

**EVA AIRWAYS CORP.**  
**Financial Statements**  
**March 31, 2005 and 2004**  
**(With Auditors' Report Thereon)**

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The Board of Directors  
EVA Airways Corp.:

We have reviewed the accompanying balance sheets of EVA Airways Corp. as of March 31, 2005 and 2004, and the related statements of operations and cash flows for the three months then ended. All information included in these financial statements is the representation of the management of EVA Airways Corp. Except as mentioned in the third paragraph, we conducted our review in accordance with Republic of China Statement on Auditing Standards No. 36, "Review of Financial Statements".

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 4(5) to the accompanying financial statements, the Company's investments amounted to NT\$6,795,102 thousand (US\$215,512 thousand) and NT\$6,251,842 thousand (US\$189,335 thousand), constituting 6% and 5% of total assets, at March 31, 2005 and 2004, respectively, and the resulting investment income for the three months then ended amounted to NT\$97,181 thousand (US\$3,083 thousand) and NT\$21,001 thousand (US\$629 thousand), respectively, constituting 15% and 2%, respectively, of income before income tax for the three months then ended. The financial statements of these investee companies were not reviewed by auditors.

Based on our review, except for the above-mentioned paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with Republic of China generally accepted accounting principles.

As discussed in Notes 2(17) and 3 to the accompanying financial statements, starting from January 1, 2005, the Company adopted ROC SFAS No. 35, "Accounting for Asset Impairment".

April 22, 2005

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

**Not audit, review only**  
**EVA AIRWAYS CORP.**

**Balance Sheets**

**March 31, 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
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (note 4(1))	\$ 1,877,429	730,953	59,544	22,137	Short-term borrowings (notes 4(9) and 7)	\$ -	4,590,000	-	139,007
Short-term investments (note 4(2))	2,891,013	2,466,319	91,691	74,692	Payable on commercial paper (note 4(9))	-	1,708,995	-	51,756
Notes receivable	415,720	269,080	13,185	8,149	Notes payable	498	3,966	16	120
Accounts receivable, net	7,097,029	6,910,146	225,088	209,271	Accounts payable	1,090,194	1,862,489	34,577	56,405
Accounts receivable - related parties (note 5)	32,123	36,122	1,019	1,094	Accounts payable - related parties (note 5)	1,081,203	878,455	34,291	26,604
Other receivables - related parties (note 5)	189,260	181,451	6,003	5,495	Tax payable	655,393	-	20,786	-
Other financial assets - current (note 4(3))	358,477	285,379	11,369	8,643	Accrued expenses (note 4(18))	6,373,763	4,996,995	202,149	151,332
Inventories (note 4(4))	7,095,163	7,088,294	225,029	214,667	Other payables - related parties (note 5)	106,572	44,501	3,380	1,348
Prepaid expenses	2,631,888	2,354,799	83,473	71,314	Other payables (notes 4(12) and 4(13))	2,549,475	3,464,269	80,859	104,914
Other prepayments	209,239	391,087	6,636	11,844	Unearned revenue	6,821,506	5,876,429	216,350	177,966
Deferred income tax assets - current (note 4(15))	502,351	583,679	15,932	17,677	Current portion of long-term liabilities (notes 4(10), 4(11), 6 and 7)	10,462,328	9,304,080	331,821	281,771
Other current assets (note 4(18))	1,102,976	107,340	34,982	3,250	Other current liabilities (note 4(18))	604,902	415,696	19,185	12,589
<b>Total current assets</b>	<u>24,402,668</u>	<u>21,404,649</u>	<u>773,951</u>	<u>648,233</u>	Lease liability - current (note 4(7))	579,149	-	18,368	-
<b>Long-term equity investments (note 4(5)):</b>					<b>Total current liabilities</b>	<u>30,324,983</u>	<u>33,145,875</u>	<u>961,782</u>	<u>1,003,812</u>
Long-term equity investments under equity method	6,795,102	6,251,842	215,512	189,335	<b>Long-term liabilities:</b>				
Long-term equity investments under cost method	4,068,378	4,279,125	129,032	129,592	Bonds payable (note 4(11))	7,516,004	4,847,000	238,376	146,790
<b>Net long-term equity investments</b>	<u>10,863,480</u>	<u>10,530,967</u>	<u>344,544</u>	<u>318,927</u>	Long-term borrowings (notes 4(10), 6 and 7)	13,975,970	17,825,707	443,259	539,846
<b>Property, plant and equipment (notes 4(6), 4(7), 6 and 7):</b>					Other installments payable (note 4(12))	354,296	1,318,895	11,237	39,942
Land	1,869,784	1,869,784	59,302	56,626	Aircraft payable (note 4(13))	12,091,410	14,597,949	383,489	442,094
Buildings	4,391,446	4,391,446	139,278	132,994	Lease liability (note 4(7))	5,811,407	-	184,314	-
Machinery and equipment	3,731,459	5,945,383	118,346	180,054	<b>Total long-term liabilities</b>	<u>39,749,087</u>	<u>38,589,551</u>	<u>1,260,675</u>	<u>1,168,672</u>
Aircraft	63,262,789	78,451,694	2,006,432	2,375,884	<b>Other liabilities:</b>				
Rotable parts	428,720	433,699	13,597	13,134	Accrued employee retirement liabilities (note 4(14))	807,165	787,164	25,600	23,839
	73,684,198	91,092,006	2,336,955	2,758,692	Other liabilities (note 4(18))	1,710,958	1,517,813	54,265	45,967
Less: accumulated depreciation	(28,945,338)	(30,106,781)	(918,025)	(911,774)	<b>Total other liabilities</b>	<u>2,518,123</u>	<u>2,304,977</u>	<u>79,865</u>	<u>69,806</u>
Leased assets, net	6,385,057	-	202,507	-	<b>Total liabilities</b>	<u>72,592,193</u>	<u>74,040,403</u>	<u>2,302,322</u>	<u>2,242,290</u>
Construction in progress	4,868	4,868	155	147	<b>Stockholders' equity (note 4(16)):</b>				
Advances for purchases of equipment	9,728,133	3,074,332	308,536	93,105	Common stock	33,043,896	28,929,038	1,133,986	1,012,775
<b>Net property, plant and equipment</b>	<u>60,856,918</u>	<u>64,064,425</u>	<u>1,930,128</u>	<u>1,940,170</u>	Capital surplus	3,225,198	2,711,637	106,236	90,802
<b>Other assets:</b>					Retained earnings:				
Deferred pension cost (note 4 (14))	191,064	218,358	6,060	6,613	Legal reserve	403,372	263,754	11,690	7,636
Refundable deposits (note 7)	14,747,721	12,857,219	467,736	389,377	Retained earnings	5,243,583	3,515,351	156,400	102,538
Deferred charges (note 4(8))	3,855,654	2,890,811	122,285	87,547	Total retained earnings	<u>5,646,955</u>	<u>3,779,105</u>	<u>168,090</u>	<u>110,174</u>
Deferred income tax assets - non-current (note 4(15))	941,481	638,664	29,860	19,342	Other stockholders' equity adjustments:				
Other assets (note 6)	850,214	738,191	26,965	22,356	Deferred credit	766,031	246,798	23,837	7,474
<b>Total other assets</b>	<u>20,586,134</u>	<u>17,343,243</u>	<u>652,906</u>	<u>525,235</u>	Cumulative translation adjustments	1,654,520	3,769,027	(26,387)	(27,117)
					Net loss not yet recognized as net pension cost	(219,593)	(132,724)	(6,555)	(3,833)
					<b>Total other stockholders' equity adjustments</b>	<u>2,200,958</u>	<u>3,883,101</u>	<u>(9,105)</u>	<u>(23,476)</u>
					<b>Total stockholders' equity</b>	<u>44,117,007</u>	<u>39,302,881</u>	<u>1,399,207</u>	<u>1,190,275</u>
					<b>Commitments and contingencies (notes 5 and 7)</b>				
<b>Total assets</b>	<u>\$ 116,709,200</u>	<u>113,343,284</u>	<u>3,701,529</u>	<u>3,432,565</u>	<b>Total liabilities and stockholders' equity</b>	<u>\$ 116,709,200</u>	<u>113,343,284</u>	<u>3,701,529</u>	<u>3,432,565</u>

See accompanying notes to financial statements.

**Not audit, review only**  
**EVA AIRWAYS CORP.**

**Statements of Operations**

**For the three months ended March 31, 2005 and 2004**  
(expressed in thousands of dollars, except earnings per share)

	NT dollars		US dollars	
	2005	2004	2005	2004
<b>Operating revenue (note 5)</b>	\$ 20,526,753	18,805,421	651,229	563,373
<b>Operating cost (notes 4(18), 5 and 10)</b>	<u>(17,816,820)</u>	<u>(16,010,293)</u>	<u>(565,254)</u>	<u>(479,637)</u>
<b>Gross profit from operations</b>	2,709,933	2,795,128	85,975	83,736
<b>Operating expenses (notes 5 and 10)</b>	<u>(1,800,147)</u>	<u>(1,512,156)</u>	<u>(57,111)</u>	<u>(45,301)</u>
<b>Operating income</b>	<u>909,786</u>	<u>1,282,972</u>	<u>28,864</u>	<u>38,435</u>
<b>Non-operating income and gains:</b>				
Interest income (note 5)	22,624	3,074	718	92
Investment income, net (note 4(5))	97,181	21,001	3,083	629
Other income	<u>110,582</u>	<u>136,116</u>	<u>3,508</u>	<u>4,078</u>
	<u>230,387</u>	<u>160,191</u>	<u>7,309</u>	<u>4,799</u>
<b>Non-operating expenses and losses:</b>				
Interest expenses, net of capitalized interest of NT\$69,045 thousand (US\$2,191 thousand) and NT\$19,738 thousand (US\$591 thousand) in 2005 and 2004, respectively (notes 4(6) and 4(18))	(415,816)	(416,058)	(13,192)	(12,464)
Exchange losses, net (note 4(18))	(76,678)	(175,690)	(2,433)	(5,263)
Other losses	<u>(4,583)</u>	<u>(8,905)</u>	<u>(145)</u>	<u>(267)</u>
	<u>(497,077)</u>	<u>(600,653)</u>	<u>(15,770)</u>	<u>(17,994)</u>
<b>Income before income tax</b>	643,096	842,510	20,403	25,240
<b>Income tax expense (note 4(15))</b>	<u>(107,596)</u>	<u>(92,000)</u>	<u>(3,414)</u>	<u>(2,756)</u>
<b>Net income</b>	<u>\$ 535,500</u>	<u>750,510</u>	<u>16,989</u>	<u>22,484</u>
<b>Earnings per share (expressed in dollars) (note 4(17)):</b>				
Basic earnings per share:				
Income before income tax	\$ <u>0.20</u>	<u>0.30</u>	<u>0.01</u>	<u>0.01</u>
Net income	\$ <u>0.16</u>	<u>0.27</u>	<u>0.01</u>	<u>0.01</u>
Diluted earnings per share:				
Income before income tax	\$ <u>0.18</u>	<u>0.30</u>	<u>0.01</u>	<u>0.01</u>
Net income	\$ <u>0.15</u>	<u>0.27</u>	<u>0.01</u>	<u>0.01</u>

See accompanying notes to financial statements.

**Not audit, review only**  
**EVA AIRWAYS CORP.**

**Statements of Cash Flows**

**For the three months ended March 31, 2005 and 2004**  
(expressed in thousands of dollars)

	NT dollars		US dollars	
	2005	2004	2005	2004
<b>Cash flows from operating activities:</b>				
Net income	\$ 535,500	750,510	16,989	22,484
Adjustments to reconcile net income to net cash flow provided by operating activities:				
Depreciation	1,076,366	1,111,414	34,149	33,296
Amortization and maintenance expense	292,395	290,230	9,276	8,695
Loss on disposal and obsolescence of property, plant and equipment	2,144	4,340	68	130
Amortization of deferred gain from sale and leaseback of fixed assets	(39,666)	(34,311)	(1,258)	(1,028)
Amortization of other deferred gain	(101,595)	(145,637)	(3,223)	(4,363)
Provision for unrealized exchange gain from long-term borrowings	(20,832)	(7,651)	(661)	(229)
Gain on disposal of short-term investments	(54,121)	(34,193)	(1,717)	(1,024)
Gain on disposal of long-term equity investments	-	(967)	-	(29)
Investment income	(97,181)	(21,001)	(3,083)	(629)
Deferred income tax expense (benefit)	(33,238)	88,031	(1,055)	2,637
Decrease (increase) in notes receivable	(18,557)	119,274	(589)	3,612
Decrease (increase) in accounts receivable (including related parties)	178,233	(1,125,810)	5,653	(34,095)
Decrease (increase) in other receivables (including related parties)	52,922	(6,104)	1,678	(185)
Decrease (increase) in inventories	151,544	(101,958)	4,806	(3,088)
Increase in prepaid expenses	(163,763)	(674,910)	(5,194)	(20,439)
Decrease (increase) in other prepayments	79,375	(25,379)	2,517	(769)
Increase in other current assets	(445,533)	(11,173)	(14,130)	(338)
Increase in tax payable	140,834	-	4,467	-
Increase (decrease) in notes and accounts payable (including related parties)	(125,732)	827,690	(3,988)	25,066
Increase (decrease) in other payables (including related parties)	59,507	(543,318)	1,887	(16,454)
Increase in accrued expenses	609,676	98,927	19,336	2,996
Increase (decrease) in unearned revenue	(608,844)	553,025	(19,310)	16,748
Increase (decrease) in other current liabilities	84,569	(7,579)	2,682	(230)
Increase in other liabilities	6,548	90,972	208	2,755
Decrease in accrued employee retirement liabilities	(26,804)	(29,957)	(850)	(907)
Increase in other financial assets - current	(118,815)	(20,074)	(3,768)	(608)
<b>Net cash provided by operating activities</b>	<u>1,414,932</u>	<u>1,144,391</u>	<u>44,890</u>	<u>34,004</u>
<b>Cash flows from investing activities:</b>				
Decrease in short-term investments	2,513,135	3,811,077	79,706	115,417
Proceeds from disposal of long-term equity investments	-	2,468	-	74
Payments for purchase of long-term equity investments	(1,018)	-	(32)	-
Proceeds from disposal of property, plant and equipment	866	1,735	27	53
Payments for purchase of property, plant and equipment	(2,002,399)	(7,537,371)	(63,508)	(228,267)
Decrease in refundable deposits and other assets	325,980	2,963,194	10,339	89,739
Increase in deferred charges	(639,201)	(297,620)	(20,273)	(9,013)
<b>Net cash provided by (used in) investing activities</b>	<u>197,363</u>	<u>(1,056,517)</u>	<u>6,259</u>	<u>(31,997)</u>
<b>Cash flows from financing activities:</b>				
Increase in short-term borrowings	-	6,298,995	-	190,763
Increase in long-term borrowings	4,116,775	500,000	130,567	15,142
Installment payments for purchase of property, plant and equipment	(545,753)	(564,475)	(17,309)	(17,095)
Repayment of short-term borrowings	(1,699,958)	(4,179,516)	(53,916)	(126,575)
Repayment of long-term borrowings	(2,744,424)	(2,758,504)	(87,042)	(83,540)
Installment payments for purchase of inventories	(188,080)	(353,503)	(5,965)	(10,706)
Redemption of lease liability	(146,027)	-	(4,631)	-
<b>Net cash used in financing activities</b>	<u>(1,207,467)</u>	<u>(1,057,003)</u>	<u>(38,296)</u>	<u>(32,011)</u>
<b>Effect of exchange rate changes on cash</b>	-	-	553	2,109
<b>Net increase (decrease) in cash and cash equivalents</b>	404,828	(969,129)	13,406	(27,895)
<b>Cash and cash equivalents at beginning of year</b>	1,472,601	1,700,082	46,138	50,032
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,877,429</u>	<u>730,953</u>	<u>59,544</u>	<u>22,137</u>
<b>Additional disclosure of cash flow information:</b>				
Cash payments of interest (excluding capitalized interest expense)	<u>\$ 394,379</u>	<u>445,505</u>	<u>12,512</u>	<u>13,346</u>
Cash payments of income tax	<u>\$ -</u>	<u>4,780</u>	<u>-</u>	<u>143</u>
<b>Supplemental schedule of non-cash investing and financing activities:</b>				
Current portion of long-term borrowings	<u>\$ 2,018,144</u>	<u>1,285,923</u>	<u>64,007</u>	<u>38,944</u>
Inventory transferred from fixed assets	<u>\$ 74</u>	<u>2,868</u>	<u>2</u>	<u>87</u>
Translation adjustments	<u>\$ (413,434)</u>	<u>(1,220,205)</u>	<u>(3,496)</u>	<u>(4,102)</u>
Deferred credit	<u>\$ 431,756</u>	<u>52,933</u>	<u>13,693</u>	<u>1,603</u>

See accompanying notes to financial statements.

**Not audit, review only**  
**EVA AIRWAYS CORP.**

**Notes to Financial Statements**

**March 31, 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 operations, transportation and maintenance;
- 1.3. to repair and maintain fuselages, aircraft engines, navigational instruments and related equipment, etc.;
- 1.4. to carry on the business of marketing aircraft facilities, equipment, and fittings;
- 1.5. to process and manufacture machinery and spare parts;
- 1.6. to publish magazines in the field of aviation;
- 1.7. to provide on-the-job training delegated by other organizations and entities (no recruitment from the general public is allowed);
- 1.8. to engage in maintaining flying facilities for navigational training;
- 1.9. to engage in import and export trading for the foregoing activities (excluding businesses requiring a permit);
- 1.10. to provide consultant services for business operation and management;
- 1.11. to provide general advertising services;
- 1.12. to engage in the retailing of tobacco and alcohol;
- 1.13. to engage in general merchandise activities;
- 1.14. to engage in the retailing of food and beverages;
- 1.15. to engage in the retailing of apparel;
- 1.16. to engage in the retailing of umbrellas;
- 1.17. to engage in the retailing of hats and caps;
- 1.18. to engage in the retailing of books and stationery;
- 1.19. to engage in the retailing of sporting goods;
- 1.20. to engage in the retailing of toys and amusement goods;

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

- 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 March 31, 2005 and 2004, the Company had hired 4,904 and 4,581 employees, respectively.

**2. Summary of Significant Accounting Policies**

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

**(1) Foreign currency transactions and translation**

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

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

**(2) US dollar financial statement presentation**

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

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**EVA AIRWAYS CORP.****Notes to Financial Statements****(3) Translation of foreign currency for foreign operating units**

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

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

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

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

**(4) Lease**

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

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

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

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

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

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

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

- a) If the value of the leased property is determined using the maximum borrowing rate for non-financial institutions (determined by the ROC Ministry of Finance, Department of Treasury) on the inception date of the lease, then the interest expense is equal to the beginning balance of the lease payable times the maximum borrowing rate.
- 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 un-guaranteed residual value at the end of the lease term, the lessee should calculate the imputed interest expense based on the rental payments, the guaranteed residual value and the leased property's market value using the rules described in the above two paragraphs.

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

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

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****(5) Cash and cash equivalents**

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

**(6) Short-term investments**

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

**(7) Inventories**

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

**(8) Long-term equity investments**

Long-term equity investments in an invested company in which the Company owns less than 20% of its voting shares and is not able to exercise significant influence over the investee's operations and financial policies are accounted for by the cost method, or the lower-of-cost-or-market method where the invested company is a listed company. Disposal gains and loss are derived using the weighted-average method.

Long-term equity investments in an invested company in which the Company, directly or indirectly, owns 20% or more of the investee's voting shares or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operations and financial policies, are accounted for by the equity method. The difference between the acquisition cost of a long-term equity investment and the Company's share of the net equity of the investee as of the acquisition date is deferred and amortized over a period of 5 to 20 years using the straight-line method, and the amortization is recorded as investment income or loss in the accompanying non-consolidated statements of income. Disposal gains and loss are the difference between the selling price and the book value of the long-term equity investments under the equity method. If there is capital surplus resulting from long-term equity investments, the capital surplus should be debited to disposal gain/loss based on the disposal ratio.

(Continued)

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

Unrealized profits or losses from transactions between the Company and its subsidiaries and investees accounted for by the equity method are reported as deferred inter-company profits or losses. If the deferred inter-company profits or losses are related to assets that are subject to depreciation or amortization, the inter-company profit or loss is recognized over the estimated useful lives of the respective assets. All other deferred inter-company profits or losses are recognized in the period of realization.

When the investee companies issue common stock and the Company does not purchase the stock in accordance with its ownership holding ratio, the Company should adjust its capital surplus based on the net changes in the Company's equity in the investee companies. If the capital surplus resulting from the equity method is insufficient, the difference should be debited to retained earnings.

If an investee's equity becomes negative and the Company has guaranteed the payments of the investee's debt or has provided other financial commitments to the investee, or if the investee's loss is temporary in nature, then the investment loss continues to be recognized using the equity method. The resulting excess of the investment loss recognized over the related long-term equity investment is accounted for as long-term equity investment credits and, after offsetting receivables from related parties, is reflected as a liability in the accompanying non-consolidated balance sheets.

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

Property, plant, and equipment are stated at acquisition cost. For construction of buildings and purchase of machinery and equipment, the Company capitalizes related interest costs incurred prior to commencement of the use of such assets and includes such capitalized interest costs in the cost of related assets. Routine 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

(Continued)

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

Ratable parts: 5~18 years

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

(10) Deferred charges

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

(11) Derivative financial instruments

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

(12) Other financial assets

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

(13) 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 Disclosures", the Company does not disclose the information required by SFAS No. 18.

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****(14) Convertible bonds**

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

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

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

**(15) Revenue recognition**

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

**(16) Income tax**

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

Deferred income tax assets or liabilities are classified as current or non-current 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.

(Continued)

**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.

**(17) 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.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is 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.

**(18) 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 (or loss) attributable to common stockholders and the weighted-average number of shares outstanding shall be adjusted for the effects of all dilutive potential common shares.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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).

## (19) Criterion to classify assets and liabilities as current or non-current

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

**3. 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 March 31, 2005.

**4. Important Accounts**

## (1) Cash and cash equivalents

The components as of March 31, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Cash on hand	\$ 89,674	72,491	2,844	2,195
Cash in bank	<u>1,787,755</u>	<u>658,462</u>	<u>56,700</u>	<u>19,942</u>
	<u>\$ 1,877,429</u>	<u>730,953</u>	<u>59,544</u>	<u>22,137</u>

## (2) Short-term investments

The components as of March 31, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Mutual funds	\$ 2,891,013	2,419,200	91,691	73,265
Publicly traded stock	<u>-</u>	<u>47,119</u>	<u>-</u>	<u>1,427</u>
	<u>\$ 2,891,013</u>	<u>2,466,319</u>	<u>91,691</u>	<u>74,692</u>
Fair value	<u>\$ 2,903,794</u>	<u>2,501,139</u>	<u>92,096</u>	<u>75,746</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (3) Other financial assets - current

The components as of March 31, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Tax refund receivable	\$ 346,932	201,599	11,003	6,105
Non-operating revenues receivable	8,364	3,591	265	109
Other receivables	<u>3,181</u>	<u>118,586</u>	<u>101</u>	<u>3,592</u>
	358,477	323,776	11,369	9,806
Less: provision for doubtful accounts	<u>-</u>	<u>(38,397)</u>	<u>-</u>	<u>(1,163)</u>
	<u>\$ 358,477</u>	<u>285,379</u>	<u>11,369</u>	<u>8,643</u>

## (4) Inventories

The components as of March 31, 2005 and 2004, are summarized below:

	NT dollars		US dollars	
	2005	2004	2005	2004
Aircraft spare parts	\$ 8,059,520	7,930,978	255,614	240,187
Consumables for use and merchandise for sale during flight	388,760	402,404	12,330	12,187
Fuel for aircraft	75,166	15,899	2,384	482
Allowance for obsolete inventories	<u>(1,428,283)</u>	<u>(1,260,987)</u>	<u>(45,299)</u>	<u>(38,189)</u>
	<u>\$ 7,095,163</u>	<u>7,088,294</u>	<u>225,029</u>	<u>214,667</u>

Insurance coverage for inventories as of March 2005 is disclosed at note 4(6).

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (5) Long-term equity investments

Details as of and for the three months ended March 31, 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	\$ 424,890	13,476	111,174	3,526	36,170	1,148
RTW Air Services(S) Pte. Ltd.	49.00	24,567	779	13,217	419	5,199	165
Green Siam Air Services Co., Ltd.	49.00	32,901	1,043	9,421	299	9,156	290
Evergreen Sky Catering Corp.	49.80	675,438	21,422	498,000	15,794	18,812	597
Evergreen Airways Service (Macau) Ltd.	99.00	745,335	23,639	148,511	4,710	37,630	1,194
Uni Airways Corp.	17.92	120,100	3,809	3,277,238	103,940	(74,040)	(2,349)
Evergreen Aviation Technologies Corp.	80.00	2,945,897	93,432	2,000,450	63,446	108,716	3,449
Evergreen Security Corp.	31.25	36,522	1,158	25,000	793	2,590	82
Evergreen Air Cargo Services Corp.	60.00	887,163	28,137	726,098	23,029	1,098	35
Hsiang-Li Investment Corp.	100.00	900,987	28,576	1,000,000	31,716	(48,154)	(1,528)
Uni Japan Co., Ltd.	49.50	<u>1,302</u>	<u>41</u>	<u>1,820</u>	<u>58</u>	<u>4</u>	<u>-</u>
		<u>6,795,102</u>	<u>215,512</u>	<u>7,810,929</u>	<u>247,730</u>	<u>97,181</u>	<u>3,083</u>
Accounted for by the cost method:							
Publicly traded securities							
Trade-Van Information Services Co., Ltd.	5.85	94,491	2,997	94,491	2,997	-	-
Central Reinsurance Corp.	6.16	<u>313,367</u>	<u>9,939</u>	<u>313,367</u>	<u>9,939</u>	<u>-</u>	<u>-</u>
		<u>407,858</u>	<u>12,936</u>	<u>407,858</u>	<u>12,936</u>	<u>-</u>	<u>-</u>
Non-publicly traded securities							
Abacus International Holding Ltd.	2.11	115,743	3,671	102,233	3,243	-	-
Sun Shine Finance Co., Ltd.	19.50	40,365	1,280	40,365	1,280	-	-
Taiwan High Speed Rail Corp.	1.40	1,250,000	39,645	1,250,000	39,645	-	-
Hsin-Tao Power Corp.	9.69	484,612	15,370	484,612	15,370	-	-
Technology Partner II Venture Capital Corp.	5.88	20,000	634	20,000	634	-	-
Chung Hwa Express Co., Ltd.	10.00	20,000	634	20,000	634	-	-
Taiwan Fixed Network Corporation	1.30	840,000	26,641	840,000	26,641	-	-
Evergreen Development Corp.	9.47	870,000	27,593	870,000	27,593	-	-
Pan-Pacific Venture Capital Co., Ltd.	1.50	<u>19,800</u>	<u>628</u>	<u>19,800</u>	<u>628</u>	<u>-</u>	<u>-</u>
		<u>3,660,520</u>	<u>116,096</u>	<u>3,647,010</u>	<u>115,668</u>	<u>-</u>	<u>-</u>
		<u>4,068,378</u>	<u>129,032</u>	<u>4,054,868</u>	<u>128,604</u>	<u>-</u>	<u>-</u>
Total		\$ <u>10,863,480</u>	<u>344,544</u>	<u>11,865,797</u>	<u>376,334</u>	<u>97,181</u>	<u>3,083</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Investee	Shareholding percentage (%)	2004					
		Book value		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	\$ 385,752	11,682	111,174	3,367	17,933	537
RTW Air Services (S) Pte. Ltd.	49.00	18,268	553	13,217	400	1,545	46
Green Siam Air Services Co., Ltd.	49.00	27,249	825	9,421	285	3,805	114
Evergreen Sky Catering Corp.	49.80	644,075	19,506	498,000	15,082	16,540	496
Evergreen Airways Service (Macau) Ltd.	99.00	612,230	18,541	148,511	4,497	31,949	957
Uni Airways Corp.	17.92	263,814	7,990	3,277,238	99,250	(11,903)	(357)
Evergreen Aviation Technologies Corp.	80.00	2,524,426	76,451	2,000,450	60,583	7,111	213
Evergreen Security Corp.	31.25	33,153	1,004	25,000	757	2,406	72
Evergreen Air Cargo Services Corp.	60.00	806,372	24,421	726,098	21,990	30,841	924
Hsiang-Li Investment Corp.	100.00	934,827	28,311	1,000,000	30,285	(79,504)	(2,382)
Uni Japan Co., Ltd.	49.50	<u>1,676</u>	<u>51</u>	<u>1,820</u>	<u>55</u>	<u>278</u>	<u>9</u>
		<u>6,251,842</u>	<u>189,335</u>	<u>7,810,929</u>	<u>236,551</u>	<u>21,001</u>	<u>629</u>
Accounted for by the cost method:							
Publicly traded securities							
Trade-Van Information Services Co., Ltd.	5.86	94,572	2,864	94,572	2,864	-	-
Central Reinsurance Corp.	3.96	<u>164,033</u>	<u>4,968</u>	<u>164,033</u>	<u>4,968</u>	-	-
		<u>258,605</u>	<u>7,832</u>	<u>258,605</u>	<u>7,832</u>	-	-
Non-publicly traded securities							
Abacus International Holding Ltd.	2.11	115,743	3,505	102,233	3,096	-	-
Sun Shine Finance Co., Ltd.	19.50	40,365	1,222	40,365	1,222	-	-
Taiwan High Speed Rail Corp.	1.62	1,250,000	37,856	1,250,000	37,856	-	-
Hsin-Tao Power Corp.	9.69	484,612	14,676	484,612	14,676	-	-
Technology Partner II Venture Capital Corp.	5.88	20,000	606	20,000	606	-	-
Chung Hwa Express Co., Ltd.	10.00	20,000	606	20,000	606	-	-
Taiwan Fixed Network Corporation	1.30	1,200,000	36,341	1,200,000	36,341	-	-
Evergreen Development Corp.	9.47	870,000	26,348	870,000	26,348	-	-
Pan-Pacific Venture Capital Co., Ltd.	1.50	<u>19,800</u>	<u>600</u>	<u>19,800</u>	<u>600</u>	-	-
		<u>4,020,520</u>	<u>121,760</u>	<u>4,007,010</u>	<u>121,351</u>	-	-
		<u>4,279,125</u>	<u>129,592</u>	<u>4,265,615</u>	<u>129,183</u>	-	-
Total		\$ <u>10,530,967</u>	<u>318,927</u>	<u>12,076,544</u>	<u>365,734</u>	<u>21,001</u>	<u>629</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Details of increases in long-term equity investments of the Company for the three months ended March 31, 2005, were as follows:

Investee	Shares	2005	
		Amounts	
		NT dollars	US dollars
Unit: thousands of shares			
Accounted for by the cost method:			
Central Reinsurance Corp.	77	\$ <u>1,018</u>	<u>32</u>

There were no such transactions for the three months ended March 31, 2004.

Details of selling long-term equity investments of the Company for the three months ended March 31, and 2004, were as below:

Investee	Shares	Cost NT dollars	2004		
			Gain on disposal of long-term investments		
			US dollars	NT dollars	US dollars
Unit: thousands of shares					
Accounted for by the cost method:					
Trade-Van Information Services Co., Ltd.	184	\$ <u>1,501</u>	<u>45</u>	<u>967</u>	<u>29</u>

There were no such transactions for the three months ended March 31, 2005.

## (6) Property, plant and equipment

For the three months ended March 31, 2005 and 2004, the Company capitalized the interest expenses on construction of building and purchase of aircraft amounting to NT\$69,045 thousand (US\$2,191 thousand) and NT\$19,738 thousand (US\$591 thousand), respectively. The monthly interest rates on the above transactions were 0.25% and 0.24%~0.25%, respectively.

As of March 31, 2005 and 2004, insurance coverage for property, plant and equipment and inventories amounted to approximately NT\$55,102,344 thousand (US\$1,747,616 thousand) and NT\$57,972,508 thousand (US\$1,755,679 thousand), respectively.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (7) Lease assets

The details were as follows:

Lease item	Quantity	Lessor	Lease term	Terms of lease contract
Boeing 747 aircraft	3	GECAS	2004.4.13~ 2016.11.12	Pay rent monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property
Engines	6	Taiwan Life Financing Co., Ltd.	2004.6.29~ 2011.6.28	Pay rent every three months, and the lease transfers ownership of the leased property by the end of the lease term
Computers	1	IBM	2004.7.25~ 2009.7.24	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 transaction date
3.50%~6.93%	NT\$6,348,094 thousand (US\$201,335 thousand)
1.76%	NT\$540,296 thousand (US\$17,136 thousand)
2.50%	NT\$41,844 thousand (US\$1,327 thousand)

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

As of March 31, 2005, the details of leased assets were as follows:

	NT dollars	US dollars
Aircraft	\$ 6,348,094	201,335
Engines	540,296	17,136
Computers	41,844	1,327
Less: accumulated depreciation	(545,177)	(17,291)
	<u>\$ 6,385,057</u>	<u>202,507</u>

As of March 31, 2005, insurance coverage for leased assets amounted to approximately NT\$8,172,742 thousand (US\$259,205 thousand).

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

As of March 31, 2005, the book value and present value of lease liability were as follows:

Year due	NT dollars	US dollars
As of March 31, 2006	\$ 907,695	28,788
As of March 31, 2007	865,500	27,450
As of March 31, 2008	710,575	22,537
As of March 31, 2009	737,680	23,396
As of March 31, 2010	730,138	23,157
And after	<u>4,503,462</u>	<u>142,831</u>
Book value	8,455,050	268,159
Less: unrealized interest expenses	<u>(2,064,494)</u>	<u>(65,477)</u>
Present value	6,390,556	202,682
Less: current portion	<u>(579,149)</u>	<u>(18,368)</u>
	<b>\$ <u>5,811,407</u></b>	<b><u>184,314</u></b>

There was no such transaction for the three months ended March 31, 2004.

## (8) Deferred charges

As of March 31, 2005 and 2004, deferred charges, net of amortization, consisted of the following:

	NT dollars		US dollars	
	2005	2004	2005	2004
Computer software	\$ 326,311	242,742	10,349	7,351
Leasehold improvements	928,803	72,013	29,458	2,181
Air flight route development cost	7,370	34,906	234	1,057
Navigator training costs	41,616	93,030	1,320	2,817
Major overhaul for aircraft and engines	2,456,419	2,366,179	77,907	71,659
Others	<u>95,135</u>	<u>81,941</u>	<u>3,017</u>	<u>2,482</u>
	<b>\$ <u>3,855,654</u></b>	<b><u>2,890,811</u></b>	<b><u>122,285</u></b>	<b><u>87,547</u></b>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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

Details were as follows:

	NT dollars		US dollars	
	2005	2004	2005	2004
Unsecured loans	\$ -	4,590,000	-	139,007
Payable on commercial paper, net of prepaid interest of NT\$1,005 thousand (US\$30 thousand) for 2004	-	1,708,995	-	51,756
	<u>\$ -</u>	<u>6,298,995</u>	<u>-</u>	<u>190,763</u>

The interest expenses on the aforementioned short-term borrowings were calculated based on floating interest rates. For the three months ended March 31, 2004, the interest rates were 0.74%~1.41% p.a. As of March 31, 2005 and 2004, the unused credit lines amounted to approximately NT\$9,190,887 thousand (US\$291,497 thousand) and NT\$3,333,640 thousand (US\$100,958 thousand), respectively.

## (10) Long-term borrowings

As of March 31, 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	2.05~2.93	\$ <u>2,800,000</u>	<u>88,804</u>	3.25~4.50	<u>1,670,000</u>	<u>50,575</u>
Aircraft						
NT\$ loans	1.80~4.92	4,387,999	139,169	1.43~4.95	5,947,777	180,127
US\$ loans	2.70~4.06	<u>2,734,090</u>	<u>86,714</u>	1.95~2.21	<u>4,267,451</u>	<u>124,238</u>
		<u>7,122,089</u>	<u>225,883</u>		<u>10,215,228</u>	<u>309,365</u>
Simulators						
NT\$ loans	-	-	-	4.20~4.55	500,000	15,142
US\$ loans	2.58	<u>278,914</u>	<u>8,846</u>	1.69	<u>299,747</u>	<u>9,078</u>
		<u>278,914</u>	<u>8,846</u>		<u>799,747</u>	<u>24,220</u>
Sub-total		10,201,003	323,533		12,684,975	384,160
Unsecured loans:	1.64~6.50	<u>10,837,295</u>	<u>343,714</u>	1.30~6.50	<u>13,184,812</u>	<u>399,298</u>
Total		21,038,298	667,247		25,869,787	783,458
Less: current portion		<u>(7,062,328)</u>	<u>(223,988)</u>		<u>(8,044,080)</u>	<u>(243,612)</u>
		\$ <u>13,975,970</u>	<u>443,259</u>		<u>17,825,707</u>	<u>539,846</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

As of March 31, 2005, the remaining balances of the loans were due as follows:

Year due	NT dollars	US dollars
As of March 31, 2006	\$ 7,062,328	223,988
As of March 31, 2007	4,639,733	147,153
As of March 31, 2008	3,364,569	106,710
As of March 31, 2009	2,056,124	65,212
As of March 31, 2010	1,948,667	61,804
And after	<u>1,966,877</u>	<u>62,380</u>
	\$ <b><u>21,038,298</u></b>	<b><u>667,247</u></b>

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 March 31, 2005 and 2004, the unused credit lines for long-term borrowings amounted to NT\$2,100,000 thousand (US\$66,603 thousand) and NT\$1,820,000 thousand (US\$55,118 thousand), respectively. The pledges for the long-term borrowings are disclosed at note 6.

## (11) Bonds payable

Details of bonds payable as of March 31, 2005 and 2004, are as follows:

	Description	Annual interest rate	Issue date	New Taiwan dollars		US dollars	
				2005	2004	2005	2004
Bonds payable	Central Trust of China	5.750%~ 6.080%	1999.07	\$ -	300,000	-	9,086
	Bank of Taiwan	5.750%~ 6.080%	1999.07	-	400,000	-	12,114
Bonds payable	Farmers Bank	5.525%	2000.01	-	160,000	-	4,846
	Bank of Taiwan	5.525%	2000.01	-	400,000	-	12,114
Bonds payable	Shanghai Commercial & Savings Bank	5.470%	2000.07	300,000	300,000	9,515	9,086
	Chinatrust Commercial Bank	5.480%	2000.07	500,000	500,000	15,858	15,142
	Bank of Panhsin	5.640%	2000.07	300,000	300,000	9,515	9,086
	Chinatrust Commercial Bank	5.530%	2000.07	500,000	500,000	15,858	15,142
Bonds payable	International Commercial Bank of China	5.250%	2000.12	500,000	500,000	15,858	15,142
	Cathay United Bank	5.250%	2000.12	500,000	500,000	15,858	15,142
	Bank of Taiwan	5.250%	2000.12	400,000	400,000	12,686	12,114
	Farmers Bank	5.250%	2000.12	400,000	400,000	12,686	12,114
Bonds payable	Taipei Fubon Bank	3.700%	2001.07	500,000	500,000	15,858	15,142

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	Description	Annual interest rate	Issue date	New Taiwan dollars		US dollars	
				2005	2004	2005	2004
Bonds payable	Taiwan Cooperative Bank	floating	2004.02	\$ 500,000	500,000	15,858	15,142
Bonds payable	Land Bank	2.250%	2004.07	500,000	-	15,858	-
	Chang Hwa Bank	2.250%	2004.07	500,000	-	15,858	-
	Taipei Fubon Bank	2.250%	2004.07	500,000	-	15,858	-
Bonds payable	Bank of Taiwan	2.110%	2005.01	500,000	-	15,858	-
	Taiwan Cooperative Bank	2.110%	2005.01	500,000	-	15,858	-
Convertible bonds payable		0.000%	2003.06	-	447,000	-	13,537
Convertible bonds payable		0.000%	2004.08	<u>4,016,004</u>	<u>-</u>	<u>127,369</u>	<u>-</u>
Subtotal				<u>10,916,004</u>	<u>6,107,000</u>	<u>346,209</u>	<u>184,949</u>
Less: current portion				<u>(3,400,000)</u>	<u>(1,260,000)</u>	<u>(107,833)</u>	<u>(38,159)</u>
				\$ <u><b>7,516,004</b></u>	\$ <u><b>4,847,000</b></u>	<u><b>238,376</b></u>	<u><b>146,790</b></u>

## (a) Second convertible bonds payable

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

- (i) Coupon rate: 0%
- (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 December 31, 2004, the conversion price was NT\$13.80.

**(b) 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%.

**(c) Conversion**

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

(Continued)

## 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.

## (12) Other installments payable

The Company purchased aircraft spare parts by installments. As of March 31, 2005 and 2004, the details were as follows:

	NT dollars		US dollars	
	2005	2004	2005	2004
Installment amount payable	\$ 985,555	2,736,004	31,258	82,859
Less: current portion	<u>(631,259)</u>	<u>(1,417,109)</u>	<u>(20,021)</u>	<u>(42,917)</u>
	\$ <u><b>354,296</b></u>	<u><b>1,318,895</b></u>	<u><b>11,237</b></u>	<u><b>39,942</b></u>

The current portion of other installments payable was recorded as other payables. As of March 31, 2005, the remaining balances of other installments payable were due as follows:

Year due	NT dollars	US dollars
As of March 31, 2006	\$ 631,259	20,021
As of March 31, 2007	<u>354,296</u>	<u>11,237</u>
	\$ <u><b>985,555</b></u>	<u><b>31,258</b></u>

The interest expenses of the aforementioned installments are calculated based on floating interest rates. For the three months ended March 31, 2005 and 2004, the average interest rates were 2.33%~3.45% p.a. and 2.11%~3.19% p.a., respectively.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (13) Aircraft payable

The Company purchased aircraft by installments. As of March 31, 2005 and 2004, the details were as follows:

	New Taiwan dollars		US dollars	
	2005	2004	2005	2004
Aircraft payable	\$ 13,939,228	16,577,893	442,094	502,056
Less: current portion	<u>(1,847,818)</u>	<u>(1,979,944)</u>	<u>(58,605)</u>	<u>(59,962)</u>
	\$ <u><b>12,091,410</b></u>	<u><b>14,597,949</b></u>	<u><b>383,489</b></u>	<u><b>442,094</b></u>

The current portion of aircraft payable was recorded as other payables. As of March 31, 2005, the remaining balances of the aircraft payables were due as follows:

Year due	NT dollars	US dollars
As of March 31, 2006	\$ 1,847,818	58,605
As of March 31, 2007	2,089,493	66,270
As of March 31, 2008	1,759,669	55,809
As of March 31, 2009	1,714,565	54,379
As of March 31, 2010	1,742,040	55,250
And after	<u>4,785,643</u>	<u>151,781</u>
	\$ <u><b>13,939,228</b></u>	<u><b>442,094</b></u>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the three months ended March 31, 2005 and 2004, the average interest rates were 2.06%~6.77% p.a. and 1.11%~6.77% p.a., respectively. The pledges for the aircraft payable are disclosed at note 6.

## (14) Retirement plans

The net periodic pension costs for the three months ended March 31, 2005 and 2004, were NT\$64,838 thousand (US\$2,057 thousand) and NT\$79,062 thousand (US\$2,369 thousand), respectively. As of March 31, 2005 and 2004, pension liabilities were NT\$807,165 thousand (US\$25,600 thousand) and NT\$787,164 thousand (US\$23,839 thousand), respectively, and the retirement fund deposited with the Central Trust of China was NT\$982,900 thousand (US\$31,173 thousand) and NT\$689,923 thousand (US\$20,894 thousand), respectively.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (15) Income tax

- (a) The Company's earnings are subject to a maximum income tax rate of 25%. For the three months ended March 31, 2005 and 2004, the components of estimated income tax expense were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expense - current	\$ (140,834)	(4,468)	(3,969)	(119)
Income tax expense - deferred	<u>33,238</u>	<u>1,054</u>	<u>(88,031)</u>	<u>(2,637)</u>
	<u>\$ (107,596)</u>	<u>(3,414)</u>	<u>(92,000)</u>	<u>(2,756)</u>

- (b) For the three months ended March 31, 2005 and 2004, the differences between expected income tax expenses at statutory rates and income tax expense as reported in the accompanying financial statements were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Expected income tax expense	\$ (160,774)	(5,101)	(210,628)	(6,310)
Gain on disposal of investments	13,530	429	8,790	263
Investment income recognized under equity method - unrealized	24,295	771	5,250	157
Dividend income	-	-	8,481	255
Permanent difference in depreciation expenses	(8,919)	(283)	(25,695)	(770)
Exchange losses recorded as translation adjustments	17,559	557	25,596	767
Others	<u>6,713</u>	<u>213</u>	<u>96,206</u>	<u>2,882</u>
	<u>\$ (107,596)</u>	<u>(3,414)</u>	<u>(92,000)</u>	<u>(2,756)</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (c) For the three months ended March 31, 2005 and 2004, the deferred income tax expenses were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Loss carry-forwards	\$ -	-	(331,417)	(9,929)
Investment tax credits	-	-	(112,772)	(3,378)
Unrealized exchange losses	(2,355)	(75)	30,915	926
Provision for reducing inventory to market price	49,923	1,584	23,078	692
Purchase of fixed assets by installments, adjusted for tax purposes	-	-	33,722	1,010
Deferred gains on disposal of fixed assets, adjusted for tax purposes	(14,330)	(455)	(9,041)	(271)
Valuation allowance for deferred tax assets, net	-	-	277,484	8,313
	\$ <u>33,238</u>	<u>1,054</u>	<u>(88,031)</u>	<u>(2,637)</u>

- (d) The components of the deferred income tax assets as of March 31, 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	\$ 76,677	2,432	77,271	2,340
Loss carry-forwards	-	-	191,171	5,790
Allowance for obsolete inventories	425,674	13,500	315,237	9,547
	\$ <u>502,351</u>	<u>15,932</u>	<u>583,679</u>	<u>17,677</u>
Deferred income tax assets – non-current:				
Purchase of fixed assets by installments, adjusted for tax purposes	631,511	20,029	538,266	16,301
Deferred gains on disposal of fixed assets, adjusted for tax purposes	309,970	9,831	290,543	8,799
Less: valuation allowance for deferred income tax assets	-	-	(190,145)	(5,758)
	\$ <u>941,481</u>	<u>29,860</u>	<u>638,664</u>	<u>19,342</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The zero balances of the above-mentioned investment tax credits as of March 31, 2005, means that tax credits for investing in equipment, personnel training, venture investment business, tourism or important investment business had been used in full.

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

## (16) Stockholders' equity

## (a) Common stock

As of March 31, 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 3,304,390 thousand shares were issued and outstanding.

As of March 31, 2004, the Company's authorized share capital consisted of 3,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 2,892,904 thousand shares were issued and outstanding.

On June 15, 2004, the Company's stockholders resolved to transfer un-appropriated 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.

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

The details as of March 31, 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	545,790	16,345	365,794	10,726
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 in long-term investments under equity method	234,600	6,816	231,138	6,714
Donated assets	648,807	21,228	648,704	21,225
	<u>\$ 3,225,198</u>	<u>106,236</u>	<u>2,711,637</u>	<u>90,802</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 and earnings from gifts received. 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 issued 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 be appropriated of each year, and remuneration of directors and supervisors of not more than 5% of estimated earnings to be appropriated 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 and a stock dividend of 0~50% of the appropriated dividend are distributed.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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

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

According to ROC Securities and Futures Commission (SFC) regulations, beginning 2002, information related to the appropriation of employees' bonuses and bonuses for directors and supervisors could be found on Web sites such as the Market Observation Post System after the stockholders' meeting.

## (c) Un-appropriated earnings, imputation credit account, and creditable ratio

The details of un-appropriated earnings as of March 31, 2005 and 2004, were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Un-appropriated earnings after 1998	\$ <u>5,243,583</u>	<u>156,400</u>	<u>3,515,351</u>	<u>102,538</u>

As of and for the three months ended March 31, 2005 and 2004, details of the ICA and the related creditable ratio were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
ICA	\$ <u>116,460</u>	<u>3,694</u>	<u>167,226</u>	<u>5,064</u>
Creditable ratio	2004		2003	
	<u>2.22%</u> (estimated)		<u>6.94%</u>	

(Continued)



## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (18) Financial instruments

## (a) Derivative financial instruments

- (i) As of March 31, 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 liabilities)	USD 120,000	USD 373	NTD 1,000,000	NTD 2,623
Option agreements (recorded as other liabilities)	NTD 4,600,000	-	USD 188,000	USD 394
Fuel price option agreements (recorded as other current assets and other assets)	-	USD 23,922	-	USD 7,395

- (ii) The Company entered into derivative financial instruments for the three months ended March 31, 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)	\$ 2,075	66	-	-
Interest payable (recorded as accrued expenses)	4,576	145	-	-
Interest revenues (recorded as non-operating income and gains – interest income)	-	-	13	-
Interest receivable (recorded as other financial assets – current)	-	-	26	1
Forward exchange contracts:				
Loss on derivatives (recorded as non-operating expenses and loss-exchange loss, net)	9,465	300	-	-
Option agreements:				
Gains on derivatives (recorded as non-operating income and gains – exchange gains)	-	-	625	19
Future net cash outflow	\$ -	-	5,877,560	178,000
Future net cash inflow	-	-	6,031,250	182,654
Fuel price option agreements:				
Net gains (recorded as adjustment of operating cost)	376,276	11,984	220,705	6,612

(Continued)

**EVA AIRWAYS CORP.**

**Notes to Financial Statements**

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

1) Interest rate swap agreements

For the three months ended March 31, 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 believed that the risk of loss due to non-performance of the counter-parties was remote.

2) Option agreements

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

The option agreements had all expired.

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.

The option agreements had all expired.

4) Fuel price option agreements

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

(b) Fair value of non-derivative financial instruments

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

(Continued)



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

- 3) The fair value of convertible bonds is market value.
- 4) The fair value of long-term liabilities (except convertible bonds) is the discounted future cash flows, and the discount rates during three months ended March 31, 2005 and 2004 were 3.01% p.a. and 2.96% p.a., respectively.
- 5) The fair value of letters of credit and financing guaranty is based on the contract.
- 6) The fair value of 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.

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

Financing guaranty: As of March 31, 2004, the Company had provided a guaranty for an investee company amounting to NT\$80,000 thousand. 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. There were no such transactions for the three months ended March 31, 2005.

(e) Concentrations of credit risk

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

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 5. Transactions with Related Parties

## (1) Name and relationship of related parties

Name	Relationship with the Company
Evergreen Marine Corp.	Major shareholder
Evergreen International Corp.	Major shareholder
Evergreen International Storage & Transport Corp.	Investee company of the Company's major shareholders
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

## (2) Significant transactions with related parties

## (a) Revenue, cost and expenses

During the three months ended March 31, 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
Uni Airways Corp.	\$ 5,722	11,958	181	358	0.03	0.06
Evergreen Aviation Technologies Corp.	47,512	79,903	1,507	2,394	0.23	0.43
Evergreen Air Cargo Services Corp.	3,172	2,898	101	87	0.02	0.02
Others	1,448	1,052	46	31	-	-
	<u>\$ 57,854</u>	<u>95,811</u>	<u>1,835</u>	<u>2,870</u>	<u>0.28</u>	<u>0.51</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Cost	NT dollars		US dollars		Percentage	
	2005	2004	2005	2004	2005	2004
Evergreen International Corp.	\$ 7,901	10,614	251	318	0.04	0.07
Evergreen International Storage & Transport Corp.	12,699	16,355	403	490	0.07	0.10
Evergreen Airline Services Corp.	231,545	194,043	7,346	5,813	1.30	1.21
Evergreen Sky Catering Corp.	235,030	211,108	7,456	6,324	1.32	1.32
Uni Airways Corp.	263,304	230,871	8,354	6,916	1.48	1.44
Evergreen Aviation Technologies Corp.	1,513,972	1,253,074	48,032	37,540	8.50	7.83
Evergreen Air Cargo Services Corp.	51,636	49,102	1,638	1,471	0.29	0.31
Others	570	439	18	14	-	-
	<b>\$ <u>2,316,657</u></b>	<b><u>1,965,606</u></b>	<b><u>73,498</u></b>	<b><u>58,886</u></b>	<b><u>13.00</u></b>	<b><u>12.28</u></b>

Expenses	NT dollars		US dollars		Percentage	
	2005	2004	2005	2004	2005	2004
Evergreen International Corp.	\$ 30,895	18,679	980	560	1.72	1.24
Evergreen International Storage & Transport Corp.	9,446	3,241	300	97	0.52	0.21
Evergreen Airline Service Corp.	5,902	5,748	187	172	0.33	0.38
Evergreen Sky Catering Corp.	5,968	5,226	189	157	0.33	0.35
Uni Airways Corp.	29,307	17,735	930	530	1.63	1.17
Evergreen Aviation Technologies Corp.	5,253	4,258	167	128	0.29	0.28
Evergreen Security Corp.	12,015	10,777	381	323	0.67	0.71
RTW Air Services (S) Pte. Ltd.	11,181	11,908	355	357	0.62	0.79
Green Siam Air Services Co., Ltd.	17,625	17,675	559	530	0.98	1.17
Others	338	673	11	20	0.02	0.04
	<b>\$ <u>127,930</u></b>	<b><u>95,920</u></b>	<b><u>4,059</u></b>	<b><u>2,874</u></b>	<b><u>7.11</u></b>	<b><u>6.34</u></b>

## (c) Guaranty

As of March 31, 2004, the Company had provided a guaranty for Uni Airways Corp. amounting to NT\$80,000 thousand (US\$2,423 thousand). There were no such transactions for the three months ended March 31, 2005.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (d) The abovementioned transactions with related parties were made with no significant difference from those with non-related parties, but sometimes the payments were overdue. Receivables and payables as of March 31, 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.	\$ 12,458	3,645	395	111
Evergreen Aviation Technologies Corp.	16,399	32,080	520	971
Evergreen Marine Corp.	1,982	266	63	8
Others	<u>1,284</u>	<u>131</u>	<u>41</u>	<u>4</u>
	<u>32,123</u>	<u>36,122</u>	<u>1,019</u>	<u>1,094</u>
Other receivables - related parties:				
Uni Airways Corp.	157,133	161,017	4,984	4,876
Evergreen Air Cargo Services Corp.	2,561	2,323	81	70
Evergreen Aviation Technologies Corp.	5,809	14,411	184	437
Evergreen International Corp.	2,749	2,434	87	74
Uni Japan Co., Ltd.	19,885	-	631	-
Others	<u>\$ 1,123</u>	<u>1,266</u>	<u>36</u>	<u>38</u>
	<u>189,260</u>	<u>181,451</u>	<u>6,003</u>	<u>5,495</u>
<b>Total receivables - related parties</b>	<b><u>\$ 221,383</u></b>	<b><u>217,573</u></b>	<b><u>7,022</u></b>	<b><u>6,589</u></b>
Accounts payable - related parties:				
Evergreen Airline Services Corp.	\$ 154,536	122,078	4,901	3,697
Evergreen Sky Catering Corp.	150,915	137,099	4,786	4,152
Uni Airways Corp.	123,440	80,857	3,915	2,449
Evergreen International Corp.	3,924	19,146	124	580
Evergreen Aviation Technologies Corp.	614,314	474,018	19,485	14,355
Evergreen Air Cargo Services Corp.	25,294	24,677	802	747
Green Siam Air Services Co., Ltd.	5,802	5,697	184	173
RTW Air Services (S) Pte. Ltd.	1,863	8,637	59	262
Others	<u>1,115</u>	<u>6,246</u>	<u>35</u>	<u>189</u>
	<u>1,081,203</u>	<u>878,455</u>	<u>34,291</u>	<u>26,604</u>
Other payables - related parties:				
Evergreen International Corp.	8,453	5,353	268	162
Evergreen Airline Services Corp.	31,597	19,333	1,002	585
Evergreen Security Corp.	4,192	3,722	133	113
Evergreen International Storage & Transport Corp.	6,546	984	207	30
Evergreen Aviation Technologies Corp.	14,586	4,677	463	142
Evergreen Sky Catering Corp.	2,578	2,397	82	73
Uni Airways Corp.	36,659	5,703	1,163	173
Others	<u>1,961</u>	<u>2,332</u>	<u>62</u>	<u>70</u>
	<u>106,572</u>	<u>44,501</u>	<u>3,380</u>	<u>1,348</u>
<b>Total payables - related parties</b>	<b><u>\$ 1,187,775</u></b>	<b><u>922,956</u></b>	<b><u>37,671</u></b>	<b><u>27,952</u></b>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Note: As of March 31, 2005 and 2004, the overdue accounts receivable transferred to other receivables were NT\$35,793 thousand (US\$1,135 thousand) and NT\$21,241 thousand (US\$643 thousand), respectively. The aging reports for the abovementioned overdue accounts receivable were as shown below:

	2005								
	Amount		Aging report for overdue accounts receivable						
	NT dollars	US dollars	Over 1~6 months		Over 7~12 months		Over one year		
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Uni Airways Corp.	\$	<u>35,793</u>	<u>1,135</u>	<u>12,618</u>	<u>400</u>	<u>15,923</u>	<u>505</u>	<u>7,252</u>	<u>230</u>

  

	2004								
	Amount		Aging report for overdue accounts receivable						
	NT dollars	US dollars	Over 1~6 months		Over 7~12 months		Over one year		
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Uni Airways Corp.	\$	<u>21,241</u>	<u>643</u>	<u>-</u>	<u>-</u>	<u>1,622</u>	<u>49</u>	<u>19,619</u>	<u>594</u>

## 6. Pledged Assets

The book values of the pledged assets as of March 31, 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	59,122	56,454
Buildings	Long-term borrowings	2,643,762	2,741,721	83,849	83,032
Aircraft	Long-term borrowings	32,378,911	41,696,458	1,026,924	1,262,764
Engines - included in machinery and equipment	Long-term borrowings	133,547	1,961,019	4,236	59,389
Simulators - included in machinery and equipment	Long-term borrowings	335,787	572,733	10,650	17,345
Time deposit - included in other assets	Customs duty and contract performance guaranties	507,171	461,634	16,085	13,980
		\$ <u>37,863,300</u>	<u>49,297,687</u>	<u>1,200,866</u>	<u>1,492,964</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 7. Commitments and Contingencies

(1) As of March 31, 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\$ 5,252,560	(US\$166,589)
March 2001	Airbus (A330-200)	2	US\$ 234,269	NT\$ 2,296,143	(US\$72,824)
April 2004	Boeing-777	8	US\$ 1,491,496	NT\$ 551,987	(US\$17,507)
November 2004	Airbus (A330-200)	1	US\$ 138,608	NT\$ 889,973	(US\$28,226)

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

- (2) As of March 31, 2005, the Company had issued a total of NT\$5,512,197 thousand (US\$174,824 thousand) in promissory notes to banks for obtaining guaranties for credit lines. As of March 31, 2005, the Company had obtained guaranties from ABN-AMRO Bank, Citibank, HSBC Bank and Bank of America amounting to NT\$311,792 thousand (US\$9,889 thousand).
- (3) The Company entered into aircraft, land and engine lease contracts by using the operating lease or capital lease method. As of March 31, 2005, the Company had paid NT\$14,634,963 thousand (US\$464,160 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 March 31, 2006	\$ 10,051,677	318,797
As of March 31, 2007	11,092,993	351,823
As of March 31, 2008	4,481,893	142,147
As of March 31, 2009	3,314,527	105,123
As of March 31, 2010	3,163,516	100,334
	<u>\$ 32,104,606</u>	<u>1,018,224</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 8. Others

- (1) Total personnel, depreciation and amortization expenses for the three months ended March 31, 2005 and 2004, are summarized below:

NT dollars						
By function		2005		2004		
By item	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Personnel expenses						
Salaries	\$ 761,941	657,292	1,419,233	764,993	608,965	1,373,958
Insurance	30,786	26,672	57,458	28,111	23,088	51,199
Pension	36,975	27,863	64,838	45,318	33,744	79,062
Others (meal allowances, etc.)	235,862	52,261	288,123	156,746	43,212	199,958
Depreciation	1,022,735	53,631	1,076,366	1,059,348	52,066	1,111,414
Amortization	238,828	53,567	292,395	236,219	54,011	290,230

US dollars						
By function		2005		2004		
By item	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Personnel expenses						
Salaries	\$ 24,173	20,853	45,026	22,918	18,243	41,161
Insurance	977	846	1,823	842	692	1,534
Pension	1,173	884	2,057	1,358	1,011	2,369
Others (meal allowances, etc.)	7,483	1,658	9,141	4,696	1,294	5,990
Depreciation	32,447	1,702	34,149	31,736	1,560	33,296
Amortization	7,577	1,699	9,276	7,077	1,618	8,695

- (2) Reclassification

Certain amounts of the financial statements for the three months ended March 31, 2004, have been reclassified to conform with the presentation of the financial statements for the three months ended March 31, 2005, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

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Not audit, review only  
EVA AIRWAYS CORP.

Statements of Changes in Stockholders' Equity

For the six months ended March 31, 2005 and 2004  
(expressed in thousands of dollars)

	US dollars															
	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings (Accumulated Deficits)	Deferred Credit (Debit)	Cumulative Translation Adjustments	Net Loss not yet Recognized as Net Pension Cost	Total	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings (Accumulated Deficits)	Deferred Credit (Debit)	Cumulative Translation Adjustments	Net Loss not yet Recognized as Net Pension Cost	Total
<b>Balance on December 31, 2003</b>	\$ 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	3,431	(23,015)	(3,833)	1,124,574
Transfer of interest-premium arising from conversion option exercised to capital surplus	1,394,708	108,792	-	-	-	-	-	1,503,500	-	-	-	-	-	-	-	-
Decrease in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	3,104	-	-	-	-	-	3,104	-	-	-	-	-	-	-	-
Deferred debit	-	-	-	-	52,933	-	-	52,933	42,238	3,295	-	-	(5,311)	-	-	1,729
Net loss	-	-	-	750,510	-	-	-	750,510	-	57	-	22,484	-	-	-	22,484
Translation adjustments	-	-	-	-	-	(1,220,205)	-	(1,220,205)	-	-	-	-	-	(4,102)	-	(4,102)
<b>Balance on March 31, 2004</b>	<b>\$ 28,929,038</b>	<b>2,711,637</b>	<b>263,754</b>	<b>3,515,351</b>	<b>246,798</b>	<b>3,769,027</b>	<b>(132,724)</b>	<b>39,302,881</b>	<b>1,012,775</b>	<b>90,802</b>	<b>7,636</b>	<b>102,538</b>	<b>(1,880)</b>	<b>(27,117)</b>	<b>(3,833)</b>	<b>1,190,275</b>
<b>Balance on December 31, 2004</b>	\$ 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	5,745	(29,883)	(6,555)	1,350,635
Convertible bonds converted into common stock	329,637	125,264	-	-	-	-	-	454,901	10,455	3,794	-	-	-	-	-	14,249
Transfer of donated assets of investee company under equity method to capital surplus	-	73	-	-	-	-	-	73	-	2	-	-	-	-	-	2
Deferred debit	-	-	-	-	431,756	-	-	431,756	-	-	-	-	(2,185)	-	-	14,151
Net income	-	-	-	535,500	-	-	-	535,500	-	-	-	16,989	-	-	-	16,989
Translation adjustments	-	-	-	-	-	(413,435)	-	(413,435)	-	-	-	-	-	3,182	-	3,182
<b>Balance on March 31, 2005</b>	<b>\$ 33,043,896</b>	<b>3,225,199</b>	<b>403,372</b>	<b>5,243,583</b>	<b>766,031</b>	<b>1,654,519</b>	<b>(219,593)</b>	<b>44,117,007</b>	<b>1,134,012</b>	<b>106,067</b>	<b>11,690</b>	<b>156,400</b>	<b>24,295</b>	<b>(26,701)</b>	<b>(6,555)</b>	<b>1,399,208</b>