

**EVA AIRWAYS CORP.**  
**Financial Statements**  
**September 30, 2004 and 2003**  
**(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 September 30, 2004 and 2003, and the related statements of operations and cash flows for the nine 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 2(8) to the accompanying financial statements, the Company's investments amounted to NT\$6,621,790 thousand (US\$194,873 thousand) and NT\$6,105,600 thousand (US\$180,746 thousand), at September 30, 2004 and 2003, respectively and the resulting investment income for the nine months then ended amounted to NT\$461,077 thousand (US\$13,731 thousand) and NT\$163,501 thousand (US\$4,728 thousand) for the nine months then ended. The financial statements of these investee companies were not reviewed by other auditors.

Based on our review, except for the abovementioned 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.

October 22, 2004

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 review such financial statements are those generally accepted and applied in the Republic of China.

**EVA AIRWAYS CORP.**

**Balance Sheets**

**September 30, 2004 and 2003**  
(expressed in thousands of dollars)

Assets	New Taiwan dollars		US dollars		Liabilities and Stockholders' Equity	New Taiwan dollars		US dollars	
	2004	2003	2004	2003		2004	2003	2004	2003
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (note 4(1))	\$ 1,762,688	789,236	51,874	23,364	Short-term borrowings (notes 4(9) and 7)	\$ 1,310,000	4,170,000	38,552	123,446
Short-term investments (note 4(2))	8,324,231	5,121,341	244,974	151,609	Payable on commercial paper (note 4(9))	869,497	2,537,587	25,589	75,121
Notes receivable	308,558	245,641	9,081	7,272	Notes payable	2,970	2,263	87	67
Accounts receivable, net	7,654,715	6,139,818	225,271	181,759	Accounts payable	1,593,401	1,968,350	46,892	58,270
Accounts receivable - related parties (note 5)	24,169	34,613	711	1,025	Accounts payable - related parties (note 5)	994,354	785,927	29,263	23,266
Other receivables - related parties (note 5)	202,451	287,386	5,958	8,507	Tax payable	360,911	-	10,621	-
Other financial assets - current (note 4(3))	366,772	348,382	10,794	10,313	Accrued expenses (note 4(18))	6,452,218	5,862,902	189,883	173,561
Inventories (note 4(4))	7,284,419	7,131,988	214,374	211,130	Other payables - related parties (note 5)	94,639	47,612	2,785	1,409
Prepaid expenses	2,610,411	1,977,139	76,822	58,530	Other payables (notes 4(12) and 4(13))	3,137,265	3,120,569	92,327	92,379
Other prepayments	524,099	347,828	15,424	10,297	Unearned revenue	6,874,490	5,409,955	202,310	160,153
Deferred income tax assets - current (note 4(15))	423,328	426,146	12,458	12,615	Current portion of long-term liabilities (notes 4(10), 4(11), 6 and 7)	10,016,136	6,679,244	294,766	197,728
Other current assets (note 4(18))	823,770	20,974	24,243	621	Other current liabilities (note 4(18))	478,826	433,480	14,092	12,832
<b>Total current assets</b>	<u>30,309,611</u>	<u>22,870,492</u>	<u>891,984</u>	<u>677,042</u>	Lease liability - current (note 4(7))	605,567	-	17,821	-
<b>Long-term equity investments (note 4(5)):</b>					<b>Total current liabilities</b>	<u>32,790,274</u>	<u>31,017,889</u>	<u>964,988</u>	<u>918,232</u>
Long-term equity investments under equity method	6,621,790	6,105,600	194,873	180,746	<b>Long-term liabilities:</b>				
Long-term equity investments under cost method	3,972,329	4,281,524	116,902	126,747	Bonds payable (note 4(11))	8,843,704	7,713,300	260,262	228,340
<b>Total long-term equity investments</b>	<u>10,594,119</u>	<u>10,387,124</u>	<u>311,775</u>	<u>307,493</u>	Long-term borrowings (notes 4(10), 6 and 7)	13,653,213	21,392,980	401,801	633,303
<b>Property, plant and equipment (notes 4(6), 4(7), 6 and 7):</b>					Other installments payable (note 4(12))	716,528	1,074,311	21,087	31,803
Land	1,869,784	1,869,784	55,026	55,352	Aircraft payable (note 4(13))	13,997,163	15,958,754	411,924	472,432
Buildings	4,391,446	4,391,446	129,236	130,001	Lease liability - noncurrent (note 4(7))	6,539,123	-	192,440	-
Machinery and equipment	3,419,521	5,960,492	100,633	176,450	<b>Total long-term liabilities</b>	<u>43,749,731</u>	<u>46,139,345</u>	<u>1,287,514</u>	<u>1,365,878</u>
Aircraft	68,170,646	73,072,858	2,006,199	2,163,199	<b>Other liabilities:</b>				
Rotable parts	430,289	496,728	12,663	14,705	Accrued employee retirement liabilities (note 4(14))	767,682	789,385	22,592	23,368
	78,281,686	85,791,308	2,303,757	2,539,707	Other liabilities (note 4(18))	1,829,449	1,062,010	53,839	31,439
Less: accumulated depreciation	(29,001,624)	(27,585,301)	(853,491)	(816,616)	<b>Total other liabilities</b>	<u>2,597,131</u>	<u>1,851,395</u>	<u>76,431</u>	<u>54,807</u>
Leased assets, net	7,148,092	-	210,362	-	<b>Total liabilities</b>	<u>79,137,136</u>	<u>79,008,629</u>	<u>2,328,933</u>	<u>2,338,917</u>
Construction in progress	4,868	4,868	143	144	<b>Stockholders' equity (note 4(16)):</b>				
Advances for purchases of equipment	5,693,039	2,104,716	167,541	62,307	Common stock	32,664,767	25,840,799	1,122,661	922,307
<b>Net property, plant and equipment</b>	<u>62,126,061</u>	<u>60,315,591</u>	<u>1,828,312</u>	<u>1,785,542</u>	Stock dividend to be distributed	-	485,000	-	14,042
<b>Other assets:</b>					Capital surplus	3,081,037	2,502,358	101,686	84,714
Deferred pension cost	218,358	245,652	6,426	7,272	Retained earnings:				
Refundable deposits (note 7)	16,407,602	16,097,292	482,861	476,533	Legal reserve	403,372	263,754	11,770	7,636
Deferred charges (note 4(8))	3,296,230	3,007,305	97,005	89,026	Retained earnings	4,134,866	626,007	121,076	18,103
Deferred income tax assets - noncurrent (note 4(15))	906,693	716,449	26,683	21,210	<b>Total retained earnings</b>	<u>4,538,238</u>	<u>889,761</u>	<u>132,846</u>	<u>25,739</u>
Other assets (note 6)	1,129,261	615,446	33,233	18,219	Other stockholders' equity adjustment:				
<b>Total other assets</b>	<u>21,958,144</u>	<u>20,682,144</u>	<u>646,208</u>	<u>612,260</u>	Deferred credit (debit) of derivative financial instruments	1,183,946	(47,866)	34,842	(1,417)
					Cumulative translation adjustments	4,515,535	5,673,568	(38,856)	814
					Net loss not yet recognized as net pension cost	(132,724)	(96,898)	(3,833)	(2,779)
					<b>Total other stockholders' equity adjustments</b>	<u>5,566,757</u>	<u>5,528,804</u>	<u>(7,847)</u>	<u>(3,382)</u>
					<b>Total stockholders' equity</b>	<u>45,850,799</u>	<u>35,246,722</u>	<u>1,349,346</u>	<u>1,043,420</u>
					<b>Commitments and contingencies (notes 5 and 7)</b>				
<b>Total assets</b>	<u>\$ 124,987,935</u>	<u>114,255,351</u>	<u>3,678,279</u>	<u>3,382,337</u>	<b>Total liabilities and stockholders' equity</b>	<u>\$ 124,987,935</u>	<u>114,255,351</u>	<u>3,678,279</u>	<u>3,382,337</u>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Statements of Operations**

**For the nine months ended September 30, 2004 and 2003**  
**(expressed in thousands of dollars, except earnings per share)**

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
<b>Operating revenue (note 5)</b>	\$ 60,103,926	46,326,500	1,789,873	1,339,691
<b>Operating cost (notes 4(18), 5 and 10)</b>	<u>(51,599,208)</u>	<u>(41,397,261)</u>	<u>(1,536,605)</u>	<u>(1,197,145)</u>
<b>Gross profit from operations</b>	8,504,718	4,929,239	253,268	142,546
<b>Operating expenses (notes 5 and 10)</b>	<u>(4,758,982)</u>	<u>(4,451,256)</u>	<u>(141,721)</u>	<u>(128,724)</u>
<b>Operating income</b>	<u>3,745,736</u>	<u>477,983</u>	<u>111,547</u>	<u>13,822</u>
<b>Nonoperating income and gains:</b>				
Interest income (note 5)	28,239	8,385	841	243
Investment income, net (notes 4(5) and 5)	461,077	163,501	13,731	4,728
Recovery of unrealized loss on short-term investments	-	62,237	-	1,800
Other income	<u>395,287</u>	<u>272,496</u>	<u>11,771</u>	<u>7,880</u>
	<u>884,603</u>	<u>506,619</u>	<u>26,343</u>	<u>14,651</u>
<b>Nonoperating expenses and losses:</b>				
Interest expenses, net of capitalized interest of NT\$88,992 thousand (US\$2,650 thousand) and NT\$42,506 thousand (US\$1,229 thousand) for 2004 and 2003, respectively (notes 4(6) and 4(18))	(1,415,290)	(1,678,344)	(42,147)	(48,535)
Exchange losses, net (note 4(18))	(63,526)	(21,551)	(1,892)	(623)
Other losses	<u>(119,403)</u>	<u>(42,358)</u>	<u>(3,556)</u>	<u>(1,225)</u>
	<u>(1,598,219)</u>	<u>(1,742,253)</u>	<u>(47,595)</u>	<u>(50,383)</u>
<b>Income (losses) before income tax</b>	3,032,120	(757,651)	90,295	(21,910)
<b>Income tax expenses (benefit) (note 4(15))</b>	<u>362,402</u>	<u>(15,000)</u>	<u>10,792</u>	<u>(434)</u>
<b>Net income (losses)</b>	<u>\$ 2,669,718</u>	<u>(742,651)</u>	<u>79,503</u>	<u>(21,476)</u>
<b>Earnings (losses) per share (expressed in dollars) (note 4(17)):</b>				
Basic earnings (losses) per share:				
Income (losses) before income tax	\$ <u>1.02</u>	<u>(0.31)</u>	<u>0.03</u>	<u>(0.01)</u>
Net income (losses)	\$ <u>0.89</u>	<u>(0.30)</u>	<u>0.03</u>	<u>(0.01)</u>
Diluted earnings per share:				
Income before income tax	\$ <u>0.92</u>	<u>-</u>	<u>0.03</u>	<u>-</u>
Net income	\$ <u>0.81</u>	<u>-</u>	<u>0.02</u>	<u>-</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the nine months ended September 30, 2004 and 2003  
(expressed in thousands of dollars)

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
<b>Cash flows from operating activities:</b>				
Net income (loss)	\$ 2,669,718	(742,651)	79,503	(21,476)
Adjustments to reconcile net income (loss) to net cash flow from operating activities:				
Depreciation	3,463,077	3,324,568	103,129	96,141
Amortization and maintenance expense	869,642	826,706	25,898	23,942
Loss on disposal and obsolescence of property, plant and equipment	8,026	13,345	239	386
Recovery from loss on devaluation of short-term investments	-	(62,237)	-	(1,800)
Amortization of deferred gain from sale and leaseback of fixed assets	(119,820)	(178,457)	(3,568)	(5,161)
Amortization of other deferred gain	(259,776)	(26,041)	(7,736)	(753)
Provision for unrealized exchange gain from long-term borrowings	876	721	26	21
Gain on disposal of short-term investments	(82,220)	(26,394)	(2,448)	(763)
Gain on disposal of long-term equity investments	(1,016)	(1,400)	(30)	(40)
Investment gain	(461,077)	(163,501)	(13,731)	(4,728)
Proceeds from cash dividends of long-term equity investments	78,758	94,811	2,345	2,742
Deferred income tax benefit	(19,647)	(35,938)	(578)	(1,063)
Decrease in notes receivable	79,796	67,904	2,348	2,010
Decrease (increase) in accounts receivable (including related parties)	(1,858,426)	340,720	(54,692)	10,086
Decrease (increase) in other receivables from related parties	(27,104)	4,147	(798)	123
Increase in inventories	(297,906)	(341,771)	(8,767)	(10,118)
Increase in prepaid expenses	(930,522)	(195,117)	(27,384)	(5,776)
Decrease (increase) in other prepayments	(158,391)	37,002	(4,661)	1,095
Increase in other financial assets - current	(198,909)	(173,495)	(5,854)	(5,136)
Decrease in other current assets	41,735	11,686	1,228	346
Decrease (increase) in other assets	(109,398)	135,799	(3,219)	4,020
Increase in notes and accounts payable (including related parties)	637,505	636,411	18,761	18,839
Decrease in other payables (including related parties)	(533,140)	(338,244)	(15,690)	(10,013)
Increase in accrued expenses	1,515,148	549,324	44,589	16,262
Increase (decrease) in unearned revenue	1,551,086	(393,447)	45,647	(11,647)
Increase (decrease) in other current liabilities	416,462	(41,864)	12,256	(1,239)
Increase in other liabilities	134,807	32,132	3,967	951
Increase (decrease) in retirement plan liabilities	(49,439)	7,692	(1,455)	228
<b>Net cash provided by operating activities</b>	<u>6,395,845</u>	<u>3,362,411</u>	<u>189,325</u>	<u>97,479</u>
<b>Cash flows from investing activities:</b>				
Increase in short-term investments	(1,998,808)	(1,168,173)	(58,823)	(34,582)
Proceeds from disposal of long-term equity investments	2,599	110,964	76	3,209
Payments for purchase of long-term equity investments	(53,286)	(122,514)	(1,568)	(3,627)
Proceeds from disposal of property, plant and equipment	4,395,994	6,662	130,911	193
Payments for purchase of property, plant and equipment	(3,551,893)	(2,002,917)	(105,774)	(57,921)
Decrease (increase) in refundable deposits and other assets	(188,304)	60,756	(5,542)	1,799
Withdrawal of long-term equity investments	360,000	-	10,529	-
Increase in deferred charges	(1,282,451)	(1,148,623)	(37,741)	(34,003)
<b>Net cash used in investing activities</b>	<u>(2,316,149)</u>	<u>(4,263,845)</u>	<u>(67,932)</u>	<u>(124,932)</u>
<b>Cash flows from financing activities:</b>				
Increase in short-term borrowings	12,367,395	18,857,642	363,961	558,249
Increase in long-term borrowings	8,660,000	4,412,559	254,856	130,626
Redemption of short-term borrowings	(14,367,414)	(16,940,847)	(427,856)	(489,903)
Redemption of long-term borrowings	(10,055,131)	(4,269,858)	(299,438)	(123,478)
Installment payments for purchase of property, plant and equipment	(1,568,634)	(1,595,537)	(46,713)	(46,140)
Installment payments for purchase of inventories	(1,311,438)	(682,556)	(39,054)	(19,738)
Redemption of lease liability	(271,868)	-	(8,096)	-
Proceeds from disposal of inventories	-	400,000	-	11,567
Proceeds from issuance of common stock	2,530,000	-	74,445	-
Payment of employees' bonus and directors' remuneration	-	(35,130)	-	(1,016)
<b>Net cash provided by (used in) financing activities</b>	<u>(4,017,090)</u>	<u>146,273</u>	<u>(127,895)</u>	<u>20,167</u>
<b>Effect of exchange rate changes on cash</b>	-	-	8,344	(13,793)
<b>Net increase in cash and cash equivalents</b>	62,606	(755,161)	1,842	(21,079)
<b>Cash and cash equivalents at beginning of period</b>	<u>1,700,082</u>	<u>1,544,397</u>	<u>50,032</u>	<u>44,443</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 1,762,688</u>	<u>789,236</u>	<u>51,874</u>	<u>23,364</u>
<b>Additional disclosure of cash flow information:</b>				
Cash payments of interest (excluding capitalized interest expense)	\$ <u>1,418,011</u>	<u>1,745,359</u>	<u>42,228</u>	<u>50,473</u>
Cash payments of income tax	\$ <u>20,218</u>	<u>20,619</u>	<u>602</u>	<u>596</u>
<b>Supplemental schedule of noncash investing and financing activities:</b>				
Current portion of long-term borrowings	\$ <u>10,016,136</u>	<u>6,679,244</u>	<u>294,766</u>	<u>197,728</u>
Inventory transferred from fixed assets	\$ <u>3,045</u>	<u>41,778</u>	<u>90</u>	<u>1,237</u>
Cash dividends payable	\$ <u>-</u>	<u>485,000</u>	<u>-</u>	<u>14,358</u>
Employees' bonus and directors' remuneration payable	\$ <u>39,002</u>	<u>-</u>	<u>1,148</u>	<u>-</u>
Translation adjustments	\$ <u>(473,697)</u>	<u>(114,502)</u>	<u>(16,227)</u>	<u>(24,674)</u>
Deferred credit (debit) of derivative financial instruments	\$ <u>990,081</u>	<u>(163,094)</u>	<u>29,137</u>	<u>(4,828)</u>
Short-term investments transferred to long-term investment	\$ <u>-</u>	<u>141,659</u>	<u>-</u>	<u>4,194</u>
Outstanding balance of lease liability resulting from lease assets	\$ <u>6,932,182</u>	<u>-</u>	<u>204,008</u>	<u>-</u>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Notes to Financial Statements**

**September 30, 2004 and 2003**

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

**1. Organization and Business Scope**

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

The Company's business activities are

- (1) to engage in fixed-wing aircraft transport business, helicopter transport business, scheduled air transport business, and nonscheduled air transport business;
- (2) to carry on the business of freight agent, including operation, transportation and maintenance;
- (3) to repair and maintain fuselages, aircraft engines, navigational instruments, and related equipment, etc.;
- (4) to carry on the business of marketing aircraft facilities, equipment, and fittings, and of leasing aircraft;
- (5) to process and manufacture machinery and spare parts;
- (6) to publish magazines in the field of aviation;
- (7) to provide on-the-job training delegated by other organizations and entities (no recruitment from the general public is allowed);
- (8) to engage in maintaining flying facilities for navigational training;
- (9) to deal with airport ground business;
- (10) to handle civil aviation airport terminal business (including passenger and cargo flight businesses);
- (11) to engage in import and export trading for the foregoing activities (excluding businesses requiring a permit);
- (12) to provide consultant services for business operation and management;
- (13) to provide general advertising services;
- (14) to engage in the retailing of tobacco and alcohol;
- (15) to engage in general merchandise activities;
- (16) to engage in the retailing of food and beverages;
- (17) to engage in the retailing of apparel;
- (18) to engage in the retailing of umbrellas;
- (19) to engage in the retailing of hats and caps;

(Continued)

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

- (20) to engage in the retailing of books and stationery;
- (21) to engage in the retailing of sporting goods;
- (22) to engage in the retailing of toys and amusement goods;
- (23) to engage in the retailing of watches and clocks;
- (24) to engage in the retailing of glasses;
- (25) to engage in the retailing of weights and measures;
- (26) to engage in the retailing of jewelry and precious metals;
- (27) to carry out any business which is not forbidden or restricted by the applicable laws and regulations, excluding those requiring licensing.

As of September 30, 2004 and 2003, the Company had hired 4,897 employees and 4,421 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.

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**EVA AIRWAYS CORP.****Notes to Financial Statements****(2) US dollar financial statement presentation**

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

**(3) Translation of foreign currency for foreign operating units**

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

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

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

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

**(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

(Continued)

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

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 loss.

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

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

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

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

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

(Continued)

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

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

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

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

(5) Cash and cash equivalents

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

(6) Short-term investments

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

(7) Inventories

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

(8) Long-term equity investments

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

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

(Continued)

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

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 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.

According to ROC SFAS No. 23, "Interim Financial Reporting and Disclosures", the Company does not need to prepare consolidated financial statements.

(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 estimated 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 the 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 nonoperating income and gains (expenses and losses).

(Continued)

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

## (10) Deferred charges

Deferred charges principally include costs for computer software, leasehold improvements, trademarks, air route development, training of navigators and aircraft maintenance personnel, 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 10.7% of total salaries from January to April 2003, and 11.9% of total salaries from May 2003 on a monthly basis to an account maintained by the government-designated institution.

The Company implemented ROC 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.

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**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 be 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 stocks 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 income tax liabilities or assets 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.

(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) 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 earnings per share (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).

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

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

**3. The Reason for and Effect of Accounting Changes: none.**

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 4. The Important Accounts Are Listed Below:

## (1) Cash and cash equivalents

The components as of September 30, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Cash on hand	\$ 89,589	72,123	2,636	2,135
Cash in bank	<u>1,673,099</u>	<u>717,113</u>	<u>49,238</u>	<u>21,229</u>
	<u>\$ 1,762,688</u>	<u>789,236</u>	<u>51,874</u>	<u>23,364</u>

## (2) Short-term investments

The components as of September 30, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Mutual funds	\$ 8,324,231	5,071,914	244,974	150,146
Publicly traded stock	<u>-</u>	<u>49,427</u>	<u>-</u>	<u>1,463</u>
	<u>\$ 8,324,231</u>	<u>5,121,341</u>	<u>244,974</u>	<u>151,609</u>

## (3) Other financial assets - current

The components as of September 30, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Tax refund receivable	\$ 197,137	214,725	5,802	6,357
Nonoperating revenues receivable	2,689	1,145	79	34
Other receivables	<u>205,343</u>	<u>158,232</u>	<u>6,043</u>	<u>4,684</u>
	405,169	374,102	11,924	11,075
Less: provision for doubtful accounts	<u>(38,397)</u>	<u>(25,720)</u>	<u>(1,130)</u>	<u>(762)</u>
	<u>\$ 366,772</u>	<u>348,382</u>	<u>10,794</u>	<u>10,313</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (4) Inventories

The components as of September 30, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Aircraft spare parts	\$ 8,242,927	7,753,464	242,582	229,528
Consumables for use and merchandise for sale during flight	429,904	359,497	12,652	10,642
Fuel for aircraft	64,272	16,256	1,891	481
Less: allowance for obsolete inventories	<u>(1,452,684)</u>	<u>(997,229)</u>	<u>(42,751)</u>	<u>(29,521)</u>
	<u>\$ 7,284,419</u>	<u>7,131,988</u>	<u>214,374</u>	<u>211,130</u>

The above inventories were fully insured.

## (5) Long-term equity investments

Details as of and for the nine months ended September 30, 2004 and 2003, are summarized as follows:

Investee	Shareholding percentage (%)	2004 Book value		2004 Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars
Accounted for by the equity method:					
Evergreen Airline Services Corp.	56.33	\$ 386,896	11,386	49,644	1,478
RTW Air Services(S) Pte. Ltd.	49.00	20,165	593	4,188	125
Green Siam Air Services Co., Ltd.	49.00	9,147	269	12,382	369
Evergreen Sky Catering Corp.	49.80	684,452	20,143	56,918	1,695
Evergreen Airways Service (Macau) Ltd.	99.00	717,265	21,108	118,483	3,528
Uni Airways Corp.	17.92	253,759	7,468	(21,973)	(654)
Evergreen Aviation Technologies Corp.	80.00	2,700,105	79,462	179,329	5,340
Evergreen Security Corp.	31.25	38,353	1,129	7,606	227
Evergreen Air Cargo Services Corp.	60.00	860,575	25,326	106,644	3,176
Hsiang-Li Investment Corp.	100.00	948,549	27,915	(53,040)	(1,580)
Uni Japan Co., Ltd.	49.50	<u>2,524</u>	<u>74</u>	<u>896</u>	<u>27</u>
		<u>6,621,790</u>	<u>194,873</u>	<u>461,077</u>	<u>13,731</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Investee	Shareholding percentage (%)	2004 Book value		2004 Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars
Accounted for by the cost method:					
Publicly traded securities					
Trade-Van Information Services Co., Ltd.	5.85	\$ 94,491	2,781	-	-
Central Reinsurance Corp.	5.09	<u>217,318</u>	<u>6,395</u>	<u>-</u>	<u>-</u>
		<u>311,809</u>	<u>9,176</u>	<u>-</u>	<u>-</u>
Nonpublicly traded securities					
Abacus International Holding Ltd.	2.11	115,743	3,406	-	-
SunShing Corp.	19.50	40,365	1,188	-	-
Taiwan High Speed Rail Corp.	0.14	1,250,000	36,786	-	-
Hsin-Tao Power Corp.	9.69	484,612	14,262	-	-
Technology Partner II Venture Capital Corp.	5.88	20,000	589	-	-
Chung Hwa Express Co., Ltd.	10.00	20,000	589	-	-
Taiwan Fixed Network Corporation	1.30	840,000	24,720	-	-
Evergreen Development Corp.	9.47	870,000	25,603	-	-
Pan-Pacific Venture Capital Co., Ltd.	1.58	<u>19,800</u>	<u>583</u>	<u>-</u>	<u>-</u>
		<u>3,660,520</u>	<u>107,726</u>	<u>-</u>	<u>-</u>
		<u>3,972,329</u>	<u>116,902</u>	<u>-</u>	<u>-</u>
Total		\$ <u>10,594,119</u>	<u>311,775</u>	<u>461,077</u>	<u>13,731</u>
Investee	Shareholding percentage (%)	2003 Book value		2003 Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars
Accounted for by the equity method:					
Evergreen Airline Services Corp.	56.33	\$ 351,790	10,414	38,113	1,102
RTW Air Services(S) Pte. Ltd.	49.00	16,334	484	1,550	45
Green Siam Air Services Co., Ltd.	49.00	22,032	652	9,872	285
Evergreen Sky Catering Corp.	49.80	619,126	18,328	24,321	703
Evergreen Airways Service (Macau) Ltd.	99.00	552,206	16,347	79,375	2,295
Uni Airways Corp.	17.92	291,077	8,617	(226,731)	(6,557)

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Investee	Shareholding percentage (%)	2003 Book value		2003 Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars
Evergreen Aviation Technologies Corp.	80.00	\$ 2,465,883	72,999	131,246	3,795
Evergreen Security Corp.	31.25	30,378	899	4,719	137
Evergreen Air Cargo Services Corp.	60.00	747,121	22,117	85,359	2,469
Hsiang-Li Investment Corp.	100.00	1,008,372	29,851	15,271	442
Uni Japan Co., Ltd.	49.50	<u>1,281</u>	<u>38</u>	<u>406</u>	<u>12</u>
		<u>6,105,600</u>	<u>180,746</u>	<u>163,501</u>	<u>4,728</u>
Accounted for by the cost method:					
Publicly traded securities					
Trade-Van Information Services Co., Ltd.					
	6.04	96,971	2,870	-	-
Central Reinsurance Corp.					
	3.96	<u>164,033</u>	<u>4,856</u>	<u>-</u>	<u>-</u>
		<u>261,004</u>	<u>7,726</u>	<u>-</u>	<u>-</u>
Nonpublicly traded securities					
Abacus International Holding Ltd.					
	2.11	115,743	3,427	-	-
SunShing Corp.					
	19.50	40,365	1,195	-	-
Taiwan High Speed Rail Corp.					
	2.53	1,250,000	37,004	-	-
Hsin-Tao Power Corp.					
	9.69	484,612	14,346	-	-
Technology Partner II Venture Capital Corp.					
	5.88	20,000	592	-	-
Chung Hwa Express Co., Ltd.					
	10.00	20,000	592	-	-
Taiwan Fixed Network Corporation					
	1.30	1,200,000	35,524	-	-
Evergreen Development Corp.					
	9.47	870,000	25,755	-	-
Pan-Pacific Venture Capital Co., Ltd.					
	1.50	<u>19,800</u>	<u>586</u>	<u>-</u>	<u>-</u>
		<u>4,020,520</u>	<u>119,021</u>	<u>-</u>	<u>-</u>
		<u>4,281,524</u>	<u>126,747</u>	<u>-</u>	<u>-</u>
Total		\$ <u>10,387,124</u>	<u>307,493</u>	<u>163,501</u>	<u>4,728</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Details of increases in long-term equity investments of the Company for the nine months ended September 30, 2004 and 2003, are summarized as follows:

Unit: thousands of shares

Investee	Shares	2004 Amounts		Shares	2003 Amounts	
		NT dollars	US dollars		NT dollars	US dollars
Accounted for by the equity method:						
Evergreen Air Cargo Services Corp.	-	\$ -	-	5,039	51,398	1,522
Uni Airways Corp.	-	-	-	4,868	48,683	1,441
Hsiang-Li Investments Corp.	-	-	-	6	60	2
		<u>-</u>	<u>-</u>		<u>100,141</u>	<u>2,965</u>
Accounted for by the cost method:						
Central Reinsurance Corp.	4,073	53,286	1,568	2,029	22,373	662
Total		\$ <u>53,286</u>	<u>1,568</u>		<u>122,514</u>	<u>3,627</u>

Details of selling long-term equity investments of the Company for the nine months ended September 30, 2004 and 2003, are summarized below:

Unit: thousands of shares

Investee	Shares	NT dollars	2004	Gain on disposal of	
			Cost	long-term investments	
			US dollars	NT dollars	US dollars
Accounted for by the cost method:					
Trade-Van Information Services Co., Ltd.	194	\$ 1,583	47	1,016	30
Ever Voyage Transport Corp.	-	-	-	-	-
Taiwan Fixed Network Corporation	36,000	360,000	10,594	(Note)	-
		\$ <u>361,583</u>	<u>10,641</u>	<u>1,016</u>	<u>30</u>

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

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Investee	Shares	NT dollars	2003	Gain on disposal of	
			Cost	long-term investments	US dollars
			US dollars	NT dollars	US dollars
Accounted for by the cost method:					
Trade-Van Information Services Co., Ltd.	124	\$ 1,013	30	566	16
Ever Voyage Transport Corp.	6,550	108,551	3,139	834	24
Taiwan Fixed Network Corporation	-	-	-	-	-
		\$ <u>109,564</u>	<u>3,169</u>	<u>1,400</u>	<u>40</u>

## (6) Property, plant and equipment

For the nine months ended September 30, 2004 and 2003, the Company capitalized the interest expenses on construction of building and purchase of aircraft amounting to NT\$88,992 thousand (US\$2,650 thousand) and NT\$42,506 thousand (US\$1,229 thousand), respectively. The monthly interest rates on the above transactions were 0.23%~0.25% and 0.24%~0.30%, respectively.

As of September 30, 2004 and 2003, insurance coverage for property, plant and equipment and inventories amounted to approximately NT\$59,639,668 thousand (US\$1,755,140 thousand) and NT\$61,370,221 thousand (US\$1,816,762 thousand), respectively.

## (7) Lease assets

The details were as follows:

Lease item	Quantity	Lessor	Lease term	Terms of lease contract
Boeing 747 aircraft	3	GECAS	2004.4.13~ 2016.11.13	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~ 2009.7.25	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\$6,842,170 thousand (US\$201,359 thousand)
1.76%	NT\$540,296 thousand (US\$15,900 thousand)
2.50%	NT\$41,844 thousand (US\$1,231 thousand)

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The abovementioned aircraft and engines were financed by sales and leaseback methods. 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 September 30, 2004, the details of leased assets were as follows:

	NT dollars	US dollars
Aircraft	\$ 6,842,170	201,359
Engines	540,296	15,900
Computers	41,844	1,232
Less: accumulated depreciation	<u>(276,218)</u>	<u>(8,129)</u>
	<b>\$ <u>7,148,092</u></b>	<b><u>210,362</u></b>

As of September 30, 2004, insurance coverage for leased assets amounted to approximately NT\$8,808,832 thousand (US\$259,236 thousand).

As of September 30, 2004, the book value and present value of lease liability were as follows:

Year due	NT dollars	US dollars
As of September 30, 2005	\$ 973,275	28,643
As of September 30, 2006	909,878	26,777
As of September 30, 2007	879,624	25,887
As of September 30, 2008	780,296	22,963
As of September 30, 2009	787,491	23,175
And after	<u>5,219,954</u>	<u>153,618</u>
Book value	9,550,518	281,063
Less: unrealized interest expenses	<u>(2,405,828)</u>	<u>(70,802)</u>
Present value	7,144,690	210,261
Less: current portion	<u>(605,567)</u>	<u>(17,821)</u>
	<b>\$ <u>6,539,123</u></b>	<b><u>192,440</u></b>

There was no such transaction for the nine months ended September 30, 2003.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (8) Deferred charges

As of September 30, 2004 and 2003, deferred charges, net of amortization, consisted of the following:

	NT dollars		US dollars	
	2004	2003	2004	2003
Computer software	\$ 266,788	243,713	7,851	7,215
Leasehold improvements	507,286	85,577	14,929	2,533
Air flight route development costs	19,534	52,516	575	1,555
Navigator training costs	63,903	127,536	1,881	3,775
Major overhaul for aircraft and engines	2,360,811	2,429,610	69,476	71,925
Others	77,908	68,353	2,293	2,023
	<u>\$ 3,296,230</u>	<u>3,007,305</u>	<u>97,005</u>	<u>89,026</u>

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

The components as of September 30, 2004 and 2003, are summarized below:

	NT dollars		US dollars	
	2004	2003	2004	2003
Unsecured loans	\$ 1,310,000	4,170,000	38,552	123,446
Payable on commercial paper, net of prepaid interest of NT\$503 thousand (US\$15 thousand) for 2004 and NT\$2,413 thousand (US\$71 thousand) for 2003	869,497	2,537,587	25,589	75,121
	<u>\$ 2,179,497</u>	<u>6,707,587</u>	<u>64,141</u>	<u>198,567</u>

The interest expenses on the aforementioned short-term borrowings are calculated based on floating interest rates. For the nine months ended September 30, 2004 and 2003, the interest rates were 0.83%~1.28% and 0.53%~1.56%, respectively. As of September 30, 2004 and 2003, the unused credit line amounted to approximately NT\$6,575,327 thousand (US\$193,506 thousand) and NT\$2,917,063 thousand (US\$86,355 thousand), respectively.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (10) Long-term borrowings

As of September 30, 2004 and 2003, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2004		Interest rate (%)	2003	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	2.75~4.50	\$ <u>1,460,000</u>	<u>42,966</u>	3.25~6.00	<u>1,880,000</u>	<u>55,654</u>
Aircraft						
NT\$ loans	1.42~4.95	5,718,858	168,301	1.22~5.83	6,875,211	203,529
US\$ loans	1.12~6.77	<u>3,522,972</u>	<u>103,678</u>	1.82~2.71	<u>5,187,755</u>	<u>153,575</u>
		<u>9,241,830</u>	<u>271,979</u>		<u>12,062,966</u>	<u>357,104</u>
Engines and simulators						
NT\$ loans	-	-	-	4.70~5.43	500,000	14,802
US\$ loans	1.59~2.11	<u>300,622</u>	<u>8,847</u>	1.86~2.35	<u>38,549</u>	<u>1,141</u>
		<u>300,622</u>	<u>8,847</u>		<u>538,549</u>	<u>15,943</u>
Subtotal		<u>11,002,452</u>	<u>323,792</u>		<u>14,481,515</u>	<u>428,701</u>
Unsecured loans:	1.25~6.50	<u>10,506,897</u>	<u>309,208</u>	1.36~6.50	<u>11,890,709</u>	<u>352,004</u>
Total		21,509,349	633,000		26,372,224	780,705
Less: current portion		<u>(7,856,136)</u>	<u>(231,199)</u>		<u>(4,979,244)</u>	<u>(147,402)</u>
		\$ <u><b>13,653,213</b></u>	<u><b>401,801</b></u>		<u><b>21,392,980</b></u>	<u><b>633,303</b></u>

As of September 30, 2004, the remaining balances of the borrowings were due as follows:

Year due	NT dollars	US dollars
As of September 30, 2005	\$ 7,856,136	231,199
As of September 30, 2006	5,819,145	171,252
As of September 30, 2007	3,122,088	91,880
As of September 30, 2008	1,393,644	41,013
As of September 30, 2009	1,145,156	33,701
And after	<u>2,173,180</u>	<u>63,955</u>
	\$ <u><b>21,509,349</b></u>	<u><b>633,000</b></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 year-end. If any aircraft purchased with the financing of such loans is disposed of or sold, the Company must repay the loan immediately.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

As of September 30, 2004 and 2003, the unused credit line for long-term borrowings amounted to NT\$2,400,000 thousand (US\$70,630 thousand) and NT\$1,609,000 thousand (US\$47,632 thousand), respectively.

## (11) Bonds payable

Details of bonds payable as of September 30, 2004 and 2003, were as follows:

	Description	Annual interest rate	Issue date	NT dollars		US dollars	
				2004	2003	2004	2003
Bonds payable	Taiwan Cooperative Bank	7.400%	1998 10	\$ -	500,000	-	14,802
Bonds payable	Bank of Taiwan	6.450%	1999.01	-	500,000	-	14,802
Bonds payable	Central Trust of China	5.750%~ 6.080%	1999. 07	-	300,000	-	8,881
	Bank of Taiwan	5.750%~ 6.080%	1999. 07	-	400,000	-	11,841
Bonds payable	Farmers Bank	5.525%	2000.01	160,000	160,000	4,708	4,737
	Bank of Taiwan	5.525%	2000.01	400,000	400,000	11,771	11,841
Bonds payable	Shanghai Commercial & Savings Bank	5.470%	2000.07	300,000	300,000	8,828	8,881
	Chinatrust Commerical Bank	5.480%	2000.07	500,000	500,000	14,715	14,802
	Bank of Panhsin	5.640%	2000.07	300,000	300,000	8,828	8,881
	Chinatrust Commerical Bank	5.530%	2000.07	500,000	500,000	14,715	14,802
Bonds payable	International Commerical Bank of China	5.250%	2000.12	500,000	500,000	14,715	14,802
	Cathay United Bank	5.250%	2000.12	500,000	500,000	14,715	14,802
	Bank of Taiwan	5.250%	2000.12	400,000	400,000	11,771	11,841
	Farmers Bank	5.250%	2000.12	400,000	400,000	11,771	11,841
Bonds payable	Taipei Bank	3.700%	2001.07	500,000	500,000	14,715	14,802
Bonds payable	Taiwan Cooperative Bank	Floating	2004.02	500,000	-	14,715	-
Bonds payable	Land Bank	2.25%	2004.07	500,000	-	14,715	-
	Chang Hwa Bank	2.25%	2004.07	500,000	-	14,715	-
	Taipei Bank	2.25%	2004.07	500,000	-	14,715	-
Convertible bonds payable		0.00%	2003.06	-	3,253,300	-	96,308
Convertible bonds payable		0.00%	2004.08	<u>4,543,704</u>	<u>-</u>	<u>133,717</u>	<u>-</u>
Subtotal				11,003,704	9,413,300	323,829	278,666
Less: current portion				<u>(2,160,000)</u>	<u>(1,700,000)</u>	<u>(63,567)</u>	<u>(50,326)</u>
				\$ <u><b>8,843,704</b></u>	<u><b>7,713,300</b></u>	<u><b>260,262</b></u>	<u><b>228,340</b></u>

(Continued)

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

The conversion price is set at NT\$14.50, which is a premium of 111% 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 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 September 30, 2004, the conversion price was NT\$13.80.

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****(b) First convertible bonds payable**

The Company issued NT\$5 billion of 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 bond on the third anniversary of the issue date at 100.6%.

**(vi) Conversion**

A) 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.

**B) 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.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (12) Other installments payable

The Company purchased aircraft spare parts by installments. As of September 30, 2004 and 2003, the details were as follows:

	NT dollars		US dollars	
	2004	2003	2004	2003
Installment amount payable	\$ 1,778,069	2,073,239	52,327	61,375
Less: current portion	<u>(1,061,541)</u>	<u>(998,928)</u>	<u>(31,240)</u>	<u>(29,572)</u>
	<b>\$ <u>716,528</u></b>	<b><u>1,074,311</u></b>	<b><u>21,087</u></b>	<b><u>31,803</u></b>

The current portion of other installment payable was recorded as other payables. The remaining balances of other installment payable as of September 30, 2004, were due as follows:

Year due	NT dollars	US dollars
As of September 30, 2005	\$ 1,061,541	31,240
As of September 30, 2006	<u>716,528</u>	<u>21,087</u>
	<b>\$ <u>1,778,069</u></b>	<b><u>52,327</u></b>

The interest expenses of the aforementioned installments are calculated based on floating interest rates. For the nine months ended September 30, 2004 and 2003, the average interest rates were 2.11%~3.18% and 2.65%~3.91%, respectively.

## (13) Aircraft payable

The Company purchased aircraft by installments. As of September 30, 2004 and 2003, the details were as follows:

	NT dollars		US dollars	
	2004	2003	2004	2003
Aircraft payable	\$ 16,045,630	17,975,203	472,208	532,126
Less: current portion	<u>(2,048,467)</u>	<u>(2,016,449)</u>	<u>(60,284)</u>	<u>(59,694)</u>
	<b>\$ <u>13,997,163</u></b>	<b><u>15,958,754</u></b>	<b><u>411,924</u></b>	<b><u>472,432</u></b>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The current portion of aircraft payable was recorded as other payables. As of September 30, 2004, the remaining balances of aircraft payable were due as follows:

Year due	NT dollars	US dollars
As of September 30, 2005	\$ 2,048,467	60,284
As of September 30, 2006	1,935,233	56,952
As of September 30, 2007	2,264,598	66,645
As of September 30, 2008	1,834,027	53,974
As of September 30, 2009	1,862,537	54,813
And after	<u>6,100,768</u>	<u>179,540</u>
	<b>\$ <u>16,045,630</u></b>	<b><u>472,208</u></b>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the nine months ended September 30, 2004 and 2003, the average interest rates were 1.11%~6.77% and 1.30%~6.77%, respectively. The pledges for the aircraft payable are disclosed in note 6.

## (14) Retirement plans

The net periodic pension costs for the nine months ended September 30, 2004 and 2003, were NT\$232,381 thousand (US\$6,920 thousand) and NT\$221,471 thousand (US\$6,405 thousand), respectively. As of September 30, 2004 and 2003, pension liabilities were NT\$767,682 thousand (US\$22,592 thousand) and NT\$789,385 thousand (US\$23,368 thousand), respectively, and the retirement fund deposited with the Central Trust of China was NT\$825,476 thousand (US\$24,293 thousand) and NT\$551,273 thousand (US\$16,320 thousand), respectively.

## (15) Income tax

(a) The Company's earnings are subject to a maximum income tax rate of 25%. For the nine months ended September 30, 2004 and 2003, the components of estimated income tax expenses (benefits) were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expenses - current	\$ 382,049	11,377	20,938	605
Income tax benefits - deferred	<u>(19,647)</u>	<u>(585)</u>	<u>(35,938)</u>	<u>(1,039)</u>
	<b>\$ <u>362,402</u></b>	<b><u>10,792</u></b>	<b><u>(15,000)</u></b>	<b><u>(434)</u></b>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (b) For the nine months ended September 30, 2004 and 2003, the differences between expected income tax expenses (benefits) at statutory rates and income tax expenses (benefits) as reported in the accompanying financial statements were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Expected income tax expenses (benefits)	\$ 758,030	22,574	(189,413)	(5,478)
Surtax on undistributed earnings	105,443	3,140	89,832	2,598
Gain on disposal of investments	(20,995)	(625)	(7,067)	(204)
Investment income recognized under equity method - unrealized	(115,269)	(3,433)	(40,875)	(1,182)
Dividend income	(15,557)	(463)	(13,562)	(392)
Permanent difference in depreciation expenses	\$ 78,467	2,337	103,571	2,995
Exchange losses recorded as translation adjustments	(96,191)	(2,865)	(94,232)	(2,725)
Increase in investment tax credits	-	-	(164)	(5)
Valuation allowance for deferred tax assets, net	(467,629)	(13,926)	307,047	8,879
Others	136,103	4,053	(170,137)	(4,920)
	\$ <u>362,402</u>	<u>10,792</u>	<u>(15,000)</u>	<u>(434)</u>

- (c) For the nine months ended September 30, 2004 and 2003, the deferred income tax benefits were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ (522,588)	(15,563)	(268,434)	(7,763)
Investment tax credits	(112,772)	(3,358)	342,864	9,915
Unrealized exchange losses	13,801	411	5,372	155
Purchase of fixed assets by installments, adjusted for tax purposes	110,908	3,303	101,165	2,926
Provision for reducing inventory to market price	71,012	2,115	172,096	4,977
Provision (reversal) for short-term investments	-	-	(15,559)	(450)
Deferred gains on disposal of fixed assets, adjusted for tax purposes	(8,343)	(249)	6,481	187
Valuation allowance for deferred tax assets, net	467,629	13,926	(307,047)	(8,879)
Others	-	-	(1,000)	(29)
	\$ <u>19,647</u>	<u>585</u>	<u>35,938</u>	<u>1,039</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (d) The components of the deferred income tax assets as of September 30, 2004 and 2003, are summarized as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Deferred income tax assets—current:				
Unrealized exchange losses	\$ 60,157	1,770	61,023	1,806
Investment tax credits	-	-	400,812	11,865
Allowance for obsolete inventories	363,171	10,688	365,123	10,809
Less: valuation allowance for deferred income tax assets	-	-	(400,812)	(11,865)
	<u>\$ 423,328</u>	<u>12,458</u>	<u>426,146</u>	<u>12,615</u>
Deferred income tax assets—noncurrent				
Loss carryforwards	\$ -	-	607,206	17,975
Investment tax credits	-	-	95,218	2,819
Purchase of fixed assets by installments, adjusted for tax purposes	615,452	18,112	470,822	13,938
Deferred gains on disposal of fixed assets, adjusted for tax purposes	291,241	8,571	139,528	4,131
Less: valuation allowance for deferred income tax assets	-	-	(596,325)	(17,653)
	<u>\$ 906,693</u>	<u>26,683</u>	<u>716,449</u>	<u>21,210</u>

As of September 30, 2004, the above-mentioned investment tax credits means that application tax credits of investing in equipment, personnel training, venture investment business, tourism or important investment business has been overall credited.

The Company's income tax returns have been examined and assessed through 2000 by the ROC income tax authority.

## (16) Stockholders' equity

## (a) Common stock

As of September 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 3,266,477 thousand shares were issued. However, 220,000 thousand shares were issued for cash subscription and were authorized by and registered with the government authorities at October 15, 2004.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

As of September 30, 2003, the Company's authorized share capital consisted of 3,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 2,584,080 thousand shares were issued.

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

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

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

The details as of September 30, 2004 and 2003, were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Cash subscription in excess of par value of shares	\$ 1,794,333	61,794	1,464,333	52,084
Additional paid-in capital from bond conversion	401,719	11,798	156,580	4,635
Gain on disposal of property, plant and equipment of investee company	1,667	53	1,667	53
Increase in net equity due to change in percentage of ownership by long-term equity method	234,599	6,816	231,074	6,717
Donated assets	648,719	21,225	648,704	21,225
	<u>\$ 3,081,037</u>	<u>101,686</u>	<u>2,502,358</u>	<u>84,714</u>

The ROC Company Law stipulates that realized capital surplus should not be credited to capital except for making up deficiencies of the Company. The realized capital surplus includes the premiums on shares issued above their par value 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.

(Continued)

**EVA AIRWAYS CORP.**

**Notes to Financial Statements**

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' bonus of not less than 1% of estimated earnings to be appropriated each year, and remuneration of directors and supervisors of not more than 5% of estimated earnings to be appropriated 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 if 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.

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

	<b>2003</b>	
	<b>NT dollars</b>	<b>US dollars</b>
Employees' bonus - cash	\$ 29,002	859
Directors' and supervisors' remuneration	<u>10,000</u>	<u>296</u>
	<b>\$ <u>39,002</u></b>	<b><u>1,155</u></b>

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

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

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

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
Unappropriated earnings after 1998	\$ <u>4,134,865</u>	<u>121,076</u>	<u>626,007</u>	<u>18,103</u>

As of September 30, 2004 and 2003, details of the ICA for the years ended December 31, 2003 and 2002 and the related creditable ratio were as follows:

	2004		2003	
	NT dollars	US dollars	NT dollars	US dollars
ICA	\$ <u>105,934</u>	<u>3,118</u>	<u>143,518</u>	<u>4,249</u>
	2003 (actual)		2002 (actual)	
Creditable ratio	<u>6.94%</u>		<u>-</u>	

## (d) Cumulative translation adjustments

According to note 2(3), the Company recorded cumulative translation adjustments amounting to NT\$4,460,938 thousand and NT\$5,609,772 thousand as of September 30, 2004 and 2003, respectively, and booked these as components of stockholders' equity.

## (17) Earnings (losses) per share

For nine months ended September 30, 2004 and 2003, earnings (losses) per share were calculated as follows:

	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	\$ 3,032,120	2,669,718			90,295	79,503				
Basic earning per share: Net income belonging to common stockholders	\$ <u>3,032,120</u>	<u>2,669,718</u>	<u>2,986,568</u>	\$ <u>1.02</u>	<u>0.89</u>	<u>90,295</u>	<u>79,503</u>	<u>2,986,568</u>	<u>0.03</u>	<u>0.03</u>

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (18) Financial instruments

## (a) Derivative financial instruments

- (i) As of September 30, 2004 and 2003, the nominal amounts and market value of derivative financial instruments were as follows:

	2004		2003	
	Nominal Amount	Market Value	Nominal Amount	Market Value
Interest rate swap agreements (recorded as other current assets and other current liabilities)	USD 80,000	USD 421	USD 20,000	USD (607)
	NTD 4,600,000		NTD 200,000	
Option agreements (recorded as other liabilities)	USD 91,000	USD (382)	USD 61,000	USD 186
Fuel price option agreements (recorded as other current assets, other current liabilities, other assets and other liabilities)	-	USD 34,417	-	USD (810)

- (ii) The Company engaged in derivative financial instruments for the nine months ended September 30, 2004 and 2003. Details were as follows:

	2004		2003	
	New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Interest rate swap agreements:				
Interest expenses (recorded as nonoperating expenses and losses – interest expenses)	\$ 7,729	230	123,066	3,559
Interest payable (recorded as accrued expenses)	8,961	264	16,084	476
Option agreements:				
Gain (loss) on derivatives recorded as nonoperating expenses and losses – exchange losses, net	5,362	160	(188)	(5)
Future net cash outflow	3,092,544	91,011	1,722,780	51,000
Future net cash inflow	3,090,000	90,936	1,756,350	51,994
Fuel price option agreements:				
Net gains (recorded as adjustment of operating costs)	834,886	24,863	806,652	23,327

(Continued)

**EVA AIRWAYS CORP.**

**Notes to Financial Statements**

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

a) Interest rate swap agreements

For the nine months ended September 30, 2004 and 2003, the Company had several interest rate swap agreements to hedge its exposure to fluctuations in interest rates on long-term borrowings.

The counter-parties to the swap transactions were international financial institutions with excellent reputations. Management believes that the risk of loss due to nonperformance of the counter-parties is remote.

b) Option agreements

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

c) Fuel price option agreements

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

(b) Fair value of nonderivative financial instruments

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

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

The details of other nonderivative instruments as of September 30, 2004 and 2003, are summarized as follows:

Nonderivative financial instruments	2004			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 8,324,231	8,373,816	244,974	246,434
Long-term equity investments:				
Fair value can be estimated in fact	311,809	362,010	9,176	10,654
Fair value cannot be estimated in fact	10,282,310	-	302,599	-
Long-term liabilities:				
Bonds payable	\$ 8,843,704	8,791,616	260,262	258,729
Long-term borrowings	13,653,213	13,653,213	401,801	401,801
Other installments payable	716,528	716,528	21,087	21,087
Aircraft payable	13,997,163	13,997,163	411,924	411,924
Lease payable	6,539,123	6,539,123	192,440	192,440
Off-balance-sheet financial instruments:				
Letters of credit	-	200,242	-	5,893
Financing guaranties	-	-	-	-
Nonderivative financial instruments	2003			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 5,121,341	5,129,927	151,609	151,863
Long-term equity investments:				
Fair value can be estimated in fact	261,004	304,545	7,726	9,016
Fair value cannot be estimated in fact	10,126,120	-	299,767	-
Long-term liabilities:				
Bonds payable	7,713,300	7,947,635	228,340	235,276
Long-term borrowings	21,392,980	21,392,980	633,303	633,303
Other installments payable	1,074,311	1,074,311	31,803	31,803
Aircraft payable	15,958,754	15,958,754	472,432	472,432
Off-balance-sheet financial instruments:				
Letters of credit	-	208,559	-	6,174
Financing guaranties	-	80,000	-	2,368

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****(c) 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 nine months ended September 30, 2004 and 2003, were 2.93% p.a. and 3.27% p.a., respectively.
- (v) The fair value of letters of credit and financing guaranties is based on the contract.
- (vi) 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 guaranties: 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 September 30, 2004 and 2003, the Company had provided a guaranty for an investee company amounting to NT\$0 and NT\$80,000 thousand, respectively. The guaranty was used to guarantee financial borrowings, which have an off-balance-sheet credit risk. Credit risk means the probable accounting loss from a counter-party who violates the contract and/or a significant decrease in the value of a mortgage. If the credit line of the guaranty 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 provided the financing guaranty.

**(e) Concentrations of credit risk**

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

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**EVA AIRWAYS CORP.****Notes to Financial Statements****5. Transactions with Related Parties**

(1) Name and relationship of related parties

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

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (2) Significant transactions with related parties

## (a) Contracts and payables

The Company engaged related parties to construct its new overhaul shop for training equipment and a new warehouse, and to install new security systems for the new office building and for training equipment. The transactions for the nine months ended September 30, 2003, are summarized as follows:

Related party	Project	Contract price	2003	
			NT dollars Amount paid	Payable as of period-end
Evergreen Construction Corp.	Construction of a new overhaul shop for training equipment	\$ 378,740	374,953	3,787
Evergreen Construction Corp.	Construction of a new warehouse	233,755	215,565	18,190
Evergreen Construction Corp.	Construction of a new warehouse (Note)	2,298	2,068	230
Evergreen Security Corp.	Installation of a new security system for new warehouse	4,620	4,286	334
Evergreen Security Corp.	Installation of a new security system for training equipment	4,080	4,039	41
		<u>\$ 623,493</u>	<u>600,911</u>	<u>22,582</u>

Related party	Project	Contract price	2003	
			US dollars Amount paid	Payable as of period-end
Evergreen Construction Corp.	Construction of a new overhaul shop for training equipment	\$ 11,212	11,100	112
Evergreen Construction Corp.	Construction of a new warehouse	6,920	6,382	538
Evergreen Construction Corp.	Construction of a new warehouse (Note)	68	61	7
Evergreen Security Corp.	Installation of a new security system for new warehouse	137	127	10
Evergreen Security Corp.	Installation of a new security system for training equipment	120	119	1
		<u>\$ 18,457</u>	<u>17,789</u>	<u>668</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Note: During 2001, the contract was terminated. Payment amounted to NT\$2,068 thousand (US\$61 thousand), and according to the contract, the Company had to pay the related retention money of NT\$230 thousand (US\$7 thousand).

As of September 30, 2004, the related payables of the abovementioned transactions were paid off.

## (b) Revenue, cost and expenses

During the nine months ended September 30, 2004, and 2003, the Company's transactions with related parties were as follows:

Revenue	NT dollars		US dollars	
	2004	2003	2004	2003
Evergreen Airline Services Corp.	\$ 1,674	1,704	50	49
Uni Airways Corp.	28,527	26,233	849	759
Evergreen Aviation Technologies Corp.	150,802	200,493	4,491	5,798
Evergreen Air Cargo Services Corp.	6,648	8,301	198	240
Others	<u>1,782</u>	<u>1,872</u>	<u>53</u>	<u>54</u>
	\$ <u><b>189,433</b></u>	<u><b>238,603</b></u>	<u><b>5,641</b></u>	<u><b>6,900</b></u>

  

Cost	NT dollars		US dollars	
	2004	2003	2004	2003
Evergreen International Corp.	\$ 32,385	43,695	964	1,264
Evergreen International Storage & Transport Corp.	47,658	44,080	1,419	1,275
Evergreen Airline Services Corp.	647,582	574,916	19,285	16,626
Evergreen Sky Catering Corp.	650,686	518,272	19,377	14,987
Uni Airways Corp.	583,402	319,020	17,373	9,225
Evergreen Aviation Technologies Corp.	3,275,548	3,396,611	97,545	98,225
Evergreen Air Cargo Services Corp.	239,285	167,292	7,126	4,838
Others	<u>1,098</u>	<u>2,326</u>	<u>33</u>	<u>67</u>
	\$ <u><b>5,477,644</b></u>	<u><b>5,066,212</b></u>	<u><b>163,122</b></u>	<u><b>146,507</b></u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Expenses	NT dollars		US dollars	
	2004	2003	2004	2003
Evergreen International Corp.	\$ 78,932	60,437	2,351	1,748
Evergreen International Storage & Transport Corp.	16,527	11,980	492	346
Evergreen Airline Services Corp.	18,736	17,691	558	511
Evergreen Sky Catering Corp.	15,927	16,227	474	469
Uni Airways Corp.	60,676	3,151	1,807	91
Evergreen Aviation Technologies Corp.	11,791	9,085	351	263
Evergreen Security Corp.	32,125	31,802	957	920
Green Siam Air Services Co., Ltd.	55,130	48,108	1,642	1,391
RTW Air Services(S) Pte. Ltd.	35,747	28,142	1,065	814
Others	2,066	3,445	61	100
	<u>\$ 327,657</u>	<u>230,068</u>	<u>9,758</u>	<u>6,653</u>

## (c) Financing to others

The Company's financing to a related party for the nine months ended September 30, 2003, was as follows:

	Maximum balance		Ending balance		Interest rate	Interest revenue	
	NT dollars	US dollars	NT dollars	US dollars		NT dollars	US dollars
Uni Airways Corp.	\$ <u>150,000</u>	<u>4,440</u>	<u>-</u>	<u>-</u>	<u>4.0%</u>	<u>1,496</u>	<u>43</u>

There were no such transactions during the nine months ended September 30, 2004.

There was no mortgage for the abovementioned transaction.

## (d) Guaranties

The Company's guaranties to a related party for the nine months ended September 30, 2004 and 2003, were as follows:

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

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	2003			
	Maximum balance		Ending balance	
	NT dollars	US dollars	NT dollars	US dollars
Uni Airways Corp.	\$ <u>80,000</u>	<u>2,368</u>	<u>80,000</u>	<u>2,368</u>

- (e) The abovementioned transactions with related parties were made with no significant difference from those with third parties, but sometimes the payments were overdue. Receivables and payables as of September 30, 2004 and 2003, resulting from the aforementioned transactions are summarized as follows:

	NT dollars		US dollars	
	2004	2003	2004	2003
Accounts receivable - related parties:				
Uni Airways Corp.	\$ 5,294	13,089	156	388
Evergreen Aviation Technologies Corp.	18,482	20,215	544	598
Others	<u>393</u>	<u>1,309</u>	<u>11</u>	<u>39</u>
	<u>24,169</u>	<u>34,613</u>	<u>711</u>	<u>1,025</u>
Other receivables - related parties:				
Uni Airways Corp. (note)	180,238	199,527	5,304	5,906
Evergreen Airline Services Corp.	95	10,959	3	325
Evergreen Sky Catering Corp.	108	47,406	3	1,403
Evergreen Aviation Technologies Corp.	16,716	23,284	492	689
Others	<u>5,294</u>	<u>6,210</u>	<u>156</u>	<u>184</u>
	<u>202,451</u>	<u>287,386</u>	<u>5,958</u>	<u>8,507</u>
<b>Total receivables - related parties</b>	<b>\$ <u>226,620</u></b>	<b><u>321,999</u></b>	<b><u>6,669</u></b>	<b><u>9,532</u></b>

Note: As of September 30, 2004 and 2003, the overdue accounts receivable transferred to other receivables were NT\$30,004 thousand (US\$883 thousand) and NT\$24,070 thousand (US\$713 thousand), respectively. The aging reports for the abovementioned overdue accounts receivable were shown below:

	2004							
	Aging report for overdue accounts receivable							
	Amount		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.	\$ 29,854	879	13,565	399	11,131	328	5,158	152
Evergreen International Corp.	<u>150</u>	<u>4</u>	<u>150</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>\$ <u>30,004</u></b>	<b><u>883</u></b>	<b><u>13,715</u></b>	<b><u>403</u></b>	<b><u>11,131</u></b>	<b><u>328</u></b>	<b><u>5,158</u></b>	<b><u>152</u></b>

(Continued)



## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 6. Pledged Assets

The book values of the pledged assets as of September 30, 2004 and 2003, were as follows:

Pledged assets	Object	NT dollars		US dollars	
		2004	2003	2004	2003
Land	Long-term borrowings	\$ 1,864,122	1,864,122	54,859	55,184
Buildings	Long-term borrowings	2,691,960	2,791,482	79,222	82,637
Aircraft	Long-term borrowings	38,617,836	44,578,165	1,136,487	1,319,662
Engines - included in machinery and equipment	Long-term borrowings	141,878	2,035,075	4,175	60,245
Simulators - included in machinery and equipment	Long-term borrowings	350,654	251,427	10,320	7,443
Time deposit - included in other assets	Customs duty and contract performance guaranties	592,965	496,083	17,451	14,686
		\$ <u>44,259,415</u>	<u>52,016,354</u>	<u>1,302,514</u>	<u>1,539,857</u>

## 7. Commitments and Contingencies

(1) As of September 30, 2004, the outstanding contracts for purchases of aircraft were as follows:

Entering date	Type of aircraft	Quantity	Total price of Contract		Prepayments (Note)
			USD unit: thousand dollars		
June 2000	Boeing 777	7	US\$ 1,260,851		NT\$3,041,005 (US\$89,494)
March 2001	Airbus A330-200	2	US\$ 234,269		NT\$2,070,816 (US\$60,942)
April 2004	Boeing 777	8	US\$ 1,491,496		NT\$194,515 (US\$5,724)

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

(2) As of September 30, 2004, the Company had issued a total of NT\$7,133,190 thousand (US\$209,923 thousand) in promissory notes to banks for obtaining guaranties for fuel purchases and credit lines. As of September 30, 2004, the Company had obtained guaranties from ABN-AMRO Bank, Citibank, Bank of America, HSBC Bank, and Cathay United Bank amounting to NT\$574,658 thousand (US\$16,912 thousand).

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (3) The Company entered into aircraft, land and engine lease contracts by using the operating lease or capital lease method. As of September 30, 2004, the Company had paid \$16,370,619 thousand (US\$481,772 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 September 30, 2005	\$ 9,370,097	275,753
As of September 30, 2006	7,842,157	230,788
As of September 30, 2007	5,507,253	162,073
As of September 30, 2008	3,816,205	112,307
As of September 30, 2009	3,228,199	95,003
	<b>\$ <u>29,763,911</u></b>	<b><u>875,924</u></b>

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

- (1) Total personnel, depreciation and amortization expenses for the nine months ended September 30, 2004 and 2003, are summarized below:

By function By item	Operating cost	NT dollars				
		2004 Operating expenses	Total	2003 Operating cost	2003 Operating expenses Total	
Personnel expenses						
Salaries	\$ 2,305,578	1,830,761	4,136,339	2,105,600	1,674,414	3,780,014
Insurance	84,982	75,815	160,797	84,642	75,061	159,703
Pension	136,372	96,009	232,381	110,611	110,860	221,471
Others (meal allowances, etc.)	874,243	162,195	1,036,438	779,995	139,253	919,248
Depreciation	3,305,883	157,194	3,463,077	3,167,033	157,535	3,324,568
Amortization	707,031	162,611	869,642	636,719	189,987	826,706

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

By function By item	US dollars					
	Operating cost	2004 Operating expenses	Total	Operating cost	2003 Operating expenses	Total
Personnel expenses						
Salaries	68,659	54,520	123,179	60,891	48,421	109,312
Insurance	2,530	2,258	4,788	2,448	2,170	4,618
Pension	4,061	2,859	6,920	3,199	3,206	6,405
Others (meal allowances, etc.)	26,035	4,830	30,865	22,556	4,027	26,583
Depreciation	98,448	4,681	103,129	91,586	4,555	96,141
Amortization	21,055	4,843	25,898	18,413	5,494	23,907

## (2) Reclassification:

Certain amounts of the financial statements for the nine months ended September 30, 2003, have been reclassified to conform with the presentation of the financial statements for the nine months ended September 30, 2004, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.