMRO Bank, Citibank, HSBC Bank, and Bank of America amounting to NT\$313,683 thousand (US\$9,921 thousand).

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EVA AIRWAYS CORP.

Notes to Financial Statements

- (c) The Company entered into aircraft, land and engines lease contracts by using the operating or capital lease method. As of June 30, 2005, the Company had paid NT\$14,279,796 thousand (US\$451,635 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 June 30, 2006	\$ 9,765,229	308,850
As of June 30, 2007	9,559,587	302,346
As of June 30, 2008	4,326,834	136,847
As of June 30, 2009	3,577,165	113,137
As of June 30, 2010	<u>3,395,976</u>	<u>107,407</u>
	\$ <u>30,624,791</u>	<u>968,587</u>

8. Important Damage Losses: none.

9. Important Subsequent Event

The Company received a notice indicating that the registration for issuing NT\$2,100,000 thousand of guaranty bonds would become effective at July 25, 2005.

10. Others

- (a) Total personnel, depreciation and amortization expenses for the six months ended June 30, 2005 and 2004, are summarized below:

By function By item	NT dollars					
	Operating cost	2005 Operating expenses	Total	Operating cost	2004 Operating expenses	Total
Personnel expenses						
Salaries	\$ 1,500,498	1,206,127	2,706,625	1,524,546	1,212,962	2,737,508
Insurance	63,700	55,185	118,885	56,317	48,603	104,920
Pension	73,885	53,956	127,841	90,688	64,592	155,280
Others (meal allowances, etc.)	458,284	104,555	562,839	383,188	92,939	476,127
Depreciation	2,010,580	107,536	2,118,116	2,201,189	104,536	2,305,725
Amortization	484,204	107,409	591,613	473,829	108,170	581,999

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EVA AIRWAYS CORP.

Notes to Financial Statements

By function By item	US dollars					
	Operating cost	2005 Operating expenses	Total	Operating cost	2004 Operating expenses	Total
Personnel expenses						
Salaries	\$ 47,665	38,314	85,979	45,686	36,349	82,035
Insurance	2,024	1,753	3,777	1,688	1,456	3,144
Pension	2,347	1,714	4,061	2,718	1,935	4,653
Others (meal allowances, etc.)	14,558	3,321	17,879	11,483	2,785	14,268
Depreciation	63,868	3,416	67,284	65,963	3,133	69,096
Amortization	15,381	3,412	18,793	14,199	3,242	17,441

(b) Reclassification

Certain amounts of the financial statements for the six months ended June 30, 2004, have been reclassified to conform with the presentation of the financial statements for the six months ended June 30, 2005, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

11. Segment Financial Information

There is no significant change in the segment revenue composition. According to ROC SFAS No. 23 "Interim Financial Reporting and Disclosures", paragraph No. 25, an enterprise is not required to follow the principles outlined in the SFAS No. 20.