

EVA AIRWAYS CORP.
Financial Statements
March 31, 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 March 31, 2004 and 2003, 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 7 to the accompanying financial statements, the Company's investments amounted to NT\$6,251,842 thousand (US\$189,335 thousand) and NT\$6,101,990 thousand (US\$175,597 thousand), respectively, constituting 5% of total assets, at March 31, 2004 and 2003, respectively, and the resulting investment income for the three months then ended amounted to NT\$21,001 thousand (US\$629 thousand) and NT\$110,235 thousand (US\$3,175 thousand), respectively, constituting 2% and 27%, 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.

April 20, 2004

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

EVA AIRWAYS CORP.

Balance Sheets

March 31, 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
Current assets:					Current liabilities:				
Cash and cash equivalents (note 3)	\$ 730,953	1,081,189	22,137	31,113	Short-term borrowings (note 10)	\$ 4,590,000	2,645,000	139,007	76,115
Short-term investments (note 4)	2,466,319	1,428,141	74,692	41,098	Payable on commercial paper (note 10)	1,708,995	2,508,153	51,756	72,177
Notes receivable	269,080	211,114	8,149	6,075	Notes payable	3,966	766	120	22
Accounts receivable, net	6,785,478	6,851,653	205,496	197,170	Accounts payable	1,862,489	1,976,870	56,405	56,888
Accounts receivable—related parties (note 20)	57,363	74,973	1,737	2,157	Accounts payable—related parties (note 20)	878,455	578,883	26,604	16,659
Other receivables—related parties (note 20)	160,210	199,777	4,852	5,749	Accrued expenses (note 19)	4,996,995	5,558,113	151,332	159,946
Other financial assets—current (note 5)	410,047	304,130	12,418	8,752	Other payables—related parties (note 20)	44,501	56,793	1,348	1,634
Inventories (note 6)	7,088,294	7,127,799	214,667	205,117	Other payables (notes 13 and 14)	3,464,269	3,003,218	104,914	86,423
Prepaid expenses	2,354,799	2,357,107	71,314	67,830	Unearned revenue	5,876,429	6,359,524	177,966	183,008
Other prepayments	391,087	362,524	11,844	10,432	Current portion of long-term liabilities (notes 11, 12 and 21)	9,304,080	7,454,885	281,771	214,529
Deferred income tax assets—current (note 16)	583,679	250,575	17,677	7,211	Other current liabilities	415,696	436,523	12,589	12,562
Other current assets (note 19)	107,340	29,357	3,250	845	Total current liabilities	<u>33,145,875</u>	<u>30,578,728</u>	<u>1,003,812</u>	<u>879,963</u>
Total current assets	<u>21,404,649</u>	<u>20,278,339</u>	<u>648,233</u>	<u>583,549</u>	Long-term liabilities:				
Long-term equity investments (note 7):					Bonds payable (note 12)	4,847,000	5,160,000	146,790	148,489
Long-term equity investments under equity method	6,251,842	6,101,990	189,335	175,597	Long-term borrowings (notes 11 and 21)	17,825,707	21,520,526	539,846	619,296
Long-term equity investments under cost method	4,279,125	4,260,928	129,592	122,617	Other installments payable (note 13)	1,318,895	1,273,735	39,942	36,654
Net long-term equity investments	<u>10,530,967</u>	<u>10,362,918</u>	<u>318,927</u>	<u>298,214</u>	Aircraft payable (note 14)	14,597,949	17,446,450	442,094	502,056
Property, plant and equipment (notes 8, 20, 21 and 22):					Total long-term liabilities	<u>38,589,551</u>	<u>45,400,711</u>	<u>1,168,672</u>	<u>1,306,495</u>
Land	1,869,784	1,869,784	56,626	53,806	Other liabilities:				
Buildings	4,391,446	4,388,187	132,994	126,279	Accrued employee retirement liabilities (note 15)	787,164	773,907	23,839	22,271
Machinery and equipment	5,945,383	5,115,464	180,054	147,208	Other liabilities (note 19)	1,517,813	1,157,973	45,967	33,323
Aircraft	78,451,694	74,719,197	2,375,884	2,150,193	Total other liabilities	<u>2,304,977</u>	<u>1,931,880</u>	<u>69,806</u>	<u>55,594</u>
Rotable parts	433,699	627,658	13,134	18,062	Total liabilities	<u>74,040,403</u>	<u>77,911,319</u>	<u>2,242,290</u>	<u>2,242,052</u>
	91,092,006	86,720,290	2,758,692	2,495,548	Stockholders' equity (note 17):				
Less: accumulated depreciation	(30,106,781)	(27,112,303)	(911,774)	(780,210)	Common stock	28,929,038	24,250,000	1,012,775	875,214
Construction in progress	4,868	4,868	147	140	Capital surplus	2,711,637	2,352,079	90,802	80,261
Advances for purchases of equipment	3,074,332	1,844,054	93,105	53,066	Retained earnings:				
Net property, plant and equipment	<u>64,064,425</u>	<u>61,456,909</u>	<u>1,940,170</u>	<u>1,768,544</u>	Legal reserve	263,754	-	7,636	-
Other assets:					Retained earnings	3,515,351	3,044,184	102,538	87,964
Deferred pension cost	218,358	245,652	6,613	7,069	Total retained earnings	<u>3,779,105</u>	<u>3,044,184</u>	<u>110,174</u>	<u>87,964</u>
Refundable deposits (note 22)	12,857,219	16,606,149	389,377	477,875	Other stockholders' equity adjustments:				
Deferred charges (note 9)	2,890,811	2,798,347	87,547	80,528	Deferred credit (debit)	246,798	(18,706)	7,474	(538)
Deferred income tax assets—noncurrent (note 16)	638,664	856,082	19,342	24,635	Cumulative translation adjustments	3,769,027	5,887,132	(27,117)	(20,905)
Other assets (notes 19 and 21)	738,191	724,714	22,356	20,855	Net loss not yet recognized as net pension cost	(132,724)	(96,898)	(3,833)	(2,779)
Total other assets	<u>17,343,243</u>	<u>21,230,944</u>	<u>525,235</u>	<u>610,962</u>	Total other stockholders' equity adjustments	<u>3,883,101</u>	<u>5,771,528</u>	<u>(23,476)</u>	<u>(24,222)</u>
					Total stockholders' equity	39,302,881	35,417,791	1,190,275	1,019,217
Total assets	<u>\$ 113,343,284</u>	<u>113,329,110</u>	<u>3,432,565</u>	<u>3,261,269</u>	Commitments and contingencies (notes 19, 20 and 22)				
					Total liabilities and stockholders' equity	<u>\$ 113,343,284</u>	<u>113,329,110</u>	<u>3,432,565</u>	<u>3,261,269</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Operations

For the three months ended March 31, 2004 and 2003
(expressed in thousands of dollars, except earnings per share)

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Operating revenue (note 20)	\$ 18,805,421	16,628,504	563,373	478,932
Operating cost (notes 19, 20 and 23)	(16,010,293)	(14,272,983)	(479,637)	(411,088)
Gross profit from operations	2,795,128	2,355,521	83,736	67,844
Operating expenses (notes 20 and 23)	(1,512,156)	(1,593,427)	(45,301)	(45,894)
Operating income	<u>1,282,972</u>	<u>762,094</u>	<u>38,435</u>	<u>21,950</u>
Non-operating income and gains:				
Interest income (notes 19 and 20)	3,074	89,052	92	2,565
Investment income, net (note 7)	21,001	110,235	629	3,175
Exchange gains, net (note 19)	-	13,321	-	384
Recovery of unrealized loss on short-term investments	-	19,147	-	551
Other income	136,116	4,264	4,078	123
	<u>160,191</u>	<u>236,019</u>	<u>4,799</u>	<u>6,798</u>
Non-operating expenses and losses:				
Interest expenses, net of capitalized interest of NT\$19,738 thousand (US\$591 thousand) and NT\$13,561 thousand (US\$391 thousand) in 2004 and 2003, respectively (notes 8 and 19)	(416,058)	(584,649)	(12,464)	(16,839)
Exchange losses, net (note 19)	(175,690)	-	(5,263)	-
Other losses	(8,905)	(5,066)	(267)	(146)
	<u>(600,653)</u>	<u>(589,715)</u>	<u>(17,994)</u>	<u>(16,985)</u>
Income before income tax	842,510	408,398	25,240	11,763
Income tax expense (note 16)	(92,000)	(1,756)	(2,756)	(51)
Net income	<u>\$ 750,510</u>	<u>406,642</u>	<u>22,484</u>	<u>11,712</u>
Earnings per share (expressed in dollars) (note 18):				
Basic earnings per share:				
Income before income tax	\$ <u>0.30</u>	<u>0.17</u>	<u>0.01</u>	<u>-</u>
Net income	\$ <u>0.27</u>	<u>0.16</u>	<u>0.01</u>	<u>-</u>
Diluted earnings per share:				
Income before income tax	\$ <u>0.30</u>	<u>0.17</u>	<u>0.01</u>	<u>-</u>
Net income	\$ <u>0.27</u>	<u>0.16</u>	<u>0.01</u>	<u>-</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the three months ended March 31, 2004 and 2003
(expressed in thousands of dollars)

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Cash flows from operating activities:				
Net income	\$ 750,510	406,642	22,484	11,712
Adjustments to reconcile net income to net cash flow provided by operating activities:				
Depreciation	1,111,414	1,108,200	33,296	31,918
Amortization and maintenance expenses	290,230	259,239	8,695	7,467
Loss on disposal and obsolescence of property, plant and equipment	4,340	4,279	130	123
Recovery of loss on devaluation of short-term investments	-	(19,147)	-	(551)
Amortization of deferred gain from sale and leaseback of fixed assets	(34,311)	(59,486)	(1,028)	(1,713)
Amortization of other deferred gain	(145,637)	(8,680)	(4,363)	(250)
Provision for unrealized exchange loss (gain) from long-term borrowings	(7,651)	5,465	(229)	157
Gain on disposal of short-term investments	(34,193)	(6,322)	(1,024)	(182)
Gain on disposal of long-term equity investments	(967)	(834)	(29)	(24)
Investment income	(21,001)	(110,235)	(629)	(3,175)
Proceeds from cash dividends of long-term equity investments	-	11,590	-	334
Deferred income tax expense	88,031	-	2,637	-
Decrease in notes receivable	119,274	102,431	3,612	2,948
Increase in accounts receivable (including related parties)	(1,022,383)	(329,441)	(30,963)	(9,480)
Decrease in other receivables (including related parties)	15,137	9,722	458	280
Increase in inventories	(101,958)	(375,259)	(3,088)	(10,799)
Increase in prepaid expenses	(674,910)	(575,085)	(20,439)	(16,549)
Decrease (increase) in other prepayments	(25,379)	22,306	(769)	642
Decrease (increase) in other current assets	(11,173)	73,222	(338)	2,107
Increase in notes and accounts payable (including related parties)	827,690	436,390	25,066	12,558
Decrease in other payables (including related parties)	(543,318)	(340,086)	(16,454)	(9,787)
Increase in accrued expenses	98,927	729,535	2,996	20,994
Increase in unearned revenue	553,025	556,122	16,748	16,004
Decrease in other current liabilities	(7,579)	(19,109)	(230)	(550)
Increase in other liabilities	90,972	533	2,755	15
Decrease in accrued employee retirement liabilities	(29,957)	(7,786)	(907)	(224)
Increase in other financial assets—current	(144,742)	(199,162)	(4,383)	(5,731)
Net cash provided by operating activities	1,144,391	1,675,044	34,004	48,244
Cash flows from investing activities:				
Decrease in short-term investments	3,811,077	2,461,865	115,417	70,845
Proceeds from disposal of long-term equity investments	2,468	109,385	74	3,148
Payments for purchase of long-term equity investments	-	(52,164)	-	(1,501)
Proceeds from disposal of property, plant and equipment	1,735	1,238	53	36
Payments for purchase of property, plant and equipment	(7,537,371)	(457,707)	(228,267)	(13,171)
Decrease in refundable deposits and other assets	2,963,194	28,212	89,739	812
Increase in deferred charges	(297,620)	(372,198)	(9,013)	(10,711)
Net cash provided by (used in) investing activities	(1,056,517)	1,718,631	(31,997)	49,458
Cash flows from financing activities:				
Increase in short-term borrowings	6,298,995	5,153,153	190,763	148,292
Increase in long-term borrowings	-	3,451,000	-	99,309
Issuance of bonds	500,000	-	15,142	-
Installment payments for purchase of property, plant and equipment	(564,475)	(592,238)	(17,095)	(17,043)
Repayment of short-term borrowings	(4,179,516)	(4,790,792)	(126,575)	(137,865)
Repayment of long-term borrowings	(2,258,504)	(6,361,594)	(68,398)	(183,067)
Repayment of bonds payable	(500,000)	(500,000)	(15,142)	(14,388)
Installment payments for purchase of inventories	(353,503)	(216,412)	(10,706)	(6,228)
Net cash used in financing activities	(1,057,003)	(3,856,883)	(32,011)	(110,990)
Effect of exchange rate changes on cash	-	-	2,109	(42)
Net decrease in cash and cash equivalents	(969,129)	(463,208)	(27,895)	(13,330)
Cash and cash equivalents at beginning of year	1,700,082	1,544,397	50,032	44,443
Cash and cash equivalents at end of year	\$ 730,953	1,081,189	22,137	31,113
Additional disclosure of cash flow information:				
Cash payments of interest (excluding capitalized interest expense)	\$ 445,505	616,977	13,346	17,770
Cash payments of income tax	\$ 4,780	1,877	143	54
Supplemental schedule of noncash investing and financing activities:				
Current portion of long-term liabilities	\$ 9,304,080	7,454,885	281,771	214,529
Inventory transferred from fixed assets	\$ 2,868	4,101	87	118
Translation adjustments	\$ (1,188,927)	102,112	(4,102)	2,955
Deferred credit (debit)	\$ 52,933	(133,934)	1,729	(3,969)

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Notes to Financial Statements

March 31, 2004 and 2003

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

(1) Organization and Business Scope

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

The Company's business activities are

1. 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 operations, 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 prohibited or restricted by the applicable laws and regulations, excluding those requiring licensing.

As of March 31, 2004 and 2003, the Company had hired 4,581 and 4,562 employees, respectively.

(2) Summary of Significant Accounting Policies

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

(a) Foreign currency transactions and translation

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

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

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

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

(c) Translation of foreign currency for foreign operating units

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

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

(d) Sale and leaseback

The Company sold and leased back aircraft under operating lease agreements. The gains on the sales of the aircraft are deferred and amortized using the straight-line method over the lease terms.

(e) 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.

(f) 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.

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

(h) 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.

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

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

According to ROC Statement of Financial Accounting Standards (SFAS) No. 23, "Interim Financial Reporting and Disclosures", the Company does not prepare consolidated financial statements.

(i) 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.

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

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

Buildings: 55 years

Machinery and equipment: 3~18 years

Aircraft: 18 years

Rotable parts: 5~18 years

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

(j) 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.

(k) 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.

(l) 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.

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EVA AIRWAYS CORP.**Notes to Financial Statements****(m) 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 2002 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.

(n) 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.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(o) Revenue recognition**

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

(p) Income tax

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

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

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

(q) 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.

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).

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

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

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) Cash and Cash Equivalents

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

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Cash on hand	\$ 72,491	72,934	2,195	2,099
Cash in bank	<u>658,462</u>	<u>1,008,255</u>	<u>19,942</u>	<u>29,014</u>
	<u>\$ 730,953</u>	<u>1,081,189</u>	<u>22,137</u>	<u>31,113</u>

(4) Short-term Investments

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

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Mutual funds	\$ 2,419,200	1,421,804	73,265	40,915
Publicly traded stock	<u>47,119</u>	<u>49,427</u>	<u>1,427</u>	<u>1,423</u>
	2,466,319	1,471,231	74,692	42,338
Less: provision for investment devaluation	<u>-</u>	<u>(43,090)</u>	<u>-</u>	<u>(1,240)</u>
	<u>\$ 2,466,319</u>	<u>1,428,141</u>	<u>74,692</u>	<u>41,098</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(5) Other Financial Assets—Current

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

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Tax refund receivable	\$ 201,599	111,260	6,105	3,202
Non-operating revenues receivable	3,591	8,477	109	244
Other receivables	<u>243,254</u>	<u>210,113</u>	<u>7,367</u>	<u>6,046</u>
	448,444	329,850	13,581	9,492
Less: provision for doubtful accounts	<u>(38,397)</u>	<u>(25,720)</u>	<u>(1,163)</u>	<u>(740)</u>
	\$ <u>410,047</u>	<u>304,130</u>	<u>12,418</u>	<u>8,752</u>

(6) Inventories

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

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Rotable and expendable parts	\$ 7,930,978	7,388,987	240,187	212,633
Consumables for use and merchandise				
for sale during flight	402,404	396,858	12,187	11,421
Fuel for aircraft	15,899	78,020	482	2,245
Less: allowance for obsolete inventories	<u>(1,260,987)</u>	<u>(736,066)</u>	<u>(38,189)</u>	<u>(21,182)</u>
	\$ <u>7,088,294</u>	<u>7,127,799</u>	<u>214,667</u>	<u>205,117</u>

The above inventories were fully insured.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(7) Long-term Equity Investments

Details as of and for the three months ended March 31, 2004 and 2003, were as follows:

Investee	Shareholding percentage (%)	2004 Book value		Investment income (loss)	
		New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Accounted for by the equity method:					
Evergreen Airline Services Corp.	56.33	\$ 385,752	11,682	17,933	537
RTW Air Services(s) Pte. Ltd.	49.00	18,268	553	1,545	46
Green Siam Air Services Co., Ltd.	49.00	27,249	825	3,805	114
Evergreen Sky Catering Corp.	49.80	644,075	19,506	16,540	496
Evergreen Airways Service (Macau) Ltd.	99.00	612,230	18,541	31,949	957
Uni Airways Corp.	17.92	263,814	7,990	(11,903)	(357)
Evergreen Aviation Technologies Corp.	80.00	2,524,426	76,451	7,111	213
Evergreen Security Corp.	31.25	33,153	1,004	2,406	72
Evergreen Air Cargo Services Corp.	60.00	806,372	24,421	30,841	924
Hsiang-Li Investment Corp.	100.00	934,827	28,311	(79,504)	(2,382)
Uni Japan Co., Ltd.	49.50	<u>1,676</u>	<u>51</u>	<u>278</u>	<u>9</u>
		<u>6,251,842</u>	<u>189,335</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	-	-
Central Reinsurance Corp.	3.96	<u>164,033</u>	<u>4,968</u>	-	-
		<u>258,605</u>	<u>7,832</u>	-	-
Nonpublicly traded securities					
Abacus International Holding Ltd.	2.11	115,743	3,505	-	-
SunShing Corp.	19.50	40,365	1,222	-	-
Taiwan High Speed Rail Corp.	1.62	1,250,000	37,856	-	-
Hsin-Tao Power Corp.	9.69	484,612	14,676	-	-
Technology Partner II Venture Capital Corp.	5.88	20,000	606	-	-
Chung Hwa Express Co., Ltd.	10.00	20,000	606	-	-
Taiwan Fixed Network Corporation	1.30	1,200,000	36,341	-	-
Evergreen Development Corp.	9.47	870,000	26,348	-	-
Pan-Pacific Venture Capital Co., Ltd.	1.50	<u>19,800</u>	<u>600</u>	-	-
		<u>4,020,520</u>	<u>121,760</u>	-	-
		<u>4,279,125</u>	<u>129,592</u>	-	-
Total		\$ <u>10,530,967</u>	<u>318,927</u>	<u>21,001</u>	<u>629</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Investee	Shareholding percentage (%)	2003 Book value		Investment income (loss)	
		New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Accounted for by the equity method:					
Evergreen Airline Services Corp.	56.33	\$ 358,924	10,329	14,681	423
RTW Air Services(s) Pte. Ltd.	49.00	15,523	447	832	24
Green Siam Air Services Co., Ltd.	49.00	11,886	342	(2,165)	(62)
Evergreen Sky Catering Corp.	49.80	653,428	18,804	13,802	398
Evergreen Airways Service (Macau) Ltd.	99.00	523,597	15,068	35,552	1,024
Uni Airways Corp.	18.09	393,400	11,321	(82,002)	(2,362)
Evergreen Aviation Technologies Corp.	80.00	2,454,567	70,635	119,930	3,454
Evergreen Security Corp.	31.25	27,020	777	1,361	39
Evergreen Air Cargo Services Corp.	60.00	666,417	19,177	4,656	134
Hsiang-Li Investment Corp.	99.99	996,527	28,677	3,486	100
Uni Japan Co., Ltd.	49.50	701	20	102	3
		<u>6,101,990</u>	<u>175,597</u>	<u>110,235</u>	<u>3,175</u>
Accounted for by the cost method:					
Publicly traded securities					
Trade-Van Information Services Co., Ltd.	6.10	97,983	2,820	-	-
Central Reinsurance Corp.	4.09	142,425	4,098	-	-
		<u>240,408</u>	<u>6,918</u>	<u>-</u>	<u>-</u>
Nonpublicly traded securities					
Abacus International Holding Ltd.	2.11	115,743	3,331	-	-
SunShing Corp.	19.50	40,365	1,162	-	-
Taiwan High Speed Rail Corp.	2.53	1,250,000	35,972	-	-
Hsin-Tao Power Corp.	9.69	484,612	13,946	-	-
Technology Partner II Venture Capital Corp.	5.88	20,000	575	-	-
Chung Hwa Express Co., Ltd.	10.00	20,000	575	-	-
Taiwan Fixed Network Corporation	1.30	1,200,000	34,532	-	-
Evergreen Development Corp.	9.47	870,000	25,036	-	-
Pan-Pacific Venture Capital Co., Ltd.	1.50	19,800	570	-	-
		<u>4,020,520</u>	<u>115,699</u>	<u>-</u>	<u>-</u>
		<u>4,260,928</u>	<u>122,617</u>	<u>-</u>	<u>-</u>
Total		\$ <u>10,362,918</u>	<u>298,214</u>	<u>110,235</u>	<u>3,175</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, 2003, were as follows:

Investee	Shares	2003	
		Amounts	
		New Taiwan dollars	US dollars
Accounted for by the equity method:			
Evergreen Air Cargo Services Corp.	5,039	\$ <u>51,398</u>	<u>1,479</u>

Unit: thousands of shares

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, 2004 and 2003, were as below:

Investee	Shares	Cost New Taiwan dollars	2004		
			US dollars	Gain on disposal of long-term investments New Taiwan	
				dollars	US dollars
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>

Investee	Shares	Cost New Taiwan dollars	2003		
			US dollars	Gain on disposal of long-term investments New Taiwan	
				dollars	US dollars
Accounted for by the equity method:					
Ever Voyage Transport Corp.	6,550	\$ <u>108,551</u>	<u>3,124</u>	<u>834</u>	<u>24</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(8) Property, Plant and Equipment

For the three months ended March 31, 2004 and 2003, the Company capitalized the interest expenses on construction of building and purchase of aircraft amounting to NT\$19,738 thousand (US\$591 thousand) and NT\$13,561 thousand (US\$391 thousand), respectively. The monthly interest rates on the above transactions were 0.24%~0.25% and 0.29%~0.30%, respectively.

As of March 31, 2004 and 2003, insurance coverage for property, plant and equipment amounted to approximately NT\$45,537,022 thousand (US\$1,379,074 thousand) and NT\$53,622,762 thousand (US\$1,543,101 thousand), respectively.

(9) Deferred Charges

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

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Computer software	\$ 242,742	260,732	7,351	7,503
Leasehold improvements	72,013	94,500	2,181	2,719
Air flight route development cost	34,906	77,364	1,057	2,226
Navigator training costs	93,030	172,799	2,817	4,973
Maintenance for aircraft and engines	2,366,179	2,138,960	71,659	61,553
Others	81,941	53,992	2,482	1,554
	<u>\$ 2,890,811</u>	<u>2,798,347</u>	<u>87,547</u>	<u>80,528</u>

(10) Short-term Borrowings and Payable on Commercial Paper

Details were as follows:

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Unsecured loans	\$ 4,590,000	2,645,000	139,007	76,115
Payable on commercial paper, net of prepaid interest of NT\$1,005 thousand (US\$30 thousand) for 2004 and NT\$1,847 thousand (US\$53 thousand) for 2003	1,708,995	2,508,153	51,756	72,177
	<u>\$ 6,298,995</u>	<u>5,153,153</u>	<u>190,763</u>	<u>148,292</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

The interest expenses on the aforementioned short-term borrowings were calculated based on floating interest rates. For the three months ended March 31, 2004 and 2003, the interest rates were 0.74%~1.41% p.a. and 0.87%~1.88% p.a., respectively. As of March 31, 2004 and 2003, the unused credit lines amounted to approximately NT\$3,333,640 thousand (US\$100,958 thousand) and NT\$6,233,510 thousand (US\$179,382 thousand), respectively.

(11) Long-term Borrowings

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

Nature	Annual interest rate	New Taiwan dollars		US dollars	
		2004	2003	2004	2003
Secured loans:					
Land and buildings	3.25~4.50%	\$ 1,670,000	2,090,000	50,575	60,144
Aircraft					
NT\$ loans	1.43~4.95%	5,947,777	7,103,147	180,127	204,407
US\$ loans	1.95~2.21%	4,267,451	6,166,563	129,238	177,455
		<u>10,215,228</u>	<u>13,269,710</u>	<u>309,365</u>	<u>381,862</u>
Engines and simulators					
NT\$ loans	4.20~4.55%	500,000	500,000	15,142	14,388
US\$ loans	1.69%	299,747	134,781	9,078	3,879
		<u>799,747</u>	<u>634,781</u>	<u>24,220</u>	<u>18,267</u>
Sub-total		12,684,975	15,994,491	384,160	460,273
Unsecured loans:	1.30~6.50%	<u>13,184,812</u>	<u>11,680,920</u>	<u>399,298</u>	<u>336,142</u>
Total		25,869,787	27,675,411	783,458	796,415
Less: current portion		<u>(8,044,080)</u>	<u>(6,154,885)</u>	<u>(243,612)</u>	<u>(177,119)</u>
		\$ <u><u>17,825,707</u></u>	<u><u>21,520,526</u></u>	<u><u>539,846</u></u>	<u><u>619,296</u></u>

As of March 31, 2004, the remaining balances of the borrowings were due as follows:

Year due	New Taiwan dollars	US dollars
As of March 31, 2005	\$ 8,044,080	243,612
As of March 31, 2006	7,287,056	220,686
As of March 31, 2007	3,750,319	113,577
As of March 31, 2008	1,546,321	46,830
As of March 31, 2009	1,012,714	30,670
And after	<u>4,229,297</u>	<u>128,083</u>
	\$ <u><u>25,869,787</u></u>	<u><u>783,458</u></u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

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, 2004 and 2003, the unused credit lines for long-term borrowings amounted to NT\$1,820,000 thousand (US\$55,118 thousand) and NT\$1,659,000 thousand (US\$47,741 thousand), respectively.

(12) Bonds Payable

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

	Description	Annual interest rate	Issue date	New Taiwan dollars		US dollars	
				2004	2003	2004	2003
Bonds payable	Taiwan Cooperative Bank	7.400%	1998.10	\$ -	500,000	-	14,388
Bonds payable	Bank of Taiwan	6.450%	1999.01	-	500,000	-	14,388
Bonds payable	Central Trust of China	5.750%~ 6.080%	1999.07	300,000	400,000	9,086	11,511
	Bank of Taiwan	5.750%~ 6.080%	1999.07	400,000	600,000	12,114	17,266
Bonds payable	Farmers Bank	5.525%	2000.01	160,000	160,000	4,846	4,605
	Bank of Taiwan	5.525%	2000.01	400,000	400,000	12,114	11,511
Bonds payable	Shanghai Commercial & Savings Bank	5.470%	2000.07	300,000	300,000	9,086	8,634
	Chinatrust Commerical Bank	5.480%	2000.07	500,000	500,000	15,142	14,388
	Bank of Panhsin	5.640%	2000.07	300,000	300,000	9,086	8,634
	Grand Commerical Bank	5.530%	2000.07	500,000	500,000	15,142	14,388
Bonds payable	International Commerical Bank of China	5.250%	2000.12	500,000	500,000	15,142	14,388
	Cathay United Bank	5.250%	2000.12	500,000	500,000	15,142	14,388
	Bank of Taiwan	5.250%	2000.12	400,000	400,000	12,114	11,511
	Farmers Bank	5.250%	2000.12	400,000	400,000	12,114	11,511
Bonds payable	Taipei Bank	3.700%	2001.07	500,000	500,000	15,142	14,388
Bonds payable	Taiwan Cooperative Bank	floating	2004.02	500,000	-	15,142	-
Convertible bonds payable		-	2003.06	<u>447,000</u>	<u>-</u>	<u>13,537</u>	<u>-</u>
Subtotal				<u>6,107,000</u>	<u>6,460,000</u>	<u>184,949</u>	<u>185,899</u>
Less: current portion				<u>(1,260,000)</u>	<u>(1,300,000)</u>	<u>(38,159)</u>	<u>(37,410)</u>
				<u>\$ (4,847,000)</u>	<u>5,160,000</u>	<u>146,790</u>	<u>148,489</u>

(Continued)

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

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:

- (a) Coupon rate: 0%
- (b) Issue period: From June 6, 2003 to June 5, 2008
- (c) 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.
- (d) 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.
- (e) 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%.
- (f) Conversion
 - (i) The bondholders can ask the Company to convert the convertible bonds to common stock during the period from three months after the issue date to ten days before the maturity date.
 - (ii) Conversion price

The conversion price is set at NT\$10.98, which is a premium of 104% of the base price. The base price is defined as the average of the closing prices of the issuer's common shares traded on the Taiwan Stock Exchange for a period of 10, 15 or 20 trading days, whichever is the lowest, immediately preceding but excluding the pricing date, which is May 9, 2003. The conversion price will be subject to adjustments in the event that any change occurs to the capital structure. As of March 31, 2004, the conversion price was NT\$10.78.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(13) Other Installments Payable

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

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Installment amount payable	\$ 2,736,004	2,139,383	82,859	61,565
Less: current portion	<u>(1,417,109)</u>	<u>(865,648)</u>	<u>(42,917)</u>	<u>(24,911)</u>
	\$ <u>1,318,895</u>	<u>1,273,735</u>	<u>39,942</u>	<u>36,654</u>

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

Year due	New Taiwan dollars	US dollars
As of March 31, 2005	\$ 1,417,109	42,917
As of March 31, 2006	964,599	29,212
As of March 31, 2007	<u>354,296</u>	<u>10,730</u>
	\$ <u>2,736,004</u>	<u>82,859</u>

The interest expenses of the aforementioned installments are calculated based on floating interest rates. For the three months ended March 31, 2004 and 2003, the average interest rates were 2.11%~3.19% p.a. and 2.97%~3.91% p.a., respectively.

(14) Aircraft Payable

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

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Aircraft payable	\$ 16,577,893	19,509,413	502,056	561,422
Less: current portion	<u>(1,979,944)</u>	<u>(2,062,963)</u>	<u>(59,962)</u>	<u>(59,366)</u>
	\$ <u>14,597,949</u>	<u>17,446,450</u>	<u>442,094</u>	<u>502,056</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

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

Year due	New Taiwan dollars	US dollars
As of March 31, 2005	\$ 1,979,944	59,962
As of March 31, 2006	1,935,140	58,605
As of March 31, 2007	2,188,235	66,270
As of March 31, 2008	1,842,825	55,809
As of March 31, 2009	1,795,590	54,379
And after	<u>6,836,159</u>	<u>207,031</u>
	\$ <u>16,577,893</u>	<u>502,056</u>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the three months ended March 31, 2004 and 2003, the average interest rates were 1.11%~6.77% p.a. and 1.36%~6.77% p.a., respectively. The pledges for the aircraft payable are disclosed at note 21.

(15) Retirement Plans

The net periodic pension costs for the three months ended March 31, 2004 and 2003, were NT\$79,062 thousand (US\$2,369 thousand) and NT\$73,590 thousand (US\$2,120 thousand), respectively. As of March 31, 2004 and 2003, pension liabilities were NT\$787,164 thousand (US\$23,839 thousand) and NT\$773,907 thousand (US\$22,271 thousand), respectively, and the retirement fund deposited with the Central Trust of China was NT\$689,923 thousand (US\$20,894 thousand) and NT\$470,494 thousand (US\$13,539 thousand), respectively.

(16) Income Tax

(a) The Company's earnings are subject to a maximum income tax rate of 25%. For the three months ended March 31, 2004 and 2003, the components of estimated income tax expense were as follows:

	2004		2003	
	New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Income tax expense—current	\$ (3,969)	(119)	(1,756)	(51)
Income tax expense—deferred	<u>(88,031)</u>	<u>(2,637)</u>	<u>-</u>	<u>-</u>
	\$ <u>(92,000)</u>	<u>(2,756)</u>	<u>(1,756)</u>	<u>(51)</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

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

	2004		2003	
	New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Expected income tax expense	\$ (210,628)	(6,310)	(102,100)	(2,941)
Gain on disposal of investments	8,790	263	1,789	52
Investment income recognized under equity method—unrealized	5,250	157	27,559	794
Surtax on undistributed earnings	(222,044)	(6,652)	-	-
Dividend income	8,481	255	(2,898)	(84)
Permanent difference in depreciation expenses	(25,695)	(770)	(35,850)	(1,033)
Exchange losses recorded as translation adjustments	25,596	767	35,443	1,021
Valuation allowance for deferred tax assets, net	277,484	8,313	(249,033)	(7,173)
Others	40,766	1,221	323,334	9,313
	\$ <u>(92,000)</u>	<u>(2,756)</u>	<u>(1,756)</u>	<u>(51)</u>

- (c) For the three months ended March 31, 2004 and 2003, the deferred income tax expenses were as follows:

	2004		2003	
	New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Loss carryforwards	\$ (331,417)	(9,929)	(67,785)	(1,952)
Investment tax credits	(112,772)	(3,378)	295,738	8,518
Unrealized exchange gains	30,915	926	136	4
Provision for (recovery of) reducing inventory to market price	23,078	692	(9,011)	(259)
Purchase of fixed assets by installments, adjusted for tax purposes	33,722	1,010	33,582	967
Deferred gains on disposal of fixed assets, adjusted for tax purposes	(9,041)	(271)	2,160	62
Valuation allowance for deferred tax assets, net	277,484	8,313	(249,033)	(7,173)
Others	-	-	(5,787)	(167)
	\$ <u>(88,031)</u>	<u>(2,637)</u>	<u>-</u>	<u>-</u>

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

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

	2004		2003	
	New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Deferred income tax assets – current:				
Unrealized exchange losses	\$ 77,271	2,340	55,787	1,605
Loss carryforwards	191,171	5,790	-	-
Investment tax credits	-	-	272,786	7,850
Allowance for obsolete inventories	315,237	9,547	184,016	5,296
Others	-	-	10,772	310
Less: valuation allowance for deferred income tax assets	-	-	(272,786)	(7,850)
	<u>\$ 583,679</u>	<u>17,677</u>	<u>250,575</u>	<u>7,211</u>
Deferred income tax assets – noncurrent:				
Loss carryforwards	\$ -	-	807,855	23,247
Investment tax credits	-	-	176,118	5,068
Purchase of fixed assets by installments, adjusted for tax purposes	538,266	16,301	403,239	11,604
Deferred gains on disposal of fixed assets, adjusted for tax purposes	290,543	8,799	135,207	3,891
Less: valuation allowance for deferred income tax assets	(190,145)	(5,758)	(666,337)	(19,175)
	<u>\$ 638,664</u>	<u>19,342</u>	<u>856,082</u>	<u>24,635</u>

The expiration years of the remaining loss carryforwards as of March 31, 2004, are summarized as follows:

Expiry year	Tax benefit on loss carryforwards	
	New Taiwan dollars	US dollars
2006	<u>\$ 191,171</u>	<u>5,790</u>

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

(17) Stockholders' Equity

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(a) Common stock

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 11, 2003, the Company's stockholders resolved to transfer unappropriated earnings of NT\$485,000 thousand (US\$14,042 thousand) by issuing 48,500 thousand shares of common stock, at NT\$10 par value per share. The stock issuance was authorized by and registered with the government authorities on October 19, 2003.

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

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

	2004		2003	
	New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Cash subscription in excess of par value of shares	\$ 1,464,333	52,084	1,464,333	52,084
Additional paid-in capital from bond conversion	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	231,138	6,714	237,374	6,899
Donated assets	<u>648,704</u>	<u>21,225</u>	<u>648,704</u>	<u>21,225</u>
	<u>\$ 2,711,637</u>	<u>90,802</u>	<u>2,352,079</u>	<u>80,261</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. When the legal reserve reaches over fifty percent of the issued capital, the Company may distribute the amount in excess as dividends.

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 par value is distributed and a stock dividend of around 50%~100% of the par value 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 par value and a stock dividend of 0~50% of the par value 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:

	2003	
	New Taiwan dollars	US dollars
Employees' bonuses—cash	\$ 29,002	878
Directors' and supervisors' remuneration	<u>10,000</u>	<u>303</u>
	\$ <u><u>39,002</u></u>	<u><u>1,181</u></u>

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 can be found on Web sites such as the Market Observation Post System after the stockholders' meeting.

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

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

	2004		2003	
	New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
Unappropriated earnings after 1998	\$ <u><u>3,515,351</u></u>	<u><u>102,538</u></u>	<u><u>3,044,184</u></u>	<u><u>87,964</u></u>

As of and for the three months ended March 31, 2004 and 2003, details of the ICA and the related creditable ratio were as follows:

	2004		2003	
	New Taiwan dollars	US dollars	New Taiwan dollars	US dollars
ICA	\$ <u><u>167,226</u></u>	<u><u>5,064</u></u>	<u><u>128,749</u></u>	<u><u>3,705</u></u>
Creditable ratio	<u><u>4.76%</u></u> (estimated)		<u><u>4.23%</u></u>	

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(19) Financial Instruments

(a) Derivative financial instruments

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

	2004		2003	
	Nominal Amount	Market Value	Nominal Amount	Market Value
Interest rate swap agreements (recorded as other current assets)	NTD 1,000,000	NTD 2,623	USD 177,335 NTD 400,000	USD (3,295)
Option agreements (recorded as other liabilities)	USD 188,000	USD 394	USD 18,000	USD (19)
Fuel price option agreements (recorded as other current assets and other assets)	-	USD 7,395	-	USD (299)

- (ii) The Company entered into derivative financial instruments for the three months ended March 31, 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)	\$ -	-	44,669	1,287
Interest payable (recorded as accrued expenses)	-	-	32,309	930
Interest revenues (recorded as nonoperating income and gains – interest income)	13	-	-	-
Interest receivable (recorded as other financial assets – current)	26	1	-	-
Option agreements:				
Gains on derivatives (recorded as nonoperating income and gains – exchange gains)	625	19	328	9
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)	220,705	6,612	461,230	13,284

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

(Continued)

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

1) Interest rate swap agreements

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

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

2) Option agreements

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

3) 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 nonderivative financial instruments

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

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

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

Nonderivative financial instruments	2004			
	New Taiwan dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 2,466,319	2,501,139	74,692	75,746
Long-term equity investments:				
Fair value can be estimated in fact	258,605	370,931	7,832	11,234
Fair value can not be estimated in fact	10,272,362	-	311,095	-
Long-term liabilities:				
Bonds payable	4,847,000	4,989,175	146,790	151,096
Long-term borrowings	17,825,707	17,825,707	539,846	539,846
Other installments payable	1,318,895	1,318,895	39,942	39,942
Aircraft payable	14,597,949	14,597,949	442,094	442,094
Off-balance-sheet financial instruments:				
Letters of credit	-	201,425	-	6,100
Financing guaranty	-	80,000	-	2,423
Nonderivative financial instruments	2003			
	New Taiwan dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 1,428,141	1,428,141	41,098	41,098
Long-term equity investments:				
Fair value can be estimated in fact	240,408	307,551	6,918	8,850
Fair value can not be estimated in fact	10,122,510	-	291,296	-
Long-term liabilities:				
Bonds payable	5,160,000	4,654,228	148,489	133,935
Long-term borrowings	21,520,526	21,520,526	619,296	619,296
Other installments payable	1,273,735	1,273,735	36,654	36,654
Aircraft payable	17,446,450	17,446,450	502,056	502,056
Off-balance-sheet financial instruments:				
Letters of credit	-	52,740	-	1,518
Financing guaranty	-	80,000	-	2,302

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(c) Methods and assumptions to measure the fair value of financial instruments**

- 1) The fair value of short-term investments is market value.
- 2) The fair value of long-term equity investments is market value if they are traded on the public market.
- 3) The fair value of convertible bonds is market value.
- 4) The fair value of long-term liabilities (except convertible bonds) is the discounted future cash flows, and the discount rates during three months ended March 31, 2004 and 2003 were 2.96% p.a. and 3.55% 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 and 2003, 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.

(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****(20) Transactions with Related Parties**

(a) Name and relationship of related parties

Name	Relationship with the Company
Evergreen Marine Corp.	Major shareholder
Evergreen International Corp.	Major shareholder
Evergreen International Storage & Transport Corp.	Investee company of the Company's major shareholders
Evergreen Development Corp.	Investee company of the Company's major shareholders
Evergreen Construction Corp.	Investee company of the Company's major shareholders
Evermaster Development Corp.	Investee company of the Company's 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.	Investee company accounted for by equity method
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.	Investee company accounted for by equity method
Evergreen Security Corp.	Investee company accounted for by equity method
Evergreen Air Cargo Services Corp.	Investee company accounted for by equity method
Hsiang-Li Investment Corp.	Investee company accounted for by equity method
Uni Japan Co., Ltd.	Investee company accounted for by equity method
Evergreen Airways Service (Macau) Ltd.	Investee company accounted for by equity method

(b) Significant transactions with related parties

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(i) 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 three months ended March 31, 2004 and 2003, are summarized as follows:

Related party	Project	2004 New Taiwan dollars		
		Contract price	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	2004 US dollars		
		Contract price	Amount paid	Payable as of period-end
Evergreen Construction Corp.	Construction of a new overhaul shop for training equipment	\$ 11,470	11,355	115
Evergreen Construction Corp.	Construction of a new warehouse	7,079	6,528	551
Evergreen Construction Corp.	Construction of a new warehouse (Note)	70	63	7
Evergreen Security Corp.	Installation of a new security system for new warehouse	140	130	10
Evergreen Security Corp.	Installation of a new security system for training equipment	123	122	1
		<u>\$ 18,882</u>	<u>18,198</u>	<u>684</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Related party	Project	2003		
		Contract price	Amount paid	Payable as of period-end
			New Taiwan dollars	
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>
			2003 US dollars	
		Contract price	Amount paid	Payable as of period-end
Evergreen Construction Corp.	Construction of a new overhaul shop for training equipment	\$ 10,899	10,790	109
Evergreen Construction Corp.	Construction of a new warehouse	6,727	6,203	523
Evergreen Construction Corp.	Construction of a new warehouse (Note)	66	60	7
Evergreen Security Corp.	Installation of a new security system for new warehouse	133	123	10
Evergreen Security Corp.	Installation of a new security system for training equipment	117	116	1
		<u>\$ 17,942</u>	<u>17,292</u>	<u>650</u>

Note: During 2001, the contract was terminated. Payment amounted to NT\$2,068 thousand (US\$63 thousand), and according to the contract, the Company had to pay the related retention money of NT\$230 thousand (US\$7 thousand).

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(2) Revenue, cost and expenses

During the three months ended March 31, 2004, and 2003, the Company's transactions with related parties were as follows:

Revenue	New Taiwan dollars		US dollars		Percentage	
	2004	2003	2004	2003	2004	2003
Uni Airways Corp.	\$ 11,958	8,351	358	241	0.06	0.05
Evergreen Aviation Technologies Corp.	79,903	63,503	2,394	1,829	0.43	0.39
Evergreen Air Cargo Services Corp.	2,898	1,726	87	50	0.02	0.01
Others	<u>1,052</u>	<u>760</u>	<u>31</u>	<u>21</u>	<u>-</u>	<u>-</u>
	\$ <u>95,811</u>	<u>74,340</u>	<u>2,870</u>	<u>2,141</u>	<u>0.51</u>	<u>0.45</u>

Cost	New Taiwan dollars		US dollars		Percentage	
	2004	2003	2004	2003	2004	2003
Evergreen International Corp.	\$ 10,614	12,156	318	350	0.07	0.09
Evergreen International Storage & Transport Corp.	16,355	2,302	490	66	0.10	-
Ever Voyage Transport Corp.	-	12,218	-	352	-	0.09
Evergreen Airline Services Corp.	194,043	195,747	5,813	5,638	1.21	1.37
Evergreen Sky Catering Corp.	211,108	184,887	6,324	5,325	1.32	1.30
Uni Airways Corp.	230,871	137,676	6,916	3,965	1.44	0.97
Evergreen Aviation Technologies Corp.	1,253,074	1,198,506	37,540	34,520	7.83	8.40
Evergreen Air Cargo Services Corp.	49,102	35,677	1,471	1,028	0.31	0.25
Others	<u>439</u>	<u>16</u>	<u>14</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>1,965,606</u>	<u>1,779,185</u>	<u>58,886</u>	<u>51,244</u>	<u>12.28</u>	<u>12.47</u>

Expenses	New Taiwan dollars		US dollars		Percentage	
	2004	2003	2004	2003	2004	2003
Evergreen International Corp.	\$ 18,679	18,568	560	535	1.24	1.17
Evergreen International Storage & Transport Corp.	3,241	403	97	12	0.21	0.03
Ever Voyage Transport Corp.	-	4,088	-	118	-	0.26
Evergreen Airline Services Corp.	5,748	5,927	172	171	0.38	0.37
Evergreen Sky Catering Corp.	5,226	4,713	157	136	0.35	0.29
Uni Airways Corp.	17,735	382	530	11	1.17	0.02
Evergreen Aviation Technologies Corp.	4,258	4,924	128	142	0.28	0.31
Evergreen Security Corp.	10,777	10,858	323	313	0.71	0.68
RTW Air Services(s) Pte. Ltd.	11,908	11,240	357	324	0.79	0.71
Green Siam Air Services Co., Ltd.	17,675	17,816	530	512	1.17	1.12
Others	<u>673</u>	<u>1,103</u>	<u>20</u>	<u>31</u>	<u>0.04</u>	<u>0.06</u>
	\$ <u>95,920</u>	<u>80,022</u>	<u>2,874</u>	<u>2,305</u>	<u>6.34</u>	<u>5.02</u>

(3) Guaranty

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of March 31, 2004 and 2003, the Company had provided a guaranty for Uni Airways Corp. amounting to NT\$80,000 thousand (US\$2,423 thousand).

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

	New Taiwan dollars		US dollars	
	2004	2003	2004	2003
Accounts receivable—related parties:				
Uni Airways Corp.	\$ 24,886	35,073	754	1,009
Evergreen Aviation Technologies Corp.	32,080	39,628	971	1,140
Others	397	272	12	8
	<u>57,363</u>	<u>74,973</u>	<u>1,737</u>	<u>2,157</u>
Other receivables—related parties:				
Uni Airways Corp.	139,776	188,775	4,233	5,432
Evergreen Air Cargo Services Corp.	2,323	1,977	70	57
Evergreen Aviation Technologies Corp.	14,411	5,108	437	147
Evergreen International Corp.	2,434	3,312	74	95
Others	1,266	605	38	18
	<u>160,210</u>	<u>199,777</u>	<u>4,852</u>	<u>5,749</u>
Total receivables—related parties	\$ <u>217,573</u>	<u>274,750</u>	<u>6,589</u>	<u>7,906</u>
Accounts payable—related parties:				
Evergreen Airline Services Corp.	\$ 122,078	64,526	3,697	1,857
Evergreen Sky Catering Corp.	137,099	121,110	4,152	3,485
Uni Airways Corp.	80,857	95,432	2,449	2,746
Evergreen International Corp.	19,146	11,525	580	332
Evergreen Aviation Technologies Corp.	474,018	256,884	14,355	7,392
Evergreen Air Cargo Services Corp.	24,677	19,704	747	567
Green Siam Air Services Co., Ltd.	5,697	5,969	173	172
RTW Air Services(s) Pte. Ltd.	8,637	2,674	262	77
Others	6,246	1,059	189	31
	<u>878,455</u>	<u>578,883</u>	<u>26,604</u>	<u>16,659</u>
Other payables—related parties:				
Evergreen International Corp.	5,353	8,226	162	237
Evergreen Airline Services Corp.	19,333	29,531	585	850
Evergreen Security Crop.	3,722	3,852	113	111
Evergreen Aviation Technologies Corp.	4,677	1,825	142	52
Evergreen Sky Catering Corp.	2,397	210	73	6
Uni Airways Corp.	5,703	11,781	173	339
Others	3,316	1,368	100	39
	<u>44,501</u>	<u>56,793</u>	<u>1,348</u>	<u>1,634</u>
Total payables—related parties	\$ <u>922,956</u>	<u>635,676</u>	<u>27,952</u>	<u>18,293</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(21) Pledged Assets

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

Pledged assets	Object	New Taiwan dollars		US dollars	
		2004	2003	2004	2003
Land	Long-term borrowings	\$ 1,864,122	1,864,122	56,454	53,644
Buildings	Long-term borrowings	2,741,721	2,837,863	83,032	81,665
Aircraft	Long-term borrowings	41,696,458	46,768,237	1,262,764	1,345,849
Engines—included in machinery and equipment	Long-term borrowings	1,961,019	1,668,749	59,389	48,021
Simulators—included in machinery and equipment	Long-term borrowings	572,733	295,642	17,345	8,508
Time deposit—included in other assets	Customs duty and contract performance guaranties	461,634	590,423	13,980	16,990
		\$ <u>49,297,687</u>	<u>54,025,036</u>	<u>1,492,964</u>	<u>1,554,677</u>

(22) Commitments and Contingencies

(a) As of March 31, 2004, 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\$ 1,099,592	(US\$33,301)
March 2001	Airbus (A330-200)	2	US\$ 234,269 NT\$ 1,618,713	(US\$49,022)
April 2004	Boeing-777	8	US\$ 1,491,496 NT\$ 194,515	(US\$5,891)

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

(b) As of March 31, 2004, the Company had issued a total of NT\$10,500 million (US\$318 million) in promissory notes to banks for obtaining guaranties for credit lines. As of March 31, 2004, the Company had obtained guaranties from ABN-AMRO Bank, Cathay United Bank, HSBC and Bank of America amounting to NT\$560,766 thousand (US\$16,983 thousand).

(Continued)

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- (c) The Company entered into aircraft and land lease contracts by using the operating lease method. As of March 31, 2004, the Company had paid US\$386,255 thousand as refundable deposits. According to the contracts, future lease payments in the following five years are as follows:

Year due	New Taiwan dollars	US dollars
As of March 31, 2005	\$ 8,618,165	260,998
As of March 31, 2006	6,977,421	211,309
As of March 31, 2007	5,233,407	158,492
As of March 31, 2008	3,410,621	103,290
As of March 31, 2009	<u>2,237,611</u>	<u>67,765</u>
	\$ <u>26,477,225</u>	<u>801,854</u>

- (d) On June 5, 2003, according to the procedures for lending of capital and providing a guaranty to others, the Company's board of directors resolved to issue promissory notes for Uni Airways Corp.'s renewal of the NT\$80 million loan with Taipei Commercial Bank.

(23) Others

- (a) Total personnel, depreciation and amortization expenses for the three months ended March 31, 2004 and 2003, are summarized below:

By function By item	New Taiwan dollars					
	Operating cost	2004 Operating expenses	Total	Operating cost	2003 Operating expenses	Total
Personnel expenses						
Salaries	\$ 754,073	577,885	1,331,958	728,310	534,958	1,263,268
Insurance	28,111	23,088	51,199	28,598	25,027	53,625
Pension	45,318	33,744	79,062	36,571	37,019	73,590
Others (meal allowances, etc.)	277,942	43,212	321,154	263,964	44,722	308,686
Depreciation	1,059,348	52,066	1,111,414	1,055,679	52,521	1,108,200
Amortization	236,219	54,011	290,230	195,964	63,275	259,239

(Continued)

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By function By item	US dollars					
	Operating cost	2004 Operating expenses	Total	Operating cost	2003 Operating expenses	Total
Personnel expenses						
Salaries	22,591	17,312	39,903	20,976	15,408	36,384
Insurance	842	692	1,534	823	721	1,544
Pension	1,358	1,011	2,369	1,054	1,066	2,120
Others (meal allowances, etc.)	8,327	1,294	9,621	7,603	1,288	8,891
Depreciation	31,736	1,560	33,296	30,405	1,513	31,918
Amortization	7,077	1,618	8,695	5,644	1,823	7,467

(b) Reclassification

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