

EVA AIRWAYS CORP.
Financial Statements
December 31, 2007 and 2006
(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Directors
EVA Airways Corp.:

We have audited the balance sheets of EVA Airways Corp. (the "Company") as of December 31, 2007 and 2006, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain non-consolidated investee companies. The Company's investments in these companies as of December 31, 2007 and 2006, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$2,312,161 thousand (US\$71,275 thousand), constituting 1.55% of total assets, and NT\$2,435,421 thousand (US\$74,706 thousand), constituting 1.76% of total assets, respectively. The resulting investment gains amounted to NT\$32,745 thousand (US\$997 thousand), constituting (1.67)% of loss before income tax and NT\$306,578 thousand (US\$9,433 thousand), constituting (13.54)% of loss before income tax, for the years 2007 and 2006, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to these amounts included for the said investee companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and Republic of China generally accepted accounting principles.

The Company adopted newly issued SFASs, the effects of which are as stated in note 3 to the accompanying financial statements.

The accompanying financial statements as of and for the years ended December 31, 2007 and 2006, have been translated into United States dollars. We have audited the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(c) of the notes to the accompanying financial statements.

Taipei, Taiwan (the Republic of China)
March 12, 2008

Note to Readers

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.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

EVA AIRWAYS CORP.

Balance Sheets

December 31, 2007 and 2006
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

Assets	2007		2006		Liabilities and Stockholders' Equity	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars		NT dollars	US dollars	NT dollars	US dollars
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4(a))	\$ 2,956,763	91,145	2,997,459	91,947	Short-term borrowings (note 4(i))	\$ -	-	500,000	15,337
Financial assets at fair value through profit or loss—current (note 4(b))	63,245	1,949	21,684	665	Financial liabilities at fair value through profit or loss—current (note 4(b))	85	3	255,284	7,831
Available-for-sale financial assets—current (note 4(b))	5,115,645	157,696	6,733,670	206,554	Accounts payable	1,928,588	59,451	1,669,674	51,217
Notes receivable	281,354	8,673	391,740	12,016	Accounts payable—related parties (note 5)	651,760	20,091	762,251	23,382
Accounts receivable, net	8,358,045	257,646	8,263,219	253,473	Accrued expenses	7,824,060	241,186	6,910,351	211,974
Accounts receivable—related parties (note 5)	46,128	1,422	47,265	1,450	Other payables—related parties (note 5)	141,214	4,353	45,659	1,401
Other receivables (note 4(c))	321,463	9,909	238,263	7,309	Derivative financial liabilities for hedge purposes—current (note 4(q))	-	-	356	11
Other receivables—related parties (note 5)	55,817	1,721	123,234	3,780	Other payables (notes 4(l) and 6)	3,065,069	94,484	2,419,945	74,231
Inventories (note 4(d))	9,528,003	293,712	8,699,642	266,860	Unearned revenue	7,006,846	215,994	6,466,699	198,365
Prepaid expenses	94,616	2,917	58,779	1,803	Current portion of long-term liabilities (notes 4(j), 4(k), 6 and 7)	7,897,704	243,456	9,104,852	279,290
Other prepayments	491,237	15,143	606,681	18,610	Lease liability—current (note 4(g))	1,455,294	44,861	1,858,271	57,002
Deferred income tax assets—current (note 4(n))	313,292	9,658	397,126	12,182	Other current liabilities	1,515,737	46,724	1,239,453	38,020
Other current assets	74,477	2,296	66,957	2,054	Total current liabilities	<u>31,486,357</u>	<u>970,603</u>	<u>31,232,795</u>	<u>958,061</u>
Total current assets	<u>27,700,085</u>	<u>853,887</u>	<u>28,645,719</u>	<u>878,703</u>	Long-term liabilities:				
Funds and investments:					Financial liabilities at fair value through profit or loss—noncurrent (note 4(b))	1,176	36	768,482	23,573
Financial assets at fair value through profit or loss—noncurrent (note 4(b))	106,756	3,291	64,955	1,992	Bonds payable (note 4(k))	10,661,300	328,647	9,100,000	279,141
Available-for-sale financial assets—noncurrent (note 4(b))	666,526	20,546	557,654	17,106	Long-term borrowings (notes 4(j), 6 and 7)	32,911,612	1,014,538	27,464,642	842,474
Financial assets carried at cost—noncurrent (note 4(b))	2,281,612	70,333	3,165,889	97,113	Derivative financial liabilities for hedge purposes—noncurrent (note 4(q))	12,731	392	23,197	712
Long-term equity investments under equity method (note 4(e))	7,889,041	243,189	7,978,188	244,730	Aircraft payable (notes 4(l) and 6)	12,087,424	372,609	14,498,898	444,751
Total funds and investments	<u>10,943,935</u>	<u>337,359</u>	<u>11,766,686</u>	<u>360,941</u>	Lease liability—noncurrent (note 4(g))	15,092,833	465,254	6,785,581	208,147
Property, plant and equipment (notes 4(f), 4(g), 6 and 7):					Total long-term liabilities	<u>70,767,076</u>	<u>2,181,476</u>	<u>58,640,800</u>	<u>1,798,798</u>
Land	1,869,784	57,638	1,869,784	57,355	Other liabilities:				
Buildings	4,543,278	140,052	4,543,278	139,364	Accrued employee retirement liabilities (note 4(m))	590,714	18,209	828,012	25,399
Machinery and equipment	6,570,840	202,553	4,648,510	142,592	Other liabilities	2,105,552	64,906	1,307,954	40,121
Aircraft	84,596,114	2,607,772	74,709,837	2,291,713	Total other liabilities	<u>2,696,266</u>	<u>83,115</u>	<u>2,135,966</u>	<u>65,520</u>
Leased assets	19,979,240	615,883	11,593,946	355,643	Total liabilities	<u>104,949,699</u>	<u>3,235,194</u>	<u>92,009,561</u>	<u>2,822,379</u>
Rotable parts	92,133	2,840	309,389	9,491	Stockholders' equity (notes 4(b), 4(m), 4(o) and 4(q)):				
	117,651,389	3,626,738	97,674,744	2,996,158	Common stock	38,749,794	1,310,325	38,749,794	1,310,325
Less: accumulated depreciation	(35,958,394)	(1,108,459)	(33,454,809)	(1,026,221)	Capital surplus	4,582,191	148,350	4,580,118	148,286
Advances for purchases of equipment	13,173,517	406,089	14,672,307	450,071	Retained earnings:				
Net property, plant and equipment	<u>94,866,512</u>	<u>2,924,368</u>	<u>78,892,242</u>	<u>2,420,008</u>	Legal reserve	860,272	25,530	860,272	25,530
Intangible assets:					Retained earnings (accumulated deficit)	(841,408)	(28,707)	1,030,510	28,277
Deferred pension cost (note 4(m))	109,182	3,366	136,476	4,186	Total retained earnings	<u>18,864</u>	<u>(3,177)</u>	<u>1,890,782</u>	<u>53,807</u>
Other assets:					Other stockholders' equity adjustments:				
Refundable deposits (note 7)	7,500,806	231,221	10,907,844	334,596	Cumulative translation adjustments	1,085,636	(85,946)	1,438,228	(81,338)
Deferred charges (note 4(h))	5,851,223	180,371	5,968,599	183,086	Net loss not yet recognized as net pension cost	(472,617)	(14,299)	(585,306)	(17,773)
Deferred income tax assets—noncurrent (note 4(n))	1,601,171	49,358	1,253,240	38,443	Unrealized gains on financial instruments	224,228	6,896	66,987	2,049
Other assets (note 6)	564,881	17,413	579,358	17,772	Total other stockholders' equity adjustments	<u>837,247</u>	<u>(93,349)</u>	<u>919,909</u>	<u>(97,062)</u>
Total other assets	<u>15,518,081</u>	<u>478,363</u>	<u>18,709,041</u>	<u>573,897</u>	Total stockholders' equity	<u>44,188,096</u>	<u>1,362,149</u>	<u>46,140,603</u>	<u>1,415,356</u>
Total assets	<u>\$ 149,137,795</u>	<u>4,597,343</u>	<u>138,150,164</u>	<u>4,237,735</u>	Commitments and contingencies (note 7)				
					Total liabilities and stockholders' equity	<u>\$ 149,137,795</u>	<u>4,597,343</u>	<u>138,150,164</u>	<u>4,237,735</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Operations

For the years ended December 31, 2007 and 2006

(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars, Except Earnings per Share)

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Operating revenue (note 5)	\$ 93,103,131	2,834,189	93,903,564	2,889,341
Operating cost (notes 5 and 10)	<u>(88,518,900)</u>	<u>(2,694,639)</u>	<u>(90,334,648)</u>	<u>(2,779,528)</u>
Gross profit from operations	4,584,231	139,550	3,568,916	109,813
Operating expenses (notes 5 and 10)	<u>(6,858,651)</u>	<u>(208,787)</u>	<u>(6,906,700)</u>	<u>(212,514)</u>
Operating loss	<u>(2,274,420)</u>	<u>(69,237)</u>	<u>(3,337,784)</u>	<u>(102,701)</u>
Non-operating income and gains:				
Interest income	189,780	5,777	163,130	5,019
Investment income (note 4(e))	394,557	12,011	1,009,463	31,061
Gains on disposal of property, plant and equipment	69,296	2,110	217,392	6,689
Gains on sale of investments, net (notes 4(b) and 4(e))	-	-	794,027	24,432
Exchange gains, net	303,226	9,231	583,321	17,948
Gains on valuation of financial assets (note 4(r))	1,235,201	37,601	-	-
Other income	<u>431,169</u>	<u>13,125</u>	<u>333,665</u>	<u>10,266</u>
	<u>2,623,229</u>	<u>79,855</u>	<u>3,100,998</u>	<u>95,415</u>
Non-operating expenses and losses:				
Interest expenses, net of capitalized interest of NT\$440,511 (US\$13,410) and NT\$410,770 (US\$12,639) in 2007 and 2006, respectively (notes 4(f) and 4(r))	(2,215,286)	(67,436)	(1,961,357)	(60,349)
Losses on sale of investments (note 4(b))	(52,311)	(1,593)	-	-
Losses on valuation of financial assets (note 4(r))	-	-	(4,972)	(153)
Other losses	<u>(39,361)</u>	<u>(1,198)</u>	<u>(60,809)</u>	<u>(1,871)</u>
	<u>(2,306,958)</u>	<u>(70,227)</u>	<u>(2,027,138)</u>	<u>(62,373)</u>
Continuing operating loss before income tax	(1,958,149)	(59,609)	(2,263,924)	(69,659)
Income tax benefit (note 4(n))	<u>86,231</u>	<u>2,625</u>	<u>416,648</u>	<u>12,820</u>
Continuing operating loss after tax	(1,871,918)	(56,984)	(1,847,276)	(56,839)
Cumulative effect of changes in accounting principle (net of income tax expenses of NT\$53,564 (US\$1.648) (notes 3 and 4(n))	<u>-</u>	<u>-</u>	<u>160,691</u>	<u>4,944</u>
Net loss	<u>\$ (1,871,918)</u>	<u>(56,984)</u>	<u>(1,686,585)</u>	<u>(51,895)</u>

	Loss		Net loss		Income (loss) before income tax		Net Income (loss)	
	before income tax		Net loss		income tax		Income (loss)	
	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Basic earnings per share (expressed in dollars) (note 4(p)):								
Continuing operating loss	\$ (0.51)	(0.02)	(0.48)	(0.01)	(0.61)	(0.02)	(0.49)	(0.01)
Cumulative effect of changes in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.06</u>	<u>-</u>	<u>0.04</u>	<u>-</u>
Net loss	<u>\$ (0.51)</u>	<u>(0.02)</u>	<u>(0.48)</u>	<u>(0.01)</u>	<u>(0.55)</u>	<u>(0.02)</u>	<u>(0.45)</u>	<u>(0.01)</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2007 and 2006
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

	NT dollars									US dollars								
	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings (Accumulated Deficit)	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Unrealized Gains on Financial Instruments	Total	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings (Accumulated Deficit)	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Unrealized Gains on Financial Instruments	Total
Balance on December 31, 2005	\$ 33,898,869	3,424,986	727,666	3,662,898	192,631	2,291,327	(222,505)	-	43,975,872	1,160,607	112,603	21,408	109,572	5,864	(64,723)	(6,644)	-	1,338,687
Effect of adopting SFAS No. 34 "Financial Instruments: Recognition and Measurement" commencing from January 1, 2006 (note 3)	-	-	-	-	-	-	-	27,185	27,185	-	-	-	-	-	-	-	828	828
Appropriation of earnings (note 4(o))																		
Legal reserve	-	-	132,606	(132,606)	-	-	-	-	-	-	-	4,122	(4,122)	-	-	-	-	-
Cash dividends	-	-	-	(749,977)	-	-	-	-	(749,977)	-	-	-	(23,313)	-	-	-	-	(23,313)
Directors' and supervisors' remuneration	-	-	-	(10,900)	-	-	-	-	(10,900)	-	-	-	(339)	-	-	-	-	(339)
Employees' bonuses	-	-	-	(52,320)	-	-	-	-	(52,320)	-	-	-	(1,626)	-	-	-	-	(1,626)
Cash subscription	3,600,000	720,000	-	-	-	-	-	-	4,320,000	110,906	22,181	-	-	-	-	-	-	133,087
Convertible bonds converted into common stock	1,250,925	439,075	-	-	-	-	-	-	1,690,000	38,812	13,623	-	-	-	-	-	-	52,435
Decrease in net equity due to the change in percentage of capital surplus in long-term equity investments under equity method	-	(3,943)	-	-	-	-	-	-	(3,943)	-	(121)	-	-	-	-	-	-	(121)
Increase in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	-	-	-	-	401	-	-	401	-	-	-	-	-	12	-	-	12
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	-	(41,824)	-	(41,824)	-	-	-	-	-	-	(1,283)	-	(1,283)
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	-	(320,977)	-	(320,977)	-	-	-	-	-	-	(9,846)	-	(9,846)
Increase in net equity due to the change in percentage of unrealized gains or losses on financial instruments in long-term equity investments under equity method	-	-	-	-	-	-	-	5,723	5,723	-	-	-	-	-	-	-	176	176
Change in unrealized gains on financial instruments	-	-	-	-	-	-	-	34,079	34,079	-	-	-	-	-	-	-	1,045	1,045
Deferred credit	-	-	-	-	(192,631)	-	-	-	(192,631)	-	-	-	-	(5,864)	-	-	-	(5,864)
Net loss for the year ended December 31, 2006	-	-	-	(1,686,585)	-	-	-	-	(1,686,585)	-	-	-	(51,895)	-	-	-	-	(51,895)
Translation adjustments for the year ended December 31, 2006	-	-	-	-	-	(853,500)	-	-	(853,500)	-	-	-	-	-	(16,627)	-	-	(16,627)
Balance on December 31, 2006	38,749,794	4,580,118	860,272	1,030,510	-	1,438,228	(585,306)	66,987	46,140,603	1,310,325	148,286	25,530	28,277	-	(81,338)	(17,773)	2,049	1,415,356
Increase in net equity due to the change in percentage of capital surplus in long-term equity investments under equity method	-	2,073	-	-	-	-	-	-	2,073	-	64	-	-	-	-	-	-	64
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	-	3,955	-	3,955	-	-	-	-	-	-	122	-	122
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	-	108,734	-	108,734	-	-	-	-	-	-	3,352	-	3,352
Decrease in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	-	-	-	-	(149)	-	-	(149)	-	-	-	-	-	(5)	-	-	(5)
Increase in net equity due to the change in percentage of unrealized gains or losses on financial instruments in long-term equity investments under equity method	-	-	-	-	-	-	-	10,025	10,025	-	-	-	-	-	-	-	309	309
Change in unrealized gains on financial instruments	-	-	-	-	-	-	-	147,216	147,216	-	-	-	-	-	-	-	4,538	4,538
Net loss for the year ended December 31, 2007	-	-	-	(1,871,918)	-	-	-	-	(1,871,918)	-	-	-	(56,984)	-	-	-	-	(56,984)
Translation adjustments for the year ended December 31, 2007	-	-	-	-	-	(352,443)	-	-	(352,443)	-	-	-	-	-	(4,603)	-	-	(4,603)
Balance on December 31, 2007	\$ 38,749,794	4,582,191	860,272	(841,408)	-	1,085,636	(472,617)	224,228	44,188,096	1,310,325	148,350	25,530	(28,707)	-	(85,946)	(14,299)	6,896	1,362,149

See accompanying notes to financial statements.

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the years ended December 31, 2007 and 2006
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Cash flows from operating activities:				
Net loss	\$ (1,871,918)	(56,984)	(1,686,585)	(51,895)
Adjustments to reconcile net loss to net cash flow provided by operating activities:				
Depreciation	7,344,746	223,584	6,113,356	188,103
Amortization and maintenance expense	1,313,919	39,998	1,198,250	36,869
Amortization expense recorded as interest expenses	27,137	826	24,766	762
Losses (gains) on sale of investments	52,311	1,592	(794,027)	(24,432)
Gains on disposal and obsolescence of property, plant and equipment	(51,340)	(1,563)	(187,038)	(5,755)
Exchange gains arising from disposal of foreign operating units	(240,165)	(7,311)	(369,383)	(11,366)
Provision for unrealized exchange gain from long-term borrowings	(6,378)	(194)	(11,402)	(351)
Investment income	(394,557)	(12,010)	(1,009,463)	(31,061)
Amortization of deferred gain from sale and leaseback of fixed assets	(505)	(15)	(952)	(29)
Amortization of other deferred gain	(147,440)	(4,488)	(166,564)	(5,125)
Proceeds from cash dividends on long-term equity investments	630,978	19,208	466,740	14,361
Deferred income tax benefit	(120,094)	(3,656)	(414,587)	(12,757)
Changes in operating assets and liabilities, net:				
Financial assets at fair value through profit or loss – current	(41,561)	(1,265)	473,906	14,582
Notes receivable	110,386	3,360	(1,415)	(44)
Accounts receivable (including related parties)	(113,853)	(3,466)	(260,030)	(8,001)
Other receivables (including related parties)	(18,447)	(562)	726,651	22,359
Inventories	(828,360)	(25,216)	(806,211)	(24,806)
Prepaid expenses	(35,837)	(1,091)	15,818	487
Other prepayments	115,444	3,514	116,112	3,573
Other current assets	(7,520)	(229)	7,444	229
Financial assets at fair value through profit or loss – noncurrent	(41,801)	(1,272)	(9,841)	(303)
Financial liabilities at fair value through profit or loss – current	(255,199)	(7,769)	255,284	7,855
Accounts payable (including related parties)	148,423	4,518	94,565	2,910
Other payables (including related parties)	810,021	24,658	(960,410)	(29,551)
Accrued expenses	913,709	27,815	246,492	7,584
Unearned revenue	540,147	16,443	890,137	27,389
Other current liabilities	276,284	8,411	427,142	13,143
Financial liabilities at fair value through profit or loss – noncurrent	(767,306)	(23,358)	431,767	13,285
Accrued employee retirement liabilities	(101,270)	(3,083)	(132,057)	(4,063)
Other liabilities	125,759	3,828	4,643	143
Cumulative effect of changes in accounting principle	-	-	(214,255)	(6,592)
Net cash provided by operating activities	<u>7,365,713</u>	<u>224,223</u>	<u>4,468,853</u>	<u>137,503</u>
Cash flows from investing activities:				
Withdrawal of long-term equity investments, net	3,290	100	6,563	202
Decrease (increase) in available-for-sale financial assets – current	1,704,450	51,886	(3,951,045)	(121,570)
Proceeds from sale of available-for-sale financial assets – noncurrent	6,694	204	162	4
Proceeds from sale of financial assets carried at cost – noncurrent	737,565	22,453	1,211,529	37,278
Payments for purchase of long-term equity investments under equity method	(89,124)	(2,713)	(295,438)	(9,090)
Proceeds from disposal of property, plant and equipment	12,838,975	390,836	7,006,173	215,575
Payments for purchase of property, plant and equipment	(25,312,297)	(770,542)	(22,013,123)	(677,327)
Decrease in refundable deposits and in other assets	3,381,844	102,948	4,858,180	149,482
Increase in deferred charges	(1,223,680)	(37,251)	(2,119,681)	(65,221)
Net cash used in investing activities	<u>(7,952,283)</u>	<u>(242,079)</u>	<u>(15,296,680)</u>	<u>(470,667)</u>
Cash flows from financing activities:				
Decrease in short-term borrowings	(500,000)	(15,220)	(2,599,662)	(79,990)
Increase in long-term borrowings	16,960,000	516,286	23,105,000	710,923
Redemption of long-term borrowings	(11,152,500)	(339,498)	(7,873,735)	(242,269)
Installment payments for purchase of property, plant and equipment	(2,428,693)	(73,933)	(2,389,495)	(73,523)
Redemption of lease liability	(2,332,933)	(71,018)	(1,767,821)	(54,394)
Payments of cash dividends	-	-	(749,977)	(23,313)
Cash subscription	-	-	4,320,000	133,087
Payment of employees' bonuses and directors' and supervisors' remuneration	-	-	(63,220)	(1,965)
Net cash provided by financing activities	<u>545,874</u>	<u>16,617</u>	<u>11,981,090</u>	<u>368,556</u>
Effect of exchange rate changes on cash	<u>-</u>	<u>437</u>	<u>-</u>	<u>415</u>
Net increase (decrease) in cash and cash equivalents	<u>(40,696)</u>	<u>(802)</u>	<u>1,153,263</u>	<u>35,807</u>
Cash and cash equivalents at beginning of year	<u>2,997,459</u>	<u>91,947</u>	<u>1,844,196</u>	<u>56,140</u>
Cash and cash equivalents at end of year	<u>\$ 2,956,763</u>	<u>91,145</u>	<u>2,997,459</u>	<u>91,947</u>
Additional disclosure of cash flow information:				
Cash payments of interest (excluding capitalized interest expense)	<u>\$ 2,105,812</u>	<u>64,104</u>	<u>1,818,517</u>	<u>55,954</u>
Cash payments of income tax	<u>\$ 12,148</u>	<u>370</u>	<u>12,817</u>	<u>394</u>
Supplemental schedule of noncash investing and financing activities:				
Current portion of long-term liabilities	<u>\$ 7,897,704</u>	<u>243,456</u>	<u>9,104,852</u>	<u>279,290</u>
Inventory transferred from fixed assets	<u>\$ 1</u>	<u>-</u>	<u>5</u>	<u>-</u>
Translation adjustments (including investee)	<u>\$ (352,592)</u>	<u>(4,608)</u>	<u>(853,099)</u>	<u>(16,615)</u>
Unrealized gains on financial instruments (including investee)	<u>\$ 157,241</u>	<u>4,847</u>	<u>39,802</u>	<u>1,221</u>
Increase in lease liability	<u>\$ (10,291,848)</u>	<u>(313,298)</u>	<u>(2,285,627)</u>	<u>(70,327)</u>
Gains from sale and leaseback of fixed assets	<u>\$ (908,152)</u>	<u>(27,645)</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Notes to Financial Statements

December 31, 2007 and 2006

(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars Unless Otherwise Specified)

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 Act of the Republic of China (ROC). The Company commenced commercial operations on July 1, 1991.

The Company's business activities are

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

(Continued)

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

- 1.21 to engage in the retailing of watches and clocks;
- 1.22 to engage in the retailing of glasses;
- 1.23 to engage in the retailing of weights and measures;
- 1.24 to engage in the retailing of jewelry and precious metals;
- 1.25 to engage in the retailing of telecommunication equipment;
- 1.26 to engage in the retailing of photographic equipment;
- 1.27 to carry out any business which is not forbidden or restricted by the applicable laws and regulations, excluding those requiring licensing.

As of December 31, 2007 and 2006, the Company had 5,153 and 5,312 employees, respectively.

2. Summary of Significant Accounting Policies

The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The Company prepared the accompanying financial statements in accordance with ROC generally accepted accounting principles. The preparation of financial statements in conformity with the aforementioned guidelines, the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, the “Business Entity Accounting Act” and the “Regulation on Business Entity Accounting Handling”.

The major accounting policies and basis of measurement used in preparing the financial statements are summarized below.

(a) Use of estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(b) Foreign currency transactions and translations**

The Company maintains its books in New Taiwan dollars. Foreign currency transactions during the year are translated at the exchange rates on the transaction dates. Foreign currency-denominated assets and liabilities are translated into New Taiwan dollars at the exchange rate prevailing on the balance sheet date, and the resulting translation gains or losses are recognized as non-operating income or expenses. In accordance with amended Statement of Financial Accounting Standards (SFAS) No. 14 "The Effects of Changes in Foreign Exchange Rates", non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into NT dollars at foreign exchange rates ruling at the dates the fair value was determined. If the financial assets or liabilities are evaluated at fair value through profit or loss, the resulting unrealized exchange income (loss) from such translations is reflected in the accompanying non-consolidated statements of income. If the adjustments of financial assets or liabilities are evaluated at fair value through stockholders' equity, the resulting unrealized exchange income (loss) from such translations is recorded as a separate component of stockholders' equity.

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 into the reporting currency are reported as cumulative translation adjustments. Cumulative translation adjustments are reported as a separate component of stockholders' equity.

(c) Convenience translation into U.S. dollars

The financial statements are stated in New Taiwan dollars. Assets and liabilities are translated at the rate of exchange at the balance sheet date. Income statement accounts are translated at the average rates during the year. The related translation adjustments are reported as a component of shareholders' equity.

(d) 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 US dollar-denominated aircraft purchase costs 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 US dollar aircraft depreciation amounts are translated into New Taiwan dollars at the current year's average exchange rate. The translation differences resulting from these translations are reported as cumulative translation adjustments.

(Continued)

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

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 US dollar leased aircraft depreciation amounts are translated into New Taiwan dollars at the current year's average exchange rate. The translation differences resulting from these translations are reported as cumulative translation adjustments.

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

(e) Classification of current and noncurrent assets and liabilities

Cash or cash equivalents, assets that will be held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets shall be classified as non-current.

Liabilities that will be held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities shall be classified as non-current.

(f) Asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the goodwill and intangible assets that have indefinite lives or that are not yet available for use on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

(Continued)

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

Cash and cash equivalents includes cash on hand, savings and checking deposits, fixed time deposits, miscellaneous petty cash. Cash equivalents represent highly liquid debt instruments, such as commercial paper and bank acceptances with original maturities of three months or less. Cash equivalents also include other highly liquid investments which do not have a significant level of market risk related to potential interest rate changes.

(h) Financial instruments

Financial instruments are classified into three accounts: financial assets at fair value through profit or loss; available-for-sale financial assets; and financial assets carried at cost.

The Company adopted transaction-date accounting for financial instrument transactions. At the beginning of recognition, financial instruments are evaluated at fair value. Except for trading-purpose financial instruments, acquisition cost or issuance cost is added to the original recognized amount.

The financial instruments the Company held or issued are classified into the following accounts in accordance with the purpose of holding or issuing after the original recognition.

1. Financial assets/liabilities at fair value through profit or loss: The main purposes of the financial instruments are selling or repurchasing in the short term. Except for the derivatives that the Company held for hedging purposes and are considered to be effective, all derivatives should be classified into this account. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.
2. Available-for-sale financial assets: These are measured at fair value, and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.
3. Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are booked at original cost. If there is evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.

(i) Hedge accounting

(Continued)

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

Derivative financial instruments held by the Company were to manage foreign exchange rate and interest rate risk exposure on foreign-currency-denominated assets and liabilities. According to this policy, derivative financial instruments held or issued by the Company were for hedging. When derivative financial instruments no longer are for hedging, they are treated as financial instruments held for trading.

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. If hedging relationships meet the criteria for hedge accounting, they are accounted for as follows:

1. Fair value hedges

Changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in profit or loss.

2. Cash flow hedges

Changes in the fair value of the hedging instrument designated as a cash flow hedge are recognized directly in equity. If a hedge of a forecasted transaction subsequently results in the recognition of an asset or a liability, then the amount recognized in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For hedges other than those covered by the preceding statement, the associated cumulative gain or loss is removed from equity and recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

3. Hedge of net investment in foreign operation

Changes in the fair value of the hedging instrument are recognized directly in equity. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized directly in equity is recognized in profit or loss on disposal of the foreign operation.

(j) 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.

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EVA AIRWAYS CORP.**Notes to Financial Statements****(k) Long-term equity investments**

Long-term equity investments in which the Company owns more than 20% or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies are accounted for by the equity method.

The difference between the selling price and the book value of the long-term equity investments under the equity method is recognized as disposal gain or loss in the accompanying non-consolidated statements of income. If there is capital surplus or cumulative translation adjustments resulting from long-term equity investments, the capital surplus or cumulative translation adjustments should be debited to disposal gain/loss based on the disposal ratio.

When the Company owns more than 50% or less than 50% but is able to exercise control ability to an investee of an investee's voting stock, it becomes the parent of its subsidiary. For general-purpose financial reporting, a parent and its subsidiaries present consolidated financial statements at the end of the half-year and the end of the fiscal year.

The Company adopted amended SFAS No. 5 "Long-term Investments under Equity Method" commencing from January 1, 2006. If the differences come from the assets that can be depreciated, depleted or amortized, then the Company shall amortize such differences over estimated remaining economic lives. If the differences come from discrepancies between the carrying amounts of assets and their fair market values, then the Company shall offset all unamortized differences when conditions making such over- or under-valuation are no longer present. When the investment cost exceeds the fair value of identifiable net assets acquired, the excess should be recorded as goodwill. When the fair value of identifiable net assets acquired exceeds the cost, the difference should be assigned to non-current assets acquired proportionate to their respective fair values. If these assets are all reduced to zero value, the remaining difference should be recognized as extraordinary gain.

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

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

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EVA AIRWAYS CORP.**Notes to Financial Statements****(l) 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 as part of the costs of related assets the related interest costs incurred before commencing to use such 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. The useful lives of main property, plant and equipment are as follows:

Buildings: 55 years

Machinery and equipment: 3~18 years

Aircraft: 18 years

Ratable parts: 5~18 years

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

(m) Lease

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

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

(Continued)

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

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

- a) If the value of the leased property is determined using the maximum borrowing rate for nonfinancial institutions (determined by the ROC Ministry of Finance) on the inception date of the lease, then the interest expense is calculated based on the beginning balance of the lease payable and the maximum borrowing rate.
- b) If the value of the leased property is determined by its market price, then the interest expense is also calculated based on the beginning balance of the lease payable and the maximum borrowing rate. However, a service charge is calculated based on the beginning balance of the lease payable and the difference between the lessor's interest rate implicit in the lease and the maximum borrowing rate.

If there is any unguaranteed residual value at the end of the lease term, the lessee calculates 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 two paragraphs above.

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

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

The Company sold and leased back aircraft under operating lease agreements. If the translation differences resulting from the translation of the foreign currency cost 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 disposal of the 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, these gains should be deferred using the unearned gain on sales—leaseback account according to ROC Statement of Financial Accounting Standards (SFAS) No. 2, "Leases", otherwise they should be taken as a loss.

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

(Continued)

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

(n) Deferred charges

Deferred charges principally include the capitalized costs for computer software, leasehold improvements, “D” check maintenance for aircraft and engines and others. 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. Effective from January 1, 2007, the Company adopted Statements of Financial Accounting Standard No. 37 (SFAS No. 37) “Intangible Assets”. In accordance with SFAS No. 37, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increments revaluation in accordance with the laws, less any accumulated amortization and any accumulated impairment losses. The adoption of the above SFAS principle had no effect on the financial statements of the Company.

(o) Convertible bonds payable

In accordance with ROC SFAS No. 36, paragraph 124, for compound equity financial instruments issued prior to the effective date (January 1, 2006) of the statement, the equity component cannot be separated from the financial instruments, and calculation of accumulated changes in accounting policies is not required. The Company’s convertible bonds payable were issued in August 2004.

The Company’s convertible bonds payable are with a resell option. Therefore, the difference between issue price and face value is amortized between the issue date and maturity date of the resell option. The unamortized amount was recorded as a contra account of convertible bonds payable.

The cost of issuing convertible bonds is capitalized as deferred costs and amortized as interest expense over the period between the issuing date and reselling date. When the bondholders exercise the reselling right, the unamortized amount is recorded as interest expense based on the reselling ratio.

When bondholders exercise the conversion right, the number of shares the bond is converted into is calculated based on the face value of the convertible bond and the conversion price on the conversion date. The conversion price in excess of the par value and the unamortized bond issuance costs are recorded as capital surplus.

The Company adopted SFAS No. 34 “Financial Instruments: Recognition and Measurement” on January 1, 2006. Convertible bonds were recorded as current portion of long-term liabilities, and reclassified as current liabilities two years after the issuance date. In accordance with the recommendation of the ROC Accounting Research and Development Foundation, the convertible bonds were reclassified as long-term liabilities after the redemption right period expired.

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

The Company has established an employee noncontributory defined benefit retirement plan (the "Plan") covering full-time employees in the ROC. In accordance with the Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on an employee's average monthly salary for the last six months before the employee's retirement and the number of points accumulated by the employee according to his/her years of service. Each employee receives 2 points for each service year from year 1 to year 15, and 1 point thereafter. A lump-sum retirement benefit is paid through the retirement fund. Under this retirement plan, the Company is responsible for making the entire pension payment.

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the "New Act") require the following categories of employees to adopt the New Act's defined contribution plan:

- (i) employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act; and
- (ii) employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, the rate of the employer's monthly contribution to an individual labor pension fund account per month shall not be lower than 6% of the worker's monthly wages.

The Company adopted ROC SFAS No. 18, "Accounting for Pensions", for its retirement plan. SFAS No. 18 requires a company to have an actuarial calculation of its pension liability using the balance sheet date as the measurement date. The excess of accumulated benefit obligation over the fair value of pension plan assets is deemed as the minimum pension liability and is recognized as accrued pension liability. The Company provides contributions to the retirement fund monthly equal to 11.9% of the paid salaries and wages. The funds are deposited with the Bank of Taiwan.

For the portion of the retirement plan adopting the defined contribution scheme, in accordance with the New Act, the Company provides monthly contributions to the Bureau of Labor Insurance equal to 6% of the worker's monthly wages. The amount of contribution is recognized as expense of the current period.

(Continued)

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

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

(r) Income tax

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

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

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 in the following year when the shareholders approved a resolution not to distribute the earnings.

The Company adopted ROC SFAS No. 12, "Accounting for Income Tax Credits", whereby income tax is reduced by investments tax credits in the year when the credit arises.

(s) Earnings per share (EPS)

The earnings per share are 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. 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 are adjusted for the effects of all dilutive potential common shares.

The weighted-average number of common shares outstanding shall be adjusted currently and

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

retroactively for the increase in common shares outstanding from stock issuance through the capitalization of retained earnings, additional paid-in capital, or employees' bonuses.

3. Reason for and Effect of Accounting Changes

(a) Income effects of changes in accounting principle

The Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement" and SFAS No. 36 "Financial Instruments: Disclosure and Presentation" on January 1, 2006. The effects on net loss and basic earnings per share (EPS) for the year ended December 31, 2006, were as follows:

Nature of change in accounting principle	Decrease in net loss		Decrease in basic EPS	
	NT dollars	US dollars	NT dollars	US dollars
Accounting for financial instruments	702,846	21,626	0.19	0.01

The accounting for financial instruments is recorded in accordance with SFAS No. 34 and No. 36. The changes are stated in note 4(b).

(b) Cumulative effect of changes in accounting principle and stockholders' equity adjustment

The Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement" on January 1, 2006. The financial assets and liabilities at the beginning of the period should be evaluated at fair market value and cost after amortization. After reclassification and re-evaluation, the cumulative effects of changes in accounting principle, the effect of changes in accounting principle on earnings per share, and the stockholders' equity adjustment resulting from the changes in accounting principle were NT\$160,691 (US\$4,944), NT\$0.04 (US\$0.001), and NT\$27,185 (US\$828), respectively, for the year ended December 31, 2006.

(c) The Company adopted the newly amended SFAS No.1 "Conceptual Framework of Financial Accounting and Preparation of Financial Statements" and SFAS No. 5 "Long-term Investments under Equity Method" commencing from January 1, 2006. There were no significant impacts on the financial statements for the year ended December 31, 2006.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

4. Important Accounts

(a) Cash and cash equivalents

The components as of December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Cash on hand	\$ 91,905	2,833	91,119	2,795
Cash in bank	<u>2,864,858</u>	<u>88,312</u>	<u>2,906,340</u>	<u>89,152</u>
	<u>\$ 2,956,763</u>	<u>91,145</u>	<u>2,997,459</u>	<u>91,947</u>

(b) Financial instruments (including derivative and non-derivative)

The components as of December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets — current:				
Mutual funds	<u>\$ 5,115,645</u>	<u>157,696</u>	<u>6,733,670</u>	<u>206,554</u>

As of December 31, 2007 and 2006, gains on disposal of available-for-sale financial assets — current amounted to NT\$87,338 (US\$2,659) and NT\$66,946 (US\$2,060), respectively, which were recorded under deduction of losses on sale of investment and gains on sale of investment, respectively.

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets — noncurrent:				
Trade-Van Information Services Co., Ltd.	\$ 170,356	5,251	177,533	5,446
Central Reinsurance Corp.	<u>496,170</u>	<u>15,295</u>	<u>380,121</u>	<u>11,660</u>
	<u>\$ 666,526</u>	<u>20,546</u>	<u>557,654</u>	<u>17,106</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of selling available-for-sale financial assets—noncurrent of the Company for the years ended December 31, 2007 and 2006, were as follows:

Unit: thousands of shares

Investee	Shares	2007				2006				
		Cost		Gain on disposal of available-for-sale financial assets—noncurrent		Cost		Gain on disposal of available-for-sale financial assets—noncurrent		
		NT dollars	US dollars	NT dollars	US dollars	Shares	NT dollars	US dollars	NT dollars	US dollars
Trade-Van Information Services Co., Ltd.	358	\$ <u>2,921</u>	<u>89</u>	<u>3,773</u>	<u>115</u>	10	<u>81</u>	<u>2</u>	<u>81</u>	<u>2</u>

Financial assets carried at cost—noncurrent:

Investee	Shareholding percentage (%)	2007 Book value		Shareholding percentage (%)	2006 Book value	
		NT dollars	US dollars		NT dollars	US dollars
Taiwan High Speed Rail Corp.	1.21	\$ 1,250,000	38,533	1.21	1,250,000	38,343
Evergreen Development Corp.	9.47	870,000	26,819	9.47	870,000	26,687
Taiwan Fixed Network Corporation	-	-	-	1.30	840,000	25,767
Abacus International Holding Ltd.	2.11	115,743	3,568	2.11	115,743	3,550
Sun Shine Corp.	-	-	-	19.50	40,365	1,238
Technology Partner II Venture Capital Corp.	5.88	20,000	616	5.88	20,000	614
Chung Hwa Express Co., Ltd.	10.00	20,000	616	10.00	20,000	614
Pan-Pacific Venture Capital Co., Ltd.	2.30	<u>5,869</u>	<u>181</u>	2.30	<u>9,781</u>	<u>300</u>
Total		<u>\$ 2,281,612</u>	<u>70,333</u>		<u>3,165,889</u>	<u>97,113</u>

The Company's investments in Taiwan High Speed Rail Corp., Evergreen Development Corp. etc., had no publicly traded prices, and their fair values were difficult to determine. Therefore, the investments were stated at cost.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of selling financial assets carried at cost—noncurrent of the Company for the years ended December 31, 2007 and 2006, were as follows:

Unit: thousands of shares

Investee	Shares	2007				2006				
		Cost		Losses on disposal of financial assets carried at cost—noncurrent		Cost		Gain (loss) on disposal of financial assets carried at cost—noncurrent		
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	
Pan-Pacific Venture Capital Co., Ltd.	356	\$ 3,912	119	(622)	(19)	479	5,267	162	(479)	(15)
Hsin-Tao Power Corp	-	-	-	-	-	48,461	484,612	14,911	726,917	22,367
Taiwan Fixed Network Corp.	84,000	840,000	25,571	(142,800)	(4,347)	-	-	-	-	-
Sun Shine Corp.	4,037	40,365	1,229	-	-	-	-	-	-	-
		<u>\$ 884,277</u>	<u>26,919</u>	<u>(143,422)</u>	<u>(4,366)</u>		<u>489,879</u>	<u>15,073</u>	<u>726,438</u>	<u>22,352</u>

As of December 31, 2007 and 2006, the components of derivative financial instruments were as follows:

	Nominal Amount	2007		2006		
		Book Value		Book Value		
		NT dollars	US dollars	NT dollars	US dollars	
Derivative financial assets:						
Fuel option agreements		\$ 63,245	1,949		21,684	665
Interest rate swap agreements	NTD 4,100,000			NTD3,000,000		
	USD 90,000	<u>106,756</u>	<u>3,291</u>	USD 120,000	<u>64,955</u>	<u>1,992</u>
		<u>\$ 170,001</u>	<u>5,240</u>		<u>86,639</u>	<u>2,657</u>
Derivative financial liabilities:						
Fuel option agreements		\$ 1,261	39		1,017,183	31,202
Interest rate swap agreements		-	-	NTD1,100,000	<u>6,583</u>	<u>202</u>
		<u>\$ 1,261</u>	<u>39</u>		<u>1,023,766</u>	<u>31,404</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of derivative financial assets and liabilities as of December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Financial assets at fair value through profit or loss — current	\$ <u>63,245</u>	<u>1,949</u>	<u>21,684</u>	<u>665</u>
Financial assets at fair value through profit or loss — noncurrent	\$ <u>106,756</u>	<u>3,291</u>	<u>64,955</u>	<u>1,992</u>
Financial liabilities at fair value through profit or loss — current	\$ <u>85</u>	<u>3</u>	<u>255,284</u>	<u>7,831</u>
Financial liabilities at fair value through profit or loss — noncurrent	\$ <u>1,176</u>	<u>36</u>	<u>768,482</u>	<u>23,573</u>

(c) Other receivables

The components as of December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Tax refund receivable	\$ 284,433	8,768	177,189	5,435
Non-operating revenues receivable	23,305	718	16,372	502
Other receivables	<u>13,725</u>	<u>423</u>	<u>44,702</u>	<u>1,372</u>
	\$ <u>321,463</u>	<u>9,909</u>	<u>238,263</u>	<u>7,309</u>

(d) Inventories

The components as of December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft spare parts	\$ 10,200,256	314,435	9,596,308	294,365
Consumables for use and merchandise for sale during flight	403,045	12,424	424,257	13,014
Fuel for aircraft	57,714	1,779	20,092	616
Less: allowance for obsolete inventories	<u>(1,133,012)</u>	<u>(34,926)</u>	<u>(1,341,015)</u>	<u>(41,135)</u>
	\$ <u>9,528,003</u>	<u>293,712</u>	<u>8,699,642</u>	<u>266,860</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

(e) Long-term equity investments under equity method

Details as of and for the years ended December 31, 2007 and 2006, were as follows:

Investee	Shareholding percentage (%)	Book value		2007 Cost		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Evergreen Airline Services Corp.	56.33	\$ 489,484	15,089	111,175	3,427	67,974	2,069
RTW Air Services (S) Pte. Ltd.	49.00	24,363	751	13,217	407	4,075	124
Green Siam Air Services Co., Ltd.	49.00	32,118	990	9,421	290	13,117	399
Evergreen Sky Catering Corp.	49.80	735,280	22,666	498,000	15,351	74,790	2,277
Evergreen Airways Service (Macau) Ltd.	99.00	339,268	10,458	327	10	146,290	4,453
Uni Airways Corp.	17.92	(22,828)	(704)	1,124,845	34,675	(221,507)	(6,742)
Evergreen Aviation Technologies Corp.	80.00	3,935,173	121,306	2,000,450	61,666	341,274	10,389
Evergreen Security Corp.	31.25	53,677	1,655	25,000	771	5,292	161
Evergreen Air Cargo Services Corp.	60.00	939,381	28,957	726,098	22,383	49,951	1,520
Hsiang-Li Investment Corp.	100.00	1,060,351	32,687	1,000,000	30,826	54,066	1,646
PT Perdana Andalan Air Service	49.00	60,686	1,871	2,566	79	39,053	1,189
Sky Castle Investment Ltd.	100.00	206,984	6,381	163,818	5,050	32,960	1,003
Concord Pacific Ltd.	100.00	<u>12,276</u>	<u>378</u>	<u>220,743</u>	<u>6,805</u>	<u>(212,778)</u>	<u>(6,477)</u>
		7,866,213	242,485	<u>5,895,660</u>	<u>181,740</u>	<u>394,557</u>	<u>12,011</u>
Add: recorded as reduction of accounting/other receivables—related parties		<u>22,828</u>	<u>704</u>				
		\$ <u>7,889,041</u>	<u>243,189</u>				

Investee	Shareholding percentage (%)	Book value		2006 Cost		Investment income	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Evergreen Airline Services Corp.	56.33	\$ 460,178	14,116	111,174	3,410	96,519	2,970
RTW Air Services (S) Pte. Ltd.	49.00	25,024	767	13,217	405	5,509	170
Green Siam Air Services Co., Ltd.	49.00	27,864	855	9,421	289	12,741	392
Evergreen Sky Catering Corp.	49.80	722,741	22,170	498,000	15,276	97,762	3,008
Evergreen Airways Service (Macau) Ltd.	99.00	647,600	19,865	327	10	151,841	4,672
Uni Airways Corp.	17.92	195,978	6,012	1,124,845	34,505	1,886	58
Evergreen Aviation Technologies Corp.	80.00	3,590,811	110,148	2,000,450	61,364	456,067	14,033
Evergreen Security Corp.	31.25	48,385	1,484	25,000	767	7,558	232
Evergreen Air Cargo Services Corp.	60.00	925,457	28,388	726,098	22,273	73,477	2,261
Hsiang-Li Investment Corp.	100.00	1,006,192	30,865	1,000,000	30,675	89,949	2,768
Uni Japan Co., Ltd.	-	-	-	-	-	135	4
PT Perdana Andalan Air Service	49.00	29,794	914	2,566	79	10,991	338
Sky Castle Investment Ltd.	100.00	165,880	5,088	163,818	5,025	3,150	97
Concord Pacific Ltd.	100.00	<u>132,284</u>	<u>4,058</u>	<u>131,620</u>	<u>4,037</u>	<u>1,878</u>	<u>58</u>
		\$ <u>7,978,188</u>	<u>244,730</u>	<u>5,806,536</u>	<u>178,115</u>	<u>1,009,463</u>	<u>31,061</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of increases in long-term equity investments under the equity method of the Company in 2007 and 2006 were as follows:

Unit: thousands of shares

Investee	Shares	2007		Shares	2006	
		NT dollars	US dollars		NT dollars	US dollars
Evergreen Airline Services Corp.	-	\$ 1	-	-	-	-
Concord Pacific Ltd.	2,700	89,123	2,713	4,000	131,620	4,050
Sky Castle Investment Ltd.	-	-	-	5,000	163,818	5,040
		<u>\$ 89,124</u>	<u>2,713</u>		<u>295,438</u>	<u>9,090</u>

Details of selling long-term equity investments under equity method of the Company in 2006 were as follows:

Unit: thousands of shares

Investee	Shares	2006		Gain on disposal of long-term investments under equity method	
		NT dollars	US dollars	NT dollars	US dollars
Uni Japan Co., Ltd. (Note)	-	<u>\$ 1,824</u>	<u>56</u>	<u>562</u>	<u>17</u>

Note: Uni Japan Co., Ltd. stopped operating on June 1, 2006, and went into liquidation from June 2 to August 29, 2006. The Company withdrew NT\$1,775 (US\$54). The difference between book value amounting to NT\$1,824 (US\$56) and credit balance of cumulative translation adjustments amounting to NT\$611 (US\$19) was gain on disposal of long-term investments under the equity method amounting to NT\$562 (US\$17), which was recorded as gains on sale of investments. The liquidation had been authorized by the local government.

(f) Property, plant and equipment

For the years ended December 31, 2007 and 2006, the Company capitalized the interest expenses on purchase of assets amounting to NT\$440,511 (US\$13,410) and NT\$410,770 (US\$12,639), respectively. The monthly interest rates on the above transactions were 0.25%~0.27% and 0.26%~0.27%, respectively.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(g) Lease assets

The details were as follows:

Lease item	Lessor	Lease term	Terms of lease contract	Present value of leased assets at the transaction date			
				2007		2006	
				NT dollars	US dollars	NT dollars	US dollars
Aircraft	GECAS	2004.4.13~ 2017.5.12	The rent is payable monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property	\$ 7,408,031	228,361	8,681,960	266,318
Aircraft	GECAS	2006.4.26~ 2008.4.25	The rent is payable monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property	2,313,641	71,321	2,325,052	71,321
Aircraft	C&L Leasing Co., Ltd.	2007.5.31~ 2019.12.27	The rent is payable every three months, and the present value of payment for future rental is higher than 90% of the fair value of the lease asset	10,210,930	314,764	-	-
Aircraft	Taiwan Life Financing Co., Ltd.	2004.6.29~ 2007.6.28	The rent is payable every three months, and the lease transfers ownership of the leased property by the end of the lease term	-	-	540,296	16,573
Computer equipment	IBM	2004.7.25~ 2009.7.24	The rent is payable monthly, and the lease transfers ownership of the leased property by the end of the lease term	<u>46,638</u>	<u>1,437</u>	<u>46,638</u>	<u>1,431</u>
				19,979,240	615,883	11,593,946	355,643
Less: accumulated depreciation				<u>(3,580,632)</u>	<u>(110,377)</u>	<u>(2,783,744)</u>	<u>(85,391)</u>
				\$ <u>16,398,608</u>	<u>505,506</u>	<u>8,810,202</u>	<u>270,252</u>

The discount rate for lease assets was 1.18%~6.93%.

The abovementioned aircraft and engine were financed under sale and leaseback arrangements. The differences (deemed as unrealized gain on sale and leaseback) between sales price and book value of equipment are recorded as a reduction of depreciation expenses over the lease term.

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EVA AIRWAYS CORP.

Notes to Financial Statements

As of December 31, 2007 and 2006, the book value and present value of lease liability were as follows:

Year due	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
January 1, 2007~December 31, 2007	\$ -	-	2,268,017	69,571
January 1, 2008~December 31, 2008	2,257,030	69,576	1,155,015	35,430
January 1, 2009~December 31, 2009	2,154,190	66,405	992,040	30,431
January 1, 2010~December 31, 2010	2,118,528	65,306	985,778	30,238
January 1, 2011~December 31, 2011	2,091,760	64,481	1,208,251	37,063
January 1, 2012~December 31, 2012	2,065,560	63,673	938,880	28,800
And after	<u>10,553,614</u>	<u>325,327</u>	<u>3,070,920</u>	<u>94,200</u>
Book value	21,240,682	654,768	10,618,901	325,733
Less: unrealized interest expenses	<u>(4,692,555)</u>	<u>(144,653)</u>	<u>(1,975,049)</u>	<u>(60,584)</u>
Present value	16,548,127	510,115	8,643,852	265,149
Less: current portion	<u>(1,455,294)</u>	<u>(44,861)</u>	<u>(1,858,271)</u>	<u>(57,002)</u>
	\$ <u>15,092,833</u>	<u>465,254</u>	<u>6,785,581</u>	<u>208,147</u>

(h) Deferred charges

As of December 31, 2007 and 2006, deferred charges, net of amortization, consisted of the following:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Leasehold improvements	\$ 2,898,091	89,337	2,947,980	90,429
Major overhaul for aircraft and engines	2,465,805	76,011	2,424,528	74,372
Others	<u>487,327</u>	<u>15,023</u>	<u>596,091</u>	<u>18,285</u>
	\$ <u>5,851,223</u>	<u>180,371</u>	<u>5,968,599</u>	<u>183,086</u>

(i) Short-term borrowings

The components as of December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Unsecured loans	\$ <u>-</u>	<u>-</u>	<u>500,000</u>	<u>15,337</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

The interest expenses on the aforementioned short-term borrowings are calculated based on floating interest rates. For the years ended December 31, 2007 and 2006, the interest rates were 2.32%~2.40% and 1.40%~1.81%, respectively. As of December 31, 2007 and 2006, the unused credit line amounted to approximately NT\$5,253,603 (US\$161,948) and NT\$7,591,615 (US\$232,872), respectively.

(j) Long-term borrowings

As of December 31, 2007 and 2006, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2007		Interest rate (%)	2006	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	2.42~2.97	\$ 1,800,000	55,487	2.02~2.42	2,800,000	85,889
Aircraft						
NT\$ loans	2.15~3.16	26,557,988	818,680	1.95~3.06	17,151,600	526,123
		26,557,988	818,680		17,151,600	526,123
Simulators						
US\$ loans	5.81~5.97	143,495	4,424	4.71~6.10	288,344	8,845
		143,495	4,424		288,344	8,845
Subtotal		28,501,483	878,591		20,239,944	620,857
Unsecured loans:	1.91~3.34	12,307,833	379,403	1.63~2.65	14,757,000	452,669
Total		40,809,316	1,257,994		34,996,944	1,073,526
Less: current portion		(7,897,704)	(243,456)		(7,532,302)	(231,052)
		\$ <u>32,911,612</u>	<u>1,014,538</u>		<u>27,464,642</u>	<u>842,474</u>

As of December 31, 2007, the remaining balances of the borrowings were due as follows:

Year due	NT dollars	US dollars
January 1, 2008~December 31, 2008	\$ 7,897,704	243,456
January 1, 2009~December 31, 2009	7,416,789	228,631
January 1, 2010~December 31, 2010	7,578,355	233,611
January 1, 2011~December 31, 2011	4,244,122	130,830
January 1, 2012~December 31, 2012	2,834,267	87,370
And after	10,838,079	334,096
	\$ <u>40,809,316</u>	<u>1,257,994</u>

As of December 31, 2007 and 2006, the unused credit lines for long-term borrowings amounted to NT\$500,000 (US\$15,413) and NT\$900,000 (US\$27,607), respectively. The pledge for these long-term borrowings is disclosed in note 6.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(k) Bonds payable

Details of bonds payable as of December 31, 2007 and 2006, were as follows:

	Description	Annual interest rate	Issue date	2007		2006	
				NT dollars	US dollars	NT dollars	US dollars
Bonds payable	Taiwan Cooperative Bank	Floating	2004.02	\$ 500,000	15,413	500,000	15,337
Bonds payable	Land Bank	2.25%	2004.07	500,000	15,413	500,000	15,337
	Chang Hwa Bank	2.25%	2004.07	500,000	15,413	500,000	15,337
	Taipei Fubon Bank	2.25%	2004.07	500,000	15,413	500,000	15,337
Bonds payable	Bank of Taiwan	2.11%	2005.01	500,000	15,413	500,000	15,337
	Taiwan Cooperative Bank	2.11%	2005.01	500,000	15,413	500,000	15,337
Bonds payable	Far-Eastern International Bank	1.85%	2005.08	500,000	15,413	500,000	15,337
	Shanghai Commercial & Savings Bank	1.85%	2005.08	500,000	15,413	500,000	15,337
	Chinatrust Commercial Bank	1.85%	2005.08	600,000	18,496	600,000	18,405
	Hua Nan Bank	1.85%	2005.08	500,000	15,413	500,000	15,337
Bonds payable	Cathay United Bank	2.08%	2006.01	2,000,000	61,653	2,000,000	61,355
Bonds payable	Hua Nan Bank	2.29%	2006.07	500,000	15,413	500,000	15,337
	Taipei Fubon Bank	2.29%	2006.07	500,000	15,413	500,000	15,337
	Bank of Taiwan	2.29%	2006.07	500,000	15,413	500,000	15,337
	Taiwan Cooperative Bank	2.29%	2006.07	500,000	15,413	500,000	15,337
Convertible bonds payable		0.00%	2004.08	<u>1,561,300</u>	<u>48,129</u>	<u>1,572,550</u>	<u>48,238</u>
Subtotal				10,661,300	328,647	10,672,550	327,379
Less: current portion				-	-	(1,572,550)	(48,238)
				\$ <u>10,661,300</u>	<u>328,647</u>	<u>9,100,000</u>	<u>279,141</u>

(1) Second convertible bonds payable

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

(i) Coupon rate: 0%

(ii) Issue period: From August 9, 2004, to August 8, 2009.

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

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

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EVA AIRWAYS CORP.

Notes to Financial Statements

(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 (during July 9 to August 8, 2007). The convertible bonds were reclassified as current liabilities on the redemption date.

(vi) Conversion

A) The bondholders can ask the Company to convert the convertible bonds into common stock during the period from one month after the issue date to ten days before the maturity date.

B) Conversion price:

The conversion price is set at NT\$14.50, which is a premium of 111% over the base price. The base price is defined as the average of the closing prices of the issuer's common shares traded on the Taiwan Stock Exchange for a period of 1, 3 or 5 trading days, whichever is adopted, immediately preceding but excluding the pricing date, which is July 26, 2004. The conversion price is subject to adjustments in the event that any change occurs to the capital structure. As of December 31, 2007, the conversion price was NT\$13.51.

(l) Aircraft payable

The Company purchased aircraft by installments. As of December 31, 2007 and 2006, the details were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft payable	\$ 14,427,738	444,752	16,908,554	518,667
Less: current portion	<u>(2,340,314)</u>	<u>(72,143)</u>	<u>(2,409,656)</u>	<u>(73,916)</u>
	<u>\$ 12,087,424</u>	<u>372,609</u>	<u>14,498,898</u>	<u>444,751</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

The current portion of aircraft payable was recorded as other payables. As of December 31, 2007, the remaining balances of aircraft payable were due as follows:

Year due	NT dollars	US dollars
January 1, 2008~December 31, 2008	\$ 2,340,314	72,143
January 1, 2009~December 31, 2009	2,396,370	73,871
January 1, 2010~December 31, 2010	2,428,353	74,857
January 1, 2011~December 31, 2011	1,936,431	59,693
January 1, 2012~December 31, 2012	1,537,952	47,409
And after	<u>3,788,318</u>	<u>116,779</u>
	\$ <u>14,427,738</u>	<u>444,752</u>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the years ended December 31, 2007 and 2006, the average interest rates were 4.58%~6.77% and 4.14%~6.77%, respectively. The pledges for the aircraft payable are disclosed in note 6.

(m) Retirement plans

Net retirement plan liabilities based on the actuarial computation at December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Benefit obligation:				
Vested benefit obligation	\$ 151,564	4,672	178,289	5,469
Nonvested benefit obligation	<u>2,266,478</u>	<u>69,867</u>	<u>2,201,791</u>	<u>67,539</u>
Accumulated benefit obligation	2,418,042	74,539	2,380,080	73,008
Projected effects of salary adjustments	<u>708,399</u>	<u>21,837</u>	<u>331,983</u>	<u>10,183</u>
Projected benefit obligation	3,126,441	96,376	2,712,063	83,191
Plan assets at fair value	<u>(1,827,328)</u>	<u>(56,329)</u>	<u>(1,552,068)</u>	<u>(47,609)</u>
Projected benefit obligation in excess of plan assets	1,299,113	40,047	1,159,995	35,582
Unrecognized net transition obligation	(109,182)	(3,366)	(136,476)	(4,186)
Unrecognized pension loss	(1,108,500)	(34,171)	(840,818)	(25,792)
Pension liabilities that need to be accrued	<u>509,283</u>	<u>15,699</u>	<u>645,311</u>	<u>19,795</u>
Accrued employee retirement liabilities	\$ <u>590,714</u>	<u>18,209</u>	<u>828,012</u>	<u>25,399</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

The components of net pension cost were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Service cost	\$ 168,493	5,129	160,823	4,949
Interest cost	72,848	2,218	74,256	2,285
Actual return on plan assets	(45,257)	(1,378)	(36,358)	(1,119)
Unrecognized net transition obligation	<u>55,121</u>	<u>1,678</u>	<u>28,223</u>	<u>868</u>
Net pension cost	\$ <u>251,205</u>	<u>7,647</u>	<u>226,944</u>	<u>6,983</u>

Actuarial assumptions at December 31, 2007 and 2006, were as follows:

	2007	2006
Discount rate	2.75%	2.75%
Rate of increase in future compensation levels	2.00%	1.00%
Expected long-term rate of return on plan assets	2.75%	2.75%

As of and for the years ended December 31, 2007 and 2006, the details of the retirement plans were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Balance of the retirement fund:				
Bank of Taiwan	\$ 1,827,328	56,329	1,552,068	47,609
Periodic pension cost:				
Defined benefit pension plan cost	251,205	7,647	226,944	6,983
Defined contribution pension plan cost	101,693	3,096	91,274	2,808

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(n) Income tax

- (1) For the years ended December 31, 2007 and 2006, the components of estimated income tax benefits were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Income tax benefits (expenses)—current	\$ (33,863)	(1,031)	2,061	63
Income tax benefits—deferred	<u>120,094</u>	<u>3,656</u>	<u>414,587</u>	<u>12,757</u>
	<u>\$ 86,231</u>	<u>2,625</u>	<u>416,648</u>	<u>12,820</u>

The deferred income tax benefits were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ 641,817	19,538	822,581	25,310
Unrealized exchange gains	(7,331)	(223)	(21,260)	(654)
Investment tax credits	1,212,791	36,919	264,869	8,150
Provision (reversal) for loss on inventory market price decline	(52,001)	(1,583)	(359)	(11)
Purchase of fixed assets in installments, adjusted for tax purposes	22,396	682	48,818	1,502
Accrued employee retirement liabilities	(19,487)	(593)	(35,025)	(1,078)
Unrealized gains on financial instruments	(276,467)	(8,416)	234,282	7,209
Other	28,075	854	(39,319)	(1,209)
Valuation allowance for deferred income tax assets	<u>(1,429,699)</u>	<u>(43,522)</u>	<u>(860,000)</u>	<u>(26,462)</u>
	<u>\$ 120,094</u>	<u>3,656</u>	<u>414,587</u>	<u>12,757</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

- (2) The Company is subject to ROC income tax at a maximum rate of 25%. The Company was subject to the “Income Basic Tax Act” commencing from January 1, 2006. The differences between expected income tax benefit at statutory rates and income tax benefit as reported in the accompanying financial statements for the years ended December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Income tax benefits calculated on pre-tax financial loss at statutory income tax rate of 25%	\$ 489,537	14,902	565,981	17,415
Gain (loss) on disposal of investments	(12,922)	(393)	197,577	6,079
Investment income recognized under equity method—unrealized	98,639	3,003	252,366	7,765
Dividend income	(97,317)	(2,962)	(31,352)	(964)
Permanent difference in depreciation expenses	(57,374)	(1,747)	(47,309)	(1,456)
Exchange losses recorded as translation adjustments	(5,019)	(153)	161,643	4,974
Increase in investment tax credits	1,193,305	36,326	264,869	8,150
Cumulative effect of changes in accounting principle	-	-	(53,564)	(1,648)
Valuation allowance for deferred income tax assets	(1,429,699)	(43,522)	(860,000)	(26,462)
Others	(92,919)	(2,829)	(33,563)	(1,033)
	<u>\$ 86,231</u>	<u>2,625</u>	<u>416,648</u>	<u>12,820</u>

- (3) The components of the deferred income tax assets (liabilities) as of December 31, 2007 and 2006, were as follows:

	2007				2006			
	Amount		Tax effect		Amount		Tax effect	
	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Deferred income tax assets (liabilities)								
— current								
Allowance for obsolete inventories	\$ 1,133,012	34,926	283,253	8,732	1,341,015	41,135	335,254	10,284
Unrealized exchange losses (gains)	(3,388)	(104)	(847)	(26)	25,936	796	6,484	199
Unrealized loss (gains) on financial instruments	(63,160)	(1,947)	(15,790)	(487)	211,692	6,494	52,923	1,623
Others	186,704	5,755	46,676	1,439	9,860	302	2,465	76
Deferred income tax assets, net—current			<u>\$ 313,292</u>	<u>9,658</u>			<u>397,126</u>	<u>12,182</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

	2007				2006			
	Amount		Tax effect		Amount		Tax effect	
	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Deferred income tax assets (liabilities)								
— noncurrent:								
Unrealized loss (gains) on financial instruments	\$ (105,580)	(3,255)	(26,395)	(814)	725,436	22,253	181,359	5,563
Unused investment tax credits	1,827,758	56,343	1,827,758	56,343	614,967	18,864	614,967	18,864
Accrued employee retirement liabilities	96,708	2,981	24,177	745	174,656	5,358	43,664	1,339
Purchase of fixed assets on installments, adjusted for tax purposes	3,154,708	97,247	788,677	24,312	3,065,124	94,022	766,281	23,505
Unused loss carryforwards	5,857,593	180,567	1,464,398	45,142	3,290,326	100,930	822,581	25,233
Others	(750,980)	(23,150)	<u>(187,745)</u>	<u>(5,787)</u>	(1,262,448)	(38,725)	<u>(315,612)</u>	<u>(9,681)</u>
			<u>3,890,870</u>	<u>119,941</u>			<u>2,113,240</u>	<u>64,823</u>
Less: Valuation allowance for deferred income tax assets			<u>(2,289,699)</u>	<u>(70,583)</u>			<u>(860,000)</u>	<u>(26,380)</u>
Deferred income tax assets, net — noncurrent			<u>\$ 1,601,171</u>	<u>49,358</u>			<u>1,253,240</u>	<u>38,443</u>

- (4) The Company was granted investment tax credits for investment in certain high-tech industries, for purchases of automatic machinery and equipment, and for expenditures in research and development and employee training. These investment tax credits can be used to reduce the income tax liability in the current year and in the following four years at an amount not exceeding 50% of the income tax liability for each year during the first four years, with full utilization of the balance of the remaining unused investment tax credits in the final year.

As of December 31, 2007, unused investment tax credits available to the Company were as follows:

Year granted	Unused investment tax credits		Expiry year
	NT dollars	US dollars	
2005	\$ 375,314	11,570	2009
2006	259,139	7,988	2010
2007	<u>1,193,305</u>	<u>36,785</u>	2011
	<u>\$ 1,827,758</u>	<u>56,343</u>	

- (5) As of December 31, 2007, unused loss carryforward tax credits available to the Company were as follows:

Year	Unused loss carryforward		Expiry year
	NT dollars	US dollars	
2006	\$ 2,955,056	91,093	2011
2007	<u>2,902,537</u>	<u>89,474</u>	2012
	<u>\$ 5,857,593</u>	<u>180,567</u>	

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(6) Imputation credit account (ICA) and creditable ratio:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Unappropriated earnings before 1997	\$ -	-	-	-
Unappropriated earnings after 1998	<u>(841,408)</u>	<u>(28,707)</u>	<u>1,030,510</u>	<u>28,277</u>
	\$ <u>(841,408)</u>	<u>(28,707)</u>	<u>1,030,510</u>	<u>28,277</u>
ICA	\$ <u>726,582</u>	<u>22,398</u>	<u>564,276</u>	<u>17,309</u>

	2007	2006
Creditable ratio for earnings distribution to domestic shareholders	<u>-</u> <u>(estimated)</u>	<u>-</u> <u>(actual)</u>

(7) The Company's income tax returns have been examined through 2004 by the ROC income tax authority. The Company was assessed additional 2001 and 2003 Corporate Income Tax of NT\$12,998 (US\$401) and NT\$23,416 (US\$722), respectively. This amount was due to the tax authority's rejection of the Company's meal allowance. The Company did not agree with this decision and filed an application for a second review. For the application for 2001, the ROC income tax authority has granted the Company a tax refund amounting to NT\$10,336 (US\$319), but the application for 2003 has not been assessed yet.

(o) Stockholders' equity

(1) Common stock

As of December 31, 2007 and 2006, 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 3,874,979 thousand shares were issued and outstanding.

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EVA AIRWAYS CORP.

Notes to Financial Statements

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

The details of capital surplus as of December 31, 2007 and 2006, were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Cash subscription in excess of par value of shares	\$ 2,514,333	83,975	2,514,333	83,975
Additional paid-in capital from bond conversion	1,184,621	36,334	1,184,621	36,334
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	232,194	6,745	230,167	6,682
Donated assets	<u>649,375</u>	<u>21,243</u>	<u>649,329</u>	<u>21,242</u>
	\$ <u>4,582,191</u>	<u>148,350</u>	<u>4,580,118</u>	<u>148,286</u>

The ROC Company Act 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 from issuance of shares in excess of par value. In addition, the capitalization of capital surplus or other events in accordance with Article 8 of the ROC Securities and Exchange Law and the ROC Company Act can be credited to capital on the condition that the aforementioned capital surplus has been approved by and registered with the competent authority in the previous year.

Furthermore, the capital surplus from the issuance of shares in excess of par value and from gifts received which are credited to capital should not exceed 10 percent of the amount of paid-in capital in one year.

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

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EVA AIRWAYS CORP.

Notes to Financial Statements

The Company's articles of incorporation stipulate that the Company must appropriate employees' bonuses of not less than 1% of estimated earnings of each year, and not more than 5% of estimated earnings of each year for remuneration of directors and supervisors. Such appropriations can only be made after offsetting accumulated deficit and appropriation of legal reserve, and must be accounted for as a reduction of 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 expected earnings per share in the year when stock dividends are distributed decline to 20% or working capital is low, a cash dividend of 50%~100% of the appropriated dividend is distributed and a stock dividend of 0~50% of the appropriated dividend is distributed.

The related information on stockholders' bonuses, employees' bonuses and directors' and supervisors' remuneration appropriated from 2005 earnings was as follows:

	NT dollars	US dollars
Dividends per share (dollars)		
Cash	\$ <u>0.20</u>	<u>0.006</u>
Employees' bonuses—cash	\$ 52,320	1,626
Directors' and supervisors' remuneration	<u>10,900</u>	<u>339</u>
	\$ <u>63,220</u>	<u>1,965</u>

The appropriation earnings had no difference from the resolutions made by the Company's directors and stockholders. According to ROC SFC regulations, beginning 2002, information related to the appropriation of employees' bonuses and remuneration for directors and supervisors can be found on web sites such as the Market Observation Post System after the stockholders' meeting.

(p) Earnings per share

For the years ended December 31, 2007 and 2006, earnings per share were calculated as follows:

	Dollars		NT dollars 2007 Shares	Earnings per Share		Dollars		US dollars 2007 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
Basic earnings per share:	\$ <u>(1,958,149)</u>	<u>(1,871,918)</u>	<u>3,874,979</u>	\$ <u>(0.51)</u>	<u>(0.48)</u>	<u>(59,609)</u>	<u>(56,984)</u>	<u>3,874,979</u>	<u>(0.02)</u>	<u>(0.01)</u>

NT dollars

US dollars

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

	Dollars		2006 Shares	Earnings per Share		Dollars		2006 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
Basic earnings per share:										
Income (loss) before cumulative effect of changes in accounting principle	\$ (2,263,924)	(1,847,276)		\$ (0.61)	(0.49)	(69,659)	(56,839)		(0.02)	(0.01)
Cumulative effect of changes in accounting principle	<u>214,255</u>	<u>160,691</u>		<u>-0.06</u>	<u>0.04</u>	<u>6,592</u>	<u>4,944</u>		<u>-</u>	<u>-</u>
Net loss	\$ <u>(2,049,669)</u>	<u>(1,686,585)</u>	<u>3,723,419</u>	\$ <u>(0.55)</u>	<u>(0.45)</u>	<u>(63,067)</u>	<u>(51,895)</u>	<u>3,723,419</u>	<u>(0.02)</u>	<u>(0.01)</u>

(q) Hedge accounting

(1) Cash flow hedging

The Company holds floating rate assets and obligations. The future cash flows of assets and liabilities fluctuate according to floating market rates. This results in risk. The Company evaluates the risk as significant; thus, it has hedged the risk by signing interest rate swap agreements.

The Company needs fuel for operating. The future cash flows for fuel fluctuate according to floating market prices. This results in risk. The Company evaluates the risk as significant; thus, it has hedged the risk by signing fuel swap agreements.

As of December 31, 2007 and 2006, the cash flow hedging items and derivative financial hedging instruments were as follows:

Hedged item	Hedging instrument	Fair value of assigned hedging instrument				Period of generating cash flow	Account
		2007		2006			
		NT dollars	US dollars	NT dollars	US dollars		
Floating interest rate of bonds payable	Interest rate swap agreements	\$ (12,731)	(392)	(23,197)	(712)	2004~2009	Derivative financial liabilities for hedge purposes — noncurrent
Floating price of fuel	Fuel swap agreements	-	-	(356)	(11)	2007	Derivative financial liabilities for hedge purposes — current

As of December 31, 2007 and 2006, the unrealized valuation loss on financial instruments due to hedging of cash flow amounted to NT\$12,731 (US\$392) and NT\$23,553 (US\$723), respectively, recorded under stockholders' equity.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(r) Disclosure of financial instruments

(1) Fair value of financial instruments

The details of financial instruments as of December 31, 2007 and 2006, were as follows:

	Book value	2007		Book value	2006	
		NT dollars Fair value Public quote value	Assessment value		US dollars Fair value Public quote value	Assessment value
Financial assets:						
Cash and cash equivalents	\$ 2,956,763	-	2,956,763	91,145	-	91,145
Notes and accounts receivable (including receivables from related parties)	8,741,344	-	8,741,344	269,462	-	269,462
Other receivables	321,463	-	321,463	9,909	-	9,909
Available-for-sale financial assets — current	5,115,645	5,115,645	-	157,696	157,696	-
Available-for-sale financial assets — noncurrent	666,526	666,526	-	20,546	20,546	-
Financial assets carried at cost — noncurrent	2,281,612	-	-	70,333	-	-
Interest rate swap agreements	106,756	-	106,756	3,291	-	3,291
Fuel option agreements	63,245	-	63,245	1,949	-	1,949
Financial liabilities:						
Notes and accounts payable (including payable from related parties)	2,721,562	-	2,721,562	83,895	-	83,895
Accrued expenses	7,824,060	-	7,824,060	241,186	-	241,186
Other payable	3,065,069	-	3,065,069	94,484	-	94,484
Current portion of long-term liabilities	7,897,704	-	7,897,704	243,456	-	243,456
Bonds payable	10,661,300	-	9,942,809	328,647	-	306,498
Long-term borrowings	32,911,612	-	32,911,612	1,014,538	-	1,014,538
Aircraft payable	12,087,424	-	12,087,424	372,609	-	372,609
Lease liability	16,548,127	-	16,548,127	510,115	-	510,115
Interest rate swap agreements	12,731	-	12,731	392	-	392
Fuel option agreements	1,261	-	1,261	39	-	39
Off-balance-sheet financial instruments:						
Letters of credit	-	-	845,741	-	-	26,071

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

	2006					
	Book value	NT dollars Public quote value	Assessment value	Book value	US dollars Public quote value	Assessment value
Financial assets:						
Cash and cash equivalents	\$ 2,997,459	-	2,997,459	91,947	-	91,947
Notes and accounts receivable (including receivables from related parties)	8,825,458	-	8,825,458	270,719	-	270,719
Other receivables	238,263	-	238,263	7,309	-	7,309
Available-for-sale financial assets — current	6,733,670	6,733,670	-	206,554	206,554	-
Available-for-sale financial assets — noncurrent	557,654	557,654	-	17,106	17,106	-
Financial assets carried at cost — noncurrent	3,165,889	-	-	97,113	-	-
Interest rate swap agreements	64,955	-	64,955	1,992	-	1,992
Fuel option agreements	21,684	-	21,684	665	-	665
Financial liabilities:						
Short-term borrowings	500,000	-	500,000	15,337	-	15,337
Notes and accounts payable (including payable from related parties)	2,477,584	-	2,477,584	76,000	-	76,000
Accrued expenses	6,910,351	-	6,910,351	211,974	-	211,974
Other payables	2,419,945	-	2,419,945	74,231	-	74,231
Current portion of long-term liabilities	9,104,852	-	9,259,577	279,290	-	284,036
Bonds payable	9,100,000	-	8,263,399	279,141	-	253,478
Long-term borrowings	27,464,642	-	27,464,642	842,474	-	842,474
Aircraft payable	14,498,898	-	14,498,898	444,751	-	444,751
Lease liability	8,643,852	-	8,643,852	265,149	-	265,149
Interest rate swap agreements	29,780	-	29,780	914	-	914
Fuel swap and option agreements	1,017,539	-	1,017,539	31,213	-	31,213
Off-balance-sheet financial instruments:						
Letters of credit	-	-	687,264	-	-	21,082

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

- i) The maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable/payable (including related parties), other receivables, short-term borrowings, accrued expenses, and other payables, are within one year of the balance sheet date, their book value is equal to their fair value.
- ii) If public quoting of financial assets and liabilities is available, then the quote price will be the fair value. If market value is not available, an assessment method will be used. The assumptions used should be the same as those used by the financial market traders when quoting their prices.

(Continued)

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

- iii) The fair value of bonds payable, long-term borrowings, aircraft payable, and lease liability is the discounted future cash flows, and the discount rates during the years ended December 31, 2007 and 2006, were 1.18%~6.93% p.a.
 - iv) The fair value of letters of credit and financing guaranty is based on the contract.
- (3) For the years ended December 31, 2007 and 2006, the evaluation gain or loss on financial assets at fair value through profit amounted to a gain of NT\$1,235,201 (US\$37,601) and a loss of NT\$4,972 (US\$153), respectively.
- (4) Disclosure of financial risks

(i) Market risk

As of December 31, 2007 and 2006, the bonds payable with the risk arising from floating interest rates amounted to NT\$8,600,000 (US\$265,105) and NT\$8,600,000 (US\$263,804), respectively.

The Company's bonds payable carried a fixed interest rate. If the market interest rate increases by 1%, the fair value of bonds payable would decrease by approximately NT\$241,802 (US\$7,454).

The Company's securities were recorded as available-for-sale financial assets and measured at fair value. The Company had the risk of changes in market price.

(ii) Credit risk

The Company has major credit risk involving cash and cash equivalents, securities, and accounts receivable. The Company deposited the cash in different financial institutions. The Company owns securities by purchasing publicly traded bonds and stocks. Derivative counterparties are limited to high-credit-quality financial institutions. The Company is exposed to credit risk in every financial institution. However, the credit risk involving cash, derivatives and securities is not significant.

Accounts receivable were due from many customers. Therefore, there was no concentration of credit risk. In order to decrease the credit risk of accounts receivable, the Company continually evaluated each client's financial situation.

(iii) Liquidity risk

The Company's capital and operating funds are sufficient to reimburse all the obligations. Therefore, the Company did not have liquidity risk.

(Continued)

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

(iv) Cash flow risk related to the fluctuation of interest rates

As of December 31, 2007 and 2006, the financial liabilities with the risk arising from floating interest rates amounted to NT\$40,809,316 (US\$1,257,994) and NT\$35,496,944 (US\$1,088,863), respectively.

The Company's short-term and long-term borrowings carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Company's future cash flow. As of December 31, 2007 and 2006, if the market interest rate were to increase by 1%, the Company's future cash outflow would increase by approximately NT\$408,093 (US\$12,423) and NT\$354,969 (US\$10,922), respectively.

5. Transactions with Related Parties

(a) Name and relationship of related parties

Name	Relationship with the Company
Evergreen Marine Corp.	Major shareholder
Evergreen International Corp.	Major shareholder
Evergreen Airline Services Corp.	Subsidiary
RTW Air Services (S) Pte. Ltd.	Subsidiary
Green Siam Air Services Co., Ltd.	Subsidiary
Evergreen Sky Catering Corp.	Subsidiary
Evergreen Aviation Technologies Corp.	Subsidiary
Evergreen Air Cargo Services Corp.	Subsidiary
Hsiang-Li Investment Corp.	Subsidiary
Evergreen Airways Service (Macau) Ltd.	Subsidiary
PT Perdana Andalan Air service	Subsidiary
Uni Japan Co., Ltd.	Subsidiary (the company was liquidated on August 29, 2006)
Evergreen International Storage & Transport Corp.	Investee company of the Company's major shareholders
Uni Airways Corp.	Investee company accounted for by equity method
Evergreen Security Corp.	Investee company accounted for by equity method
Shanghai Airlines Cargo International Co., Ltd.	Investee company of the Company's subsidiary

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EVA AIRWAYS CORP.

Notes to Financial Statements

(b) Significant transactions with related parties

(1) Revenue, cost and expenses

During the years ended December 31, 2007 and 2006, the Company's transactions with related parties were as follows:

Revenue	2007			2006		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen Aviation Technologies Corp.	\$ 244,825	7,453	0.26	133,421	4,105	0.14
Shanghai Airlines Cargo International Co., Ltd	55,230	1,681	0.06	2,406	74	-
Uni Airways Corp.	35,732	1,088	0.04	24,275	747	0.03
Evergreen Air Cargo Services Corp.	20,943	638	0.02	15,355	472	0.02
Evergreen International Corp.	17,371	529	0.02	16,116	496	0.02
Evergreen Airline Services Corp.	1,527	46	-	1,618	50	-
Others	5,476	166	0.01	5,293	163	-
	<u>\$ 381,104</u>	<u>11,601</u>	<u>0.41</u>	<u>198,484</u>	<u>6,107</u>	<u>0.21</u>
Cost	2007			2006		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen Aviation Technologies Corp.	\$ 3,948,277	120,191	4.46	4,284,992	131,846	4.74
Evergreen Airline Services Corp.	884,177	26,916	1.00	866,204	26,653	0.96
Evergreen Sky Catering Corp.	811,243	24,695	0.91	921,226	28,345	1.02
Uni Airways Corp.	746,582	22,727	0.84	817,323	25,148	0.91
Evergreen Air Cargo Services Corp.	324,600	9,881	0.37	343,796	10,578	0.38
Evergreen International Storage & Transport Corp.	69,044	2,102	0.08	75,499	2,323	0.08
Evergreen International Corp.	44,394	1,351	0.05	61,680	1,898	0.07
Shanghai Airlines Cargo International Co., Ltd	25,272	769	0.03	-	-	-
Others	1,170	36	-	1,234	38	-
	<u>\$ 6,854,759</u>	<u>208,668</u>	<u>7.74</u>	<u>7,371,954</u>	<u>226,829</u>	<u>8.16</u>
Expenses	2007			2006		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen International Corp.	\$ 116,772	3,555	1.70	119,300	3,671	1.73
Uni Airways Corp.	100,370	3,055	1.46	60,956	1,876	0.88
Green Siam Air Services Co., Ltd.	86,670	2,638	1.26	79,847	2,457	1.16
Evergreen Security Corp.	40,304	1,227	0.59	43,724	1,345	0.63
RTW Air Services (S) Pte. Ltd.	39,298	1,196	0.57	48,830	1,502	0.71
PT Perdana Andalan Air Service	30,890	940	0.45	31,587	972	0.46
Evergreen Airline Services Corp.	27,821	847	0.41	31,475	968	0.46
Evergreen Sky Catering Corp.	21,016	640	0.31	23,847	734	0.34
Evergreen International Storage & Transport Corp.	17,778	541	0.26	18,930	583	0.27
Evergreen Aviation Technologies Corp.	8,917	272	0.13	18,285	563	0.26
Uni Japan Co., Ltd.	-	-	-	8,820	271	0.13
Others	1,445	44	0.02	1,535	47	0.02
	<u>\$ 491,281</u>	<u>14,955</u>	<u>7.16</u>	<u>487,136</u>	<u>14,989</u>	<u>7.05</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

The Company sold spare parts to Evergreen Aviation Technologies Corp. amounting to NT\$159,370 (US\$4,851) and NT\$42,201 (US\$1,298) for the years ended December 31, 2007 and 2006, respectively.

- (2) The abovementioned transactions with related parties were made with no significant difference from those with non-related parties, but sometimes the payments were overdue. Receivables and payables as of December 31, 2007 and 2006, resulting from the aforementioned transactions were as follows:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Accounts receivable – related parties:				
Uni Airways Corp.	\$ 20,164	621	12,084	371
Evergreen Aviation Technologies Corp.	23,703	731	28,267	867
Shanghai Airlines Cargo International Co., Ltd	14,974	462	410	13
Evergreen Air Cargo Service Corp.	4,332	134	1,800	55
Evergreen International Corp.	2,205	68	2,447	75
Others	914	28	2,257	69
	66,292	2,044	47,265	1,450
Less: credit to long-term equity investments under equity method	(20,164)	(622)	-	-
	<u>46,128</u>	<u>1,422</u>	<u>47,265</u>	<u>1,450</u>
Other receivables – related parties:				
Uni Airways Corp.	20,987	647	115,454	3,542
Shanghai Airlines Cargo International Co., Ltd	28,438	877	3,618	111
Evergreen Aviation Technologies Corp.	7,610	234	-	-
Others	1,446	45	4,162	127
	58,481	1,803	123,234	3,780
Less: credit to long-term equity investments under equity method	(2,664)	(82)	-	-
	<u>55,817</u>	<u>1,721</u>	<u>123,234</u>	<u>3,780</u>
Total receivables – related parties	\$ <u>101,945</u>	<u>3,143</u>	<u>170,499</u>	<u>5,230</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Accounts payable—related parties:				
Evergreen Aviation Technologies Corp.	\$ 222,560	6,861	298,310	9,151
Evergreen Airline Services Corp.	141,082	4,349	143,752	4,409
Uni Airways Corp.	133,663	4,120	142,480	4,371
Evergreen Sky Catering Corp.	59,099	1,822	74,358	2,281
Evergreen Air Cargo Services Corp.	56,768	1,750	58,102	1,782
Green Siam Air Services Co, Ltd.	11,240	346	8,729	268
Evergreen International Corp.	9,081	280	13,125	403
PT Perdana Andalan Air Service	8,551	264	8,561	263
Evergreen International Storage & Transport Corp.	4,943	152	5,887	180
RTW Air Services (S) Pte Ltd.	4,646	143	8,848	271
Others	127	4	99	3
	<u>651,760</u>	<u>20,091</u>	<u>762,251</u>	<u>23,382</u>
Other payables—related parties:				
Evergreen Airline Services Corp.	65,469	2,018	9,263	284
Evergreen Aviation Technologies Corp.	31,683	977	2,949	90
Evergreen International Corp.	18,815	580	15,828	486
Uni Airways Corp.	15,337	473	8,766	269
Evergreen Air Cargo Services Corp.	3,532	109	1,490	46
Evergreen Security Corp.	3,502	108	4,766	146
Evergreen Sky Catering Corp.	1,625	50	1,465	45
Evergreen International Storage & Transport Corp	1,212	37	1,037	32
Others	39	1	95	3
	<u>141,214</u>	<u>4,353</u>	<u>45,659</u>	<u>1,401</u>
Total payables—related parties	\$ <u>792,974</u>	<u>24,444</u>	<u>807,910</u>	<u>24,783</u>

6. Pledged Assets

The book values of the pledged assets as of December 31, 2007 and 2006, were as follows:

Pledged assets	Object	2007		2006	
		NT dollars	US dollars	NT dollars	US dollars
Land	Long-term borrowings	\$ 999,911	30,823	1,864,122	57,182
Buildings	Long-term borrowings	2,033,692	62,691	2,482,271	76,143
Aircraft	Long-term borrowings, Aircraft payable	48,449,062	1,493,498	42,677,297	1,309,119
Engines—included in machinery and equipment	Long-term borrowings	-	-	104,390	3,202
Simulators—included in machinery and equipment	Long-term borrowings	254,019	7,830	283,753	8,704
Time deposit—included in other assets	Customs duty and contract performance guaranties	564,881	17,413	579,358	17,772
		\$ <u>52,301,565</u>	<u>1,612,255</u>	<u>47,991,191</u>	<u>1,472,122</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

7. Commitments and Contingencies

(a) As of December 31, 2007, the outstanding contracts for purchases of aircraft were as follows:

Entering date	Type of aircraft	Quantity	Price of contract	Prepayments (Note)
June 2000	Boeing-777	3	US\$ 559,311	NT\$ 3,814,041 (US\$117,572)
April 2004	Boeing-777	4	US\$ 745,748	NT\$ 8,803,838 (US\$271,388)

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

(b) As of December 31, 2007, the Company had issued NT\$15,755,005 (US\$485,666) worth of promissory notes to banks to obtain guaranties for credit lines and to lessors for leasing aircraft. As of December 31, 2007, the Company had obtained guaranties from ABN-AMRO Bank, Citibank, HSBC Bank, ANZ Bank, Calyon Corporate and Investment Bank, Mizuho Corporate Bank, and Bank of America amounting to NT\$850,988 (US\$26,233).

(c) The Company entered into aircraft, land, engine and aircraft parts lease contracts using the operating lease or capital lease method. As of December 31, 2007, the Company had paid NT\$7,408,350 (US\$228,371) as refundable deposits. According to these contracts, future lease payments in the following five years are as follows:

Year due	NT dollars	US dollars
January 1, 2008~December 31, 2008	\$ 9,037,381	278,588
January 1, 2009~December 31, 2009	7,811,360	240,794
January 1, 2010~December 31, 2010	6,629,311	204,356
January 1, 2011~December 31, 2011	6,019,520	185,558
January 1, 2012~December 31, 2012	5,993,320	184,751
And after	<u>26,726,004</u>	<u>823,860</u>
	\$ <u>62,216,896</u>	<u>1,917,907</u>

(d) The Company is the subject of investigations in respect of its air cargo operations by the competition authorities of the United States. The Company has been cooperating with the authorities in their investigations. The investigations are focused on issues relating to competition and oil surcharges. The Company is represented by legal counsel in connection with the investigations. The investigations are ongoing, and the outcomes are subject to uncertainties.

8. Important Damage Losses: none

9. Important Subsequent Events: none

10. Others

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EVA AIRWAYS CORP.

Notes to Financial Statements

- (a) Total personnel expenses, depreciation and amortization for the years ended December 31, 2007 and 2006, were as follows:

By function	2007					
	Operating cost	NT dollars Operating expenses	Total	Operating cost	US dollars Operating expenses	Total
Personnel expenses						
Salaries	\$ 3,254,977	2,744,924	5,999,901	99,086	83,559	182,645
Insurance	134,172	118,920	253,092	4,084	3,620	7,704
Pension	204,425	148,473	352,898	6,223	4,520	10,743
Others (meal allowances, etc)	1,257,807	261,307	1,519,114	38,289	7,955	46,244
Depreciation	7,146,324	198,422	7,344,746	217,544	6,040	223,584
Amortization	1,129,321	184,598	1,313,919	34,378	5,620	39,998

By function	2006					
	Operating cost	NT dollars Operating expenses	Total	Operating cost	US dollars Operating expenses	Total
Personnel expenses						
Salaries	\$ 3,244,963	2,616,014	5,860,977	99,845	80,493	180,338
Insurance	143,584	116,666	260,250	4,418	3,590	8,008
Pension	186,747	131,471	318,218	5,746	4,045	9,791
Others (meal allowances, etc)	1,232,724	257,482	1,490,206	37,930	7,922	45,852
Depreciation	5,903,066	210,290	6,113,356	181,633	6,470	188,103
Amortization	990,250	208,000	1,198,250	30,469	6,400	36,869

- (b) Reclassification

Certain amounts in the financial statements for the year ended December 31, 2006, have been reclassified to conform with the presentation of the financial statements for the year ended December 31, 2007, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

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EVA AIRWAYS CORP.

Notes to Financial Statements

11. Segment Financial Information

(a) Diversified industry:

The Company mainly operates an international air transportation business.

(b) Geographic area information:

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
South East Asia:				
Operating revenue	\$ <u>35,490,914</u>	<u>1,080,393</u>	<u>36,152,872</u>	<u>1,112,396</u>
Loss from operations	\$ <u>(867,009)</u>	<u>(26,393)</u>	<u>(1,285,047)</u>	<u>(39,540)</u>
Identifiable assets	\$ <u>262,771</u>	<u>8,101</u>	<u>316,121</u>	<u>9,697</u>
North America:				
Operating revenue	\$ <u>18,825,453</u>	<u>573,073</u>	<u>17,935,581</u>	<u>551,864</u>
Loss from operations	\$ <u>(459,888)</u>	<u>(14,000)</u>	<u>(637,517)</u>	<u>(19,616)</u>
Identifiable assets	\$ <u>387,242</u>	<u>11,937</u>	<u>429,925</u>	<u>13,188</u>
Other foreign areas:				
Operating revenue	\$ <u>7,978,938</u>	<u>242,890</u>	<u>8,047,535</u>	<u>247,617</u>
Loss from operations	\$ <u>(194,918)</u>	<u>(5,934)</u>	<u>(286,048)</u>	<u>(8,801)</u>
Identifiable assets	\$ <u>981,934</u>	<u>30,269</u>	<u>1,239,195</u>	<u>38,012</u>
Domestic:				
Operating revenue	\$ <u>30,807,826</u>	<u>937,833</u>	<u>31,767,576</u>	<u>977,464</u>
Loss from operations	\$ <u>(752,605)</u>	<u>(22,910)</u>	<u>(1,129,172)</u>	<u>(34,744)</u>
Identifiable assets	\$ <u>136,668,669</u>	<u>4,212,968</u>	<u>124,463,192</u>	<u>3,817,889</u>
Total operating revenue	\$ <u>93,103,131</u>	<u>2,834,189</u>	<u>93,903,564</u>	<u>2,889,341</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

	2007		2006	
	NT dollars	US dollars	NT dollars	US dollars
Loss from operations	\$ (2,274,420)	(69,237)	(3,337,784)	(102,701)
Investment income, net	394,557	12,011	1,009,463	31,061
General income	2,137,000	65,053	2,025,754	62,330
Interest expenses	<u>(2,215,286)</u>	<u>(67,436)</u>	<u>(1,961,357)</u>	<u>(60,349)</u>
Loss before income tax	<u>\$ (1,958,149)</u>	<u>(59,609)</u>	<u>(2,263,924)</u>	<u>(69,659)</u>
Total identifiable assets	\$ 138,300,616	4,263,275	126,448,433	3,878,786
Long-term equity investments	<u>10,837,179</u>	<u>334,068</u>	<u>11,701,731</u>	<u>358,949</u>
Total assets	\$ <u>149,137,795</u>	<u>4,597,343</u>	<u>138,150,164</u>	<u>4,237,735</u>

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