

**EVA AIRWAYS CORP.**  
**Financial Statements**  
**June 30, 2008 and 2007**  
**(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 June 30, 2008 and 2007, and the related statements of operations, changes in stockholders' equity, and cash flows for the six months ended June 30, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain non-consolidated investee companies. The Company's investments in these companies as of June 30, 2008 and 2007, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$2,591,685 thousand (US\$85,393 thousand), constituting 1.76% of total assets, and NT\$2,353,498 thousand (US\$71,885 thousand), constituting 1.63% of total assets, respectively. The cumulative translation adjustments from the aforementioned investments amounted to NT\$5,169 thousand (US\$170 thousand) and NT\$11,750 thousand (US\$359 thousand), respectively. The resulting investment gains or loss amounted to a loss of NT\$78,392 thousand (US\$2,530 thousand), constituting 1.32% of loss before income tax, and a gain of NT\$79,017 thousand (US\$2,393 thousand), constituting (4.44)% of loss before income tax for the six months ended June 30, 2008 and 2007, 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 auditing standards generally accepted in the Republic of China. Those regulations and standards 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 June 30, 2008 and 2007, and the results of its operations and its cash flows for the six months ended June 30, 2008 and 2007, 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 accounting principles generally accepted in Republic of China.

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 six months ended June 30, 2008 and 2007, 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)  
August 8, 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.

**EVA AIRWAYS CORP.**

**Balance Sheets**

**June 30, 2008 and 2007**

**(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)**

Assets	2008		2007		Liabilities and Stockholders' Equity	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars		NT dollars	US dollars	NT dollars	US dollars
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (note 4(a))	\$ 6,237,932	205,533	3,319,681	101,395	Financial liabilities at fair value through profit or loss – current (note 4(b))	\$ 14,750	486	40,242	1,229
Financial assets at fair value through profit or loss – current (note 4(b))	372,072	12,259	90,030	2,750	Derivative financial liabilities for hedge purposes – current (note 4(q))	5,140	169	-	-
Available-for-sale financial assets – current (note 4(b))	2,045,878	67,410	6,211,075	189,709	Accounts payable	1,795,248	59,152	1,461,072	44,627
Notes receivable	334,640	11,026	358,385	10,946	Accounts payable – related parties (note 5)	782,040	25,767	815,666	24,913
Accounts receivable, net	7,219,405	237,872	7,462,723	227,939	Accrued expenses	7,773,489	256,128	7,233,874	220,949
Accounts receivable – related parties (note 5)	129,761	4,275	226,049	6,905	Other payables – related parties (note 5)	108,281	3,568	121,982	3,726
Other receivables (note 4(c))	735,692	24,240	496,334	15,160	Other payables (notes 4(l) and 6)	2,222,077	73,215	2,431,997	74,282
Other receivables – related parties (note 5)	75,435	2,486	49,133	1,501	Unearned revenue	6,867,172	226,266	6,386,028	195,053
Inventories (notes 4(d) and 5)	9,572,566	315,406	9,038,633	276,073	Current portion of long-term liabilities (notes 4(j), 4(k), 6 and 7)	9,690,793	319,301	9,837,949	300,487
Prepaid expenses	73,231	2,413	75,616	2,309	Lease liability – current (notes 4(g) and 6)	1,350,148	44,486	1,664,019	50,825
Other prepayments	554,473	18,269	546,361	16,688	Other current liabilities	1,852,274	61,031	1,171,079	35,769
Deferred income tax assets – current (note 4(n))	355,982	11,729	263,263	8,041	<b>Total current liabilities</b>	<u>32,461,412</u>	<u>1,069,569</u>	<u>31,163,908</u>	<u>951,860</u>
Other current assets	33,222	1,095	78,697	2,404	<b>Long-term liabilities:</b>				
<b>Total current assets</b>	<u>27,740,289</u>	<u>914,013</u>	<u>28,215,980</u>	<u>861,820</u>	Financial liabilities at fair value through profit or loss – noncurrent (note 4(b))	146,332	4,821	222,179	6,786
<b>Funds and investments:</b>					Derivative financial liabilities for hedge purposes – noncurrent (note 4(q))	-	-	21,362	652
Financial assets at fair value through profit or loss – noncurrent (note 4(b))	3,501	115	141,116	4,310	Bonds payable (note 4(k))	9,246,700	304,669	9,100,000	277,947
Available-for-sale financial assets – noncurrent (note 4(b))	682,294	22,481	660,206	20,165	Long-term borrowings (notes 4(j), 6 and 7)	42,880,211	1,412,857	32,301,826	986,617
Financial assets carried at cost – noncurrent (note 4(b))	2,278,161	75,063	2,325,889	71,041	Aircraft payable (notes 4(l) and 6)	10,193,527	335,866	13,384,247	408,804
Long-term equity investments under equity method (note 4(e))	7,460,907	245,829	8,110,893	247,737	Lease liability – noncurrent (notes 4(g) and 6)	14,042,215	462,676	10,761,294	328,690
<b>Total funds and investments</b>	<u>10,424,863</u>	<u>343,488</u>	<u>11,238,104</u>	<u>343,253</u>	<b>Total long-term liabilities</b>	<u>76,508,985</u>	<u>2,520,889</u>	<u>65,790,908</u>	<u>2,009,496</u>
<b>Property, plant and equipment (notes 4(f), 4(g), 6 and 7):</b>					<b>Other liabilities:</b>				
Land	1,869,784	61,607	1,869,784	57,110	Accrued employee retirement liabilities (note 4(m))	560,470	18,467	777,390	23,745
Buildings	4,543,278	149,696	4,543,278	138,768	Other liabilities (note 4(e))	2,035,186	67,057	1,690,178	51,624
Machinery and equipment	6,577,362	216,717	5,371,578	164,068	<b>Total other liabilities</b>	<u>2,595,656</u>	<u>85,524</u>	<u>2,467,568</u>	<u>75,369</u>
Aircraft	86,968,130	2,865,507	80,100,861	2,446,575	<b>Total liabilities</b>	<u>111,566,053</u>	<u>3,675,982</u>	<u>99,422,384</u>	<u>3,036,725</u>
Leased assets	15,347,742	505,692	15,564,216	475,388	<b>Stockholders' equity (notes 4(b), 4(o) and 4(q)):</b>				
Other equipment	90,513	2,982	92,805	2,835	Common stock	39,426,772	1,332,170	38,749,794	1,310,325
	115,396,809	3,802,201	107,542,522	3,284,744	Capital surplus	4,820,433	156,037	4,580,156	148,287
Less: accumulated depreciation	(31,327,876)	(1,032,220)	(36,000,831)	(1,099,598)	Retained earnings (accumulated deficit):				
Advances for purchases of equipment	11,105,970	365,930	14,952,515	456,705	Legal reserve	18,864	586	860,272	25,530
<b>Net property, plant and equipment</b>	<u>95,174,903</u>	<u>3,135,911</u>	<u>86,494,206</u>	<u>2,641,851</u>	Accumulated deficit	(5,967,395)	(192,559)	(657,899)	(22,856)
<b>Intangible assets:</b>					<b>Total retained earnings (accumulated deficit)</b>	<u>(5,948,531)</u>	<u>(191,973)</u>	<u>202,373</u>	<u>2,674</u>
Deferred pension cost	109,182	3,597	136,476	4,168	Other stockholders' equity adjustments:				
<b>Other assets:</b>					Cumulative translation adjustments	(2,061,910)	(103,053)	1,624,607	(82,135)
Refundable deposits (note 7)	5,668,687	186,777	9,981,538	304,873	Net loss not yet recognized as net pension cost	(472,617)	(14,299)	(585,306)	(17,773)
Deferred charges (note 4(h))	5,337,737	175,873	6,109,593	186,609	Unrealized gains on financial instruments	254,911	7,907	165,560	5,060
Deferred income tax assets – noncurrent (note 4(n))	2,600,929	85,698	1,403,059	42,855	<b>Total other stockholders' equity adjustments</b>	<u>(2,279,616)</u>	<u>(109,445)</u>	<u>1,204,861</u>	<u>(94,848)</u>
Other assets (note 6)	528,521	17,414	580,612	17,734	<b>Total stockholders' equity</b>	36,019,058	1,186,789	44,737,184	1,366,438
<b>Total other assets</b>	<u>14,135,874</u>	<u>465,762</u>	<u>18,074,802</u>	<u>552,071</u>	<b>Commitments and contingencies (note 7)</b>				
<b>Total assets</b>	<u>\$ 147,585,111</u>	<u>4,862,771</u>	<u>144,159,568</u>	<u>4,403,163</u>	<b>Total liabilities and stockholders' equity</b>	<u>\$ 147,585,111</u>	<u>4,862,771</u>	<u>144,159,568</u>	<u>4,403,163</u>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Statements of Operations**

**For the six months ended June 30, 2008 and 2007**

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

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
<b>Operating revenue (note 5)</b>	\$ 46,227,699	1,491,697	44,508,319	1,347,920
<b>Operating cost (notes 5 and 10)</b>	<u>(48,404,730)</u>	<u>(1,561,947)</u>	<u>(43,068,435)</u>	<u>(1,304,314)</u>
<b>Gross profit (loss) from operations</b>	(2,177,031)	(70,250)	1,439,884	43,606
<b>Operating expenses (notes 5 and 10)</b>	<u>(3,404,726)</u>	<u>(109,865)</u>	<u>(3,450,289)</u>	<u>(104,491)</u>
<b>Operating loss</b>	<u>(5,581,757)</u>	<u>(180,115)</u>	<u>(2,010,405)</u>	<u>(60,885)</u>
<b>Non-operating income and gains:</b>				
Interest income	44,829	1,447	97,486	2,952
Investment income (note 4(e))	5,711	184	280,077	8,482
Gains on disposal of property, plant and equipment	88,821	2,866	8,296	251
Gains on sale of investments, net (note 4(b))	24,289	784	-	-
Exchange gains, net	2,918	94	-	-
Gains on valuation of financial assets (notes 4(b) and 4(r))	558,512	18,022	766,947	23,227
Other income	<u>202,027</u>	<u>6,519</u>	<u>235,623</u>	<u>7,136</u>
	<u>927,107</u>	<u>29,916</u>	<u>1,388,429</u>	<u>42,048</u>
<b>Non-operating expenses and losses:</b>				
Interest expenses, net of capitalized interest of NT\$187,712 (US\$6,057) and NT\$215,006 (US\$6,511) in 2008 and 2007, respectively (notes 4(f) and 4(r))	(1,283,160)	(41,405)	(1,028,742)	(31,155)
Losses on sale of investments, net (note 4(b))	-	-	(104,828)	(3,175)
Exchange losses, net	-	-	(2,631)	(80)
Other losses	<u>(8,078)</u>	<u>(261)</u>	<u>(22,342)</u>	<u>(676)</u>
	<u>(1,291,238)</u>	<u>(41,666)</u>	<u>(1,158,543)</u>	<u>(35,086)</u>
<b>Loss from continuing operations before income tax</b>	(5,945,888)	(191,865)	(1,780,519)	(53,923)
<b>Income tax benefit (expenses) (note 4(n))</b>	<u>(21,507)</u>	<u>(694)</u>	<u>92,110</u>	<u>2,790</u>
<b>Net loss</b>	<u>\$ (5,967,395)</u>	<u>(192,559)</u>	<u>(1,688,409)</u>	<u>(51,133)</u>

	Loss				Loss			
	before income tax		Net loss		before income tax		Net loss	
	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
<b>Basic earnings per share (expressed in dollars) (note 4(p)):</b>								
<b>Net loss</b>	<u>\$ (1.52)</u>	<u>(0.05)</u>	<u>(1.53)</u>	<u>(0.05)</u>	<u>(0.46)</u>	<u>(0.01)</u>	<u>(0.44)</u>	<u>(0.01)</u>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Statements of Changes in Stockholders' Equity**

**For the six months ended June 30, 2008 and 2007**  
**(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)	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)	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Unrealized Gains on Financial Instruments	Total
<b>Balance on December 31, 2006</b>	\$ 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	-	38	-	-	-	-	-	38	-	1	-	-	-	-	-	1
Increase in net equity due to the change in percentage of unrealized gains on financial instruments in long-term equity investments under equity method	-	-	-	-	-	-	6,979	6,979	-	-	-	-	-	-	213	213
Increase in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	-	-	-	40	-	-	40	-	-	-	-	1	-	-	1
Change in unrealized gains on financial instruments	-	-	-	-	-	-	91,594	91,594	-	-	-	-	-	-	2,798	2,798
Net loss for the six months ended June 30, 2007	-	-	-	(1,688,409)	-	-	-	(1,688,409)	-	-	-	(51,133)	-	-	-	(51,133)
Translation adjustments for the six months ended June 30, 2007	-	-	-	-	186,339	-	-	186,339	-	-	-	-	(798)	-	-	(798)
<b>Balance on June 30, 2007</b>	<b>\$ 38,749,794</b>	<b>4,580,156</b>	<b>860,272</b>	<b>(657,899)</b>	<b>1,624,607</b>	<b>(585,306)</b>	<b>165,560</b>	<b>44,737,184</b>	<b>1,310,325</b>	<b>148,287</b>	<b>25,530</b>	<b>(22,856)</b>	<b>(82,135)</b>	<b>(17,773)</b>	<b>5,060</b>	<b>1,366,438</b>
<b>Balance on December 31, 2007</b>	\$ 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
Make-up of the accumulated deficit	-	-	(841,408)	841,408	-	-	-	-	-	-	(24,944)	24,944	-	-	-	-
Convertible bonds converted into common stock	676,978	237,622	-	-	-	-	-	914,600	21,845	7,667	-	-	-	-	-	29,512
Increase in net equity due to the change in percentage of capital surplus in long-term equity investments under equity method	-	620	-	-	-	-	-	620	-	20	-	-	-	-	-	20
Increase in net equity due to the change in percentage of unrealized gains on financial instruments in long-term equity investments under equity method	-	-	-	-	-	-	358	358	-	-	-	-	-	-	12	12
Change in unrealized gains on financial instruments	-	-	-	-	-	-	30,325	30,325	-	-	-	-	-	-	999	999
Net loss for the six months ended June 30, 2008	-	-	-	(5,967,395)	-	-	-	(5,967,395)	-	-	-	(192,559)	-	-	-	(192,559)
Translation adjustments for the six months ended June 30, 2008	-	-	-	-	(3,147,546)	-	-	(3,147,546)	-	-	-	3,763	(17,107)	-	-	(13,344)
<b>Balance on June 30, 2008</b>	<b>\$ 39,426,772</b>	<b>4,820,433</b>	<b>18,864</b>	<b>(5,967,395)</b>	<b>(2,061,910)</b>	<b>(472,617)</b>	<b>254,911</b>	<b>36,019,058</b>	<b>1,332,170</b>	<b>156,037</b>	<b>586</b>	<b>(192,559)</b>	<b>(103,053)</b>	<b>(14,299)</b>	<b>7,907</b>	<b>1,186,789</b>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Statements of Cash Flows**

**For the six months ended June 30, 2008 and 2007**  
**(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)**

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
<b>Cash flows from operating activities:</b>				
Net loss	\$ (5,967,395)	(192,559)	(1,688,409)	(51,133)
Adjustments to reconcile net loss to net cash flow provided by operating activities:				
Depreciation	3,561,891	114,937	3,568,807	108,080
Amortization and maintenance expense	963,258	31,083	594,793	18,013
Amortization expense recorded as interest expenses	14,807	478	13,063	396
Losses (gains) on sale of investments	(24,289)	(784)	104,828	3,175
Exchange gains arising from disposal of foreign operating units	(58,839)	(1,899)	-	-
Gains (losses) on disposal and obsolescence of property, plant and equipment	(80,803)	(2,607)	2,356	71
Gains on disposal of property, plant and equipment recorded as exchange gains	(187,083)	(6,037)	-	-
Amortization of deferred gain from sale and leaseback of fixed assets	-	-	(16,782)	(508)
Amortization of other deferred gain	(56,185)	(1,813)	(63,983)	(1,938)
Provision for unrealized exchange gain from long-term borrowings	(7,809)	(252)	(7,630)	(231)
Investment income	(5,711)	(184)	(280,077)	(8,482)
Proceeds from cash dividends on long-term equity investments	11,073	357	57,128	1,730
Deferred income tax benefit	-	-	(108,909)	(3,298)
Changes in operating assets and liabilities, net:				
Financial assets at fair value through profit or loss—current	(308,827)	(9,965)	(68,346)	(2,070)
Financial assets at fair value through profit or loss—noncurrent	103,255	3,332	(76,161)	(2,306)
Financial liabilities at fair value through profit or loss—current	14,665	473	(215,042)	(6,512)
Financial liabilities at fair value through profit or loss—noncurrent	145,156	4,684	(546,303)	(16,545)
Notes receivable	(53,286)	(1,719)	33,355	1,010
Accounts receivable (including related parties)	1,075,171	34,694	621,712	18,828
Other receivables (including related parties)	(184,189)	(5,943)	(80,965)	(2,452)
Inventories	(61,199)	(1,975)	(338,991)	(10,266)
Prepaid expenses	21,385	690	(16,838)	(510)
Other prepayments	(63,236)	(2,041)	60,320	1,827
Other current assets	41,255	1,331	(11,740)	(356)
Accounts payable (including related parties)	(3,060)	(99)	(155,187)	(4,700)
Accrued expenses	(50,571)	(1,632)	323,523	9,798
Other payables (including related parties)	(751,184)	(24,240)	126,584	3,834
Unearned revenue	(139,674)	(4,507)	(80,670)	(2,443)
Other current liabilities	336,537	10,860	(68,374)	(2,071)
Accrued employee retirement liabilities	(30,244)	(976)	(50,622)	(1,533)
Other liabilities	54,817	1,769	3,202	97
<b>Net cash provided by (used in) operating activities</b>	<u>(1,690,314)</u>	<u>(54,544)</u>	<u>1,634,642</u>	<u>49,505</u>
<b>Cash flows from investing activities:</b>				
Withdrawal of long-term equity investments	540,000	17,425	-	-
Decrease in available-for-sale financial assets—current	3,104,821	100,188	574,836	17,409
Proceeds from sale of available-for-sale financial assets—noncurrent	-	-	3,408	103
Proceeds from sale of financial assets carried at cost—noncurrent	3,409	110	697,200	21,114
Payments for purchase of long-term equity investments under equity method	(426,105)	(13,750)	-	-
Proceeds from disposal of property, plant and equipment	1,405,123	45,341	5,643,927	170,925
Payments for purchase of property, plant and equipment	(10,051,429)	(324,344)	(10,955,138)	(331,773)
Decrease in refundable deposits and in other assets	1,474,842	47,591	969,029	29,347
Increase in deferred charges	(464,579)	(14,991)	(748,850)	(22,679)
<b>Net cash used in investing activities</b>	<u>(4,413,918)</u>	<u>(142,430)</u>	<u>(3,815,588)</u>	<u>(115,554)</u>
<b>Cash flows from financing activities:</b>				
Decrease in short-term borrowings	-	-	(500,000)	(15,142)
Increase in long-term borrowings	15,774,000	509,003	10,912,000	330,466
Redemption of long-term borrowings	(4,504,503)	(145,353)	(5,334,089)	(161,541)
Installment payments for purchase of property, plant and equipment	(1,120,553)	(36,159)	(1,233,057)	(37,343)
Redemption of lease liability	(763,543)	(24,638)	(1,341,686)	(40,632)
<b>Net cash provided by financing activities</b>	<u>9,385,401</u>	<u>302,853</u>	<u>2,503,168</u>	<u>75,808</u>
<b>Effect of exchange rate changes on cash</b>	<u>-</u>	<u>8,509</u>	<u>-</u>	<u>(311)</u>
<b>Net increase in cash and cash equivalents</b>	3,281,169	114,388	322,222	9,448
<b>Cash and cash equivalents at beginning of year</b>	2,956,763	91,145	2,997,459	91,947
<b>Cash and cash equivalents at end of year</b>	<u>\$ 6,237,932</u>	<u>205,533</u>	<u>3,319,681</u>	<u>101,395</u>
<b>Additional disclosure of cash flow information:</b>				
Cash payments of interest (excluding capitalized interest expense)	<u>\$ 1,363,886</u>	<u>44,011</u>	<u>920,167</u>	<u>27,867</u>
Cash payments of income tax	<u>\$ 14,165</u>	<u>457</u>	<u>21,208</u>	<u>642</u>
<b>Supplemental schedule of noncash investing and financing activities:</b>				
Current portion of long-term liabilities	<u>\$ 9,690,793</u>	<u>319,301</u>	<u>9,837,949</u>	<u>300,487</u>
Convertible bonds converted into common stock	<u>\$ 914,600</u>	<u>29,512</u>	<u>-</u>	<u>-</u>
Fixed assets transferred from inventory	<u>\$ 16,636</u>	<u>548</u>	<u>-</u>	<u>-</u>
Translation adjustments	<u>\$ (3,147,546)</u>	<u>(13,344)</u>	<u>186,379</u>	<u>797</u>
Unrealized gains on financial instruments (including investee)	<u>\$ 30,683</u>	<u>1,011</u>	<u>98,573</u>	<u>3,011</u>
Increase in lease liability	<u>\$ -</u>	<u>-</u>	<u>(5,103,584)</u>	<u>(155,882)</u>

See accompanying notes to financial statements.

# **EVA AIRWAYS CORP.**

## **Notes to Financial Statements**

**June 30, 2008 and 2007**

**(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 June 30, 2008 and 2007, the Company had 4,962 and 5,169 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**

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.

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****(i) Hedge accounting**

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.

(Continued)

**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. In accordance with ROC SFAS No. 23 "Interim Financial Reporting", the Company recognizes investment gains/losses under the equity method quarterly.

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. Commencing from January 1, 2008, the Company is required to compile its first and third quarter consolidated financial statements.

If the differences between investment cost and shareholding equity come from 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 recognizes liabilities.

(Continued)

**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

Other equipment: 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 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 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”. 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.

(Continued)

**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 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.

The Company compiles interim financial statements in accordance with ROC SFAS No. 23 "Interim Financial Reporting". Under SFAS No. 23, the Company is not required to disclose pension information as required under ROC SFAS No. 18 "Accounting for Pensions".

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**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) Employee bonuses and directors' and supervisors' remuneration**

Employee bonuses and directors' and supervisors' remuneration appropriated after January 1, 2008, are accounted for by Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

**(s) 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.

**(t) 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

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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 retroactively for the increase in common shares outstanding from stock issuance through the capitalization of retained earnings, additional paid-in capital, or employees' bonuses. Commencing from January 1, 2008, for calculation of diluted EPS, the employees' bonuses in stock are included in the calculation of the weighted-average number of shares at market price or net value on the balance sheet date.

### 3. Reason for and Effect of Accounting Changes

The Company adopted ROC SFAS No. 39 "Share-based Payment" and Interpretation (96) 052 issued by the Accounting Research and Development Foundation commencing from January 1, 2008. There were no impacts on the financial statements for the six months ended June 30, 2008.

### 4. Important Accounts

#### (a) Cash and cash equivalents

The components as of June 30, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Cash on hand	\$ 97,261	3,205	91,933	2,808
Cash in bank	<u>6,140,671</u>	<u>202,328</u>	<u>3,227,748</u>	<u>98,587</u>
	<u>\$ 6,237,932</u>	<u>205,533</u>	<u>3,319,681</u>	<u>101,395</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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

The components as of June 30, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets – current:				
Mutual funds	\$ <u>2,045,878</u>	<u>67,410</u>	<u>6,211,075</u>	<u>189,709</u>

As of June 30, 2008 and 2007, gains on disposal of available-for-sale financial assets—current amounted to NT\$24,331 (US\$785) and NT\$36,179 (US\$1,096), respectively, which were recorded under gains on sale of investment and deduction of losses on sale of investment, respectively.

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets – noncurrent:				
Trade-Van Information Services Co., Ltd.	\$ 172,037	5,669	215,986	6,597
Central Reinsurance Corp.	<u>510,257</u>	<u>16,812</u>	<u>444,220</u>	<u>13,568</u>
	\$ <u>682,294</u>	<u>22,481</u>	<u>660,206</u>	<u>20,165</u>

Details of selling available-for-sale financial assets—noncurrent of the Company for the six months ended June 30, 2007, were as follows:

Investee	Shares	Unit: thousands of shares			
		2007		Gain on disposal of available-for-sale financial assets—noncurrent	
		Cost		NT dollars	US dollars
		NT dollars	US dollars	NT dollars	US dollars
Trade-Van Information Services Co., Ltd.	198	\$ <u>1,615</u>	<u>49</u>	<u>1,793</u>	<u>54</u>

(note): Gain on disposal of available-for-sale financial assets—noncurrent was recorded under deduction of losses on sale of investment.

There was no such transaction for the six months ended June 30, 2008.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Financial assets carried at cost—noncurrent:

Investee	Shareholding percentage (%)	2008		2007		
		Book value		Book value		
		NT dollars	US dollars	NT dollars	US dollars	
Taiwan High Speed Rail Corp.	1.20	\$ 1,246,549	41,072	1.21	1,250,000	38,179
Evergreen Development Corp.	9.47	870,000	28,666	9.47	870,000	26,573
Abacus International Holding Ltd.	2.11	115,743	3,814	2.11	115,743	3,535
Sun Shine Corp.	-	-	-	19.50	40,365	1,233
Technology Partner II Venture Capital Corp.	5.88	20,000	659	5.88	20,000	611
Chung Hwa Express Co., Ltd.	10.00	20,000	659	10.00	20,000	611
Pan-Pacific Venture Capital Co., Ltd.	2.30	5,869	193	2.30	9,781	299
Total		<u>\$ 2,278,161</u>	<u>75,063</u>		<u>2,325,889</u>	<u>71,041</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.

Details of selling financial assets carried at cost—noncurrent of the Company for the six months ended June 30, 2008 and 2007, were as follows:

Unit: thousands of shares

Investee	Shares	2008				2007				
		Cost		Losses on disposal of financial assets carried at cost—noncurrent		Cost		Losses 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	
Taiwan High Speed Rail Corp.	350	\$ 3,451	111	(42)	(1)	-	-	-	-	
Taiwan Fixed Network Corp.		-	-	-	-	84,000	840,000	25,439	(142,800)	(4,325)
		<u>\$ 3,451</u>	<u>111</u>	<u>(42)</u>	<u>(1)</u>		<u>840,000</u>	<u>25,439</u>	<u>(142,800)</u>	<u>(4,325)</u>

As of June 30, 2008 and 2007, the components of derivative financial instruments were as follows:

Derivative financial assets:	Nominal Amount	2008		2007	
		Book Value		Book Value	
		NT dollars	US dollars	NT dollars	US dollars
Fuel option agreements		\$ 326,638	10,762	90,030	2,750
Interest rate swap agreements	NTD 4,100,000			NTD3,500,000	
	USD 90,000	<u>48,935</u>	<u>1,612</u>	USD 90,000	<u>141,116</u>
		<u>\$ 375,573</u>	<u>12,374</u>		<u>231,146</u>
					<u>7,060</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	Nominal Amount	2008		Nominal Amount	2007	
		Book Value			Book Value	
		NT dollars	US dollars		NT dollars	US dollars
Derivative financial liabilities:						
Fuel option agreements		\$ 161,082	5,307		262,216	8,009
Interest rate swap agreements	-	-	-	NTD 600,000	205	6
		<u>\$ 161,082</u>	<u>5,307</u>		<u>262,421</u>	<u>8,015</u>

Details of derivative financial assets and liabilities as of June 30, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Financial assets at fair value through profit or loss — current	<u>372,072</u>	<u>12,259</u>	<u>90,030</u>	<u>2,750</u>
Financial assets at fair value through profit or loss — noncurrent	<u>3,501</u>	<u>115</u>	<u>141,116</u>	<u>4,310</u>
Financial liabilities at fair value through profit or loss — current	<u>14,750</u>	<u>486</u>	<u>40,242</u>	<u>1,229</u>
Financial liabilities at fair value through profit or loss — noncurrent	<u>146,332</u>	<u>4,821</u>	<u>222,179</u>	<u>6,786</u>

## (c) Other receivables

The components as of June 30, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Tax refund receivable	\$ 296,661	9,775	211,812	6,469
Non-operating revenues receivable	31,727	1,045	35,255	1,077
Other receivables	<u>407,304</u>	<u>13,420</u>	<u>249,267</u>	<u>7,614</u>
	<u>\$ 735,692</u>	<u>24,240</u>	<u>496,334</u>	<u>15,160</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (d) Inventories

The components as of June 30, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft spare parts	\$ 10,489,176	345,607	9,530,411	291,094
Consumables for use and merchandise for sale during flight	417,263	13,748	423,294	12,929
Fuel for aircraft	61,595	2,030	42,754	1,306
Less: allowance for obsolete inventories	<u>(1,395,468)</u>	<u>(45,979)</u>	<u>(957,826)</u>	<u>(29,256)</u>
	<u>\$ 9,572,566</u>	<u>315,406</u>	<u>9,038,633</u>	<u>276,073</u>

## (e) Long-term equity investments under equity method

Details as of and for the six months ended June 30, 2008 and 2007, were as follows:

Investee	Shareholding percentage (%)	Book value		2008		Investment income (loss)	
		NT dollars	US dollars	Cost		NT dollars	US dollars
				NT dollars	US dollars		
Evergreen Airline Services Corp.	56.33	\$ 461,712	15,213	111,175	3,663	15,701	507
RTW Air Services (S) Pte. Ltd.	49.00	22,774	750	13,217	435	1,080	35
Green Siam Air Services Co., Ltd.	49.00	22,097	728	9,421	310	7,746	250
Evergreen Sky Catering Corp.	49.80	709,738	23,385	498,000	16,408	38,202	1,233
Evergreen Airways Service (Macau) Ltd.	99.00	373,680	12,312	327	11	57,458	1,854
Uni Airways Corp.	26.56	333,772	10,998	1,239,531	40,841	(146,728)	(4,735)
Evergreen Aviation Technologies Corp.	80.00	4,044,710	133,269	2,000,450	65,913	189,537	6,116
Evergreen Security Corp.	31.25	59,192	1,950	25,000	824	5,515	178
Evergreen Air Cargo Services Corp.	60.00	923,268	30,421	726,098	23,924	(1,879)	(61)
Hsiang-Li Investment Corp.	100.00	99,634	3,283	460,000	15,157	9,296	300
PT Perdana Andalan Air Service	49.00	59,132	1,948	2,566	85	1,971	63
Sky Castle Investment Ltd.	100.00	235,681	7,766	179,173	5,904	14,196	458
Concord Pacific Ltd.	100.00	<u>115,517</u>	<u>3,806</u>	<u>516,807</u>	<u>17,028</u>	<u>(186,384)</u>	<u>(6,014)</u>
		<u>\$ 7,460,907</u>	<u>245,829</u>	<u>5,781,765</u>	<u>190,503</u>	<u>5,711</u>	<u>184</u>

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

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	\$ 456,339	13,938	111,174	3,395	36,397	1,102
RTW Air Services (S) Pte. Ltd.	49.00	21,391	653	13,217	404	1,407	43
Green Siam Air Services Co., Ltd.	49.00	22,326	682	9,421	288	7,092	215
Evergreen Sky Catering Corp.	49.80	704,973	21,533	498,000	15,211	44,483	1,347
Evergreen Airways Service (Macau) Ltd.	99.00	722,587	22,070	327	10	72,823	2,205
Uni Airways Corp.	17.92	130,784	3,995	1,124,845	34,357	(66,863)	(2,025)
Evergreen Aviation Technologies Corp.	80.00	3,777,035	115,365	2,000,450	61,101	186,216	5,640
Evergreen Security Corp.	31.25	53,576	1,636	25,000	763	5,190	157
Evergreen Air Cargo Services Corp.	60.00	905,384	27,654	726,098	22,178	16,056	486
Hsiang-Li Investment Corp.	100.00	1,048,590	32,028	1,000,000	30,544	40,952	1,240
PT Perdana Andalan Air Service.	49.00	58,725	1,794	2,566	78	35,255	1,068
Sky Castle Investment Ltd.	100.00	184,239	5,627	163,818	5,004	13,896	421
Concord Pacific Ltd.	100.00	24,944	762	131,620	4,020	(112,827)	(3,417)
		\$ <u>8,110,893</u>	<u>247,737</u>	<u>5,806,536</u>	<u>177,353</u>	<u>280,077</u>	<u>8,482</u>

Details of increases in long-term equity investments under the equity method of the Company for the six months ended June 30, 2008, were as follows:

Unit: thousands of shares

Investee	Shares	2008	
		NT dollars	US dollars
Uni Airways Corp.	27,306	\$ 114,686	3,701
Concord Pacific Ltd.	9,600	296,064	9,554
Sky Castle Investment Ltd.	500	<u>15,355</u>	<u>495</u>
		\$ <u>426,105</u>	<u>13,750</u>

There was no such transaction for the six months ended June 30, 2007.

On May 12, 2008, Hsiang-Li Investment Corp. decreased issued stock by 42%, and the Company withdrew NT\$420,000 (US\$13,553) in cash in proportion to the Company's ownership percentage.

On June 20, 2008, Hsiang-Li Investment Corp. decreased issued stock by 20.69%, and the Company withdrew NT\$120,000 (US\$3,872) in cash in proportion to the Company's ownership percentage.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (f) Property, plant and equipment

For the six months ended June 30, 2008 and 2007, the Company capitalized the interest expenses on purchase of assets amounting to NT\$187,712 (US\$6,057) and NT\$215,006 (US\$6,511), respectively. The monthly interest rates on the above transactions were 0.25%~0.27% and 0.25%~0.26%, respectively.

## (g) Leased assets

The details were as follows:

Lease item	Lessor	Lease term	Terms of lease contract	Present value of leased assets at the transaction date			
				2008		2007	
				NT dollars	US dollars	NT dollars	US dollars
Aircraft	GECAS	2004.4.13~ 2017.6.21	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	\$ 5,748,030	189,391	8,079,313	246,772
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	-	-	2,334,681	71,310
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 leased asset	9,553,074	314,764	5,103,584	155,882
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	46,638	1,537	46,638	1,424
				15,347,742	505,692	15,564,216	475,388
				<u>(803,810)</u>	<u>(26,485)</u>	<u>(3,050,463)</u>	<u>(93,172)</u>
Less: accumulated depreciation				<u>\$ 14,543,932</u>	<u>479,207</u>	<u>12,513,753</u>	<u>382,216</u>

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

The abovementioned aircraft and computer equipment were financed under sale and leaseback arrangements. The differences (treated 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.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

As of June 30, 2008 and 2007, the book value and present value of lease liability were as follows:

Year due	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
July 1, 2007~June 30, 2008	\$ -	-	2,184,538	66,724
July 1, 2008~June 30, 2009	2,070,691	68,227	1,532,417	46,806
July 1, 2009~June 30, 2010	2,036,969	67,116	1,511,319	46,161
July 1, 2010~June 30, 2011	2,013,775	66,352	1,500,749	45,838
July 1, 2011~June 30, 2012	1,991,076	65,604	1,490,396	45,522
July 1, 2012~June 30, 2013	1,967,389	64,823	1,479,608	45,193
And after	<u>9,276,973</u>	<u>305,666</u>	<u>5,609,847</u>	<u>171,345</u>
Book value	19,356,873	637,788	15,308,874	467,589
Less: unrealized interest expenses	<u>(3,964,510)</u>	<u>(130,626)</u>	<u>(2,883,561)</u>	<u>(88,074)</u>
Present value	15,392,363	507,162	12,425,313	379,515
Less: current portion	<u>(1,350,148)</u>	<u>(44,486)</u>	<u>(1,664,019)</u>	<u>(50,825)</u>
	\$ <u><b>14,042,215</b></u>	<u><b>462,676</b></u>	<u><b>10,761,294</b></u>	<u><b>328,690</b></u>

## (h) Deferred charges

As of June 30, 2008 and 2007, deferred charges, net of amortization, consisted of the following:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Leasehold improvements	\$ 2,764,856	91,099	3,194,557	97,573
Major overhaul for aircraft and engines	2,124,832	70,011	2,389,011	72,969
Others	<u>448,049</u>	<u>14,763</u>	<u>526,025</u>	<u>16,067</u>
	\$ <u><b>5,337,737</b></u>	<u><b>175,873</b></u>	<u><b>6,109,593</b></u>	<u><b>186,609</b></u>

## (i) Short-term borrowings

As of June 30, 2008 and 2007, the unused credit line amounted to approximately NT\$5,270,766 (US\$173,666) and NT\$7,013,185 (US\$214,208), respectively.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (j) Long-term borrowings

As of June 30, 2008 and 2007, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2008		Interest rate (%)	2007	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	2.67~3.06	\$ <u>2,400,000</u>	<u>79,077</u>	2.29~2.53	<u>2,800,000</u>	<u>85,522</u>
Aircraft						
NT\$ loans	2.70~2.93	<u>37,884,043</u>	<u>1,248,239</u>	2.15~3.05	<u>23,243,877</u>	<u>709,954</u>
		<u>37,884,043</u>	<u>1,248,239</u>		<u>23,243,877</u>	<u>709,954</u>
Simulators						
US\$ loans	3.24~5.81	<u>67,128</u>	<u>2,212</u>	5.95~5.97	<u>217,181</u>	<u>6,634</u>
		<u>67,128</u>	<u>2,212</u>		<u>217,181</u>	<u>6,634</u>
Subtotal		<u>40,351,171</u>	<u>1,329,528</u>		<u>26,261,058</u>	<u>802,110</u>
Unsecured loans:	2.01~3.34	<u>11,719,833</u>	<u>386,156</u>	1.91~3.34	<u>14,313,667</u>	<u>437,192</u>
Total		<u>52,071,004</u>	<u>1,715,684</u>		<u>40,574,725</u>	<u>1,239,302</u>
Less: current portion		<u>(9,190,793)</u>	<u>(302,827)</u>		<u>(8,272,899)</u>	<u>(252,685)</u>
		<b>\$ <u>42,880,211</u></b>	<b><u>1,412,857</u></b>		<b><u>32,301,826</u></b>	<b><u>986,617</u></b>

As of June 30, 2008, the remaining balances of the borrowings were due as follows:

Year due	NT dollars	US dollars
July 1, 2008~June 30, 2009	\$ 9,190,793	302,827
July 1, 2009~June 30, 2010	8,745,808	288,165
July 1, 2010~June 30, 2011	8,242,441	271,580
July 1, 2011~June 30, 2012	4,927,508	162,356
July 1, 2012~June 30, 2013	3,803,663	125,326
And after	<u>17,160,791</u>	<u>565,430</u>
	<b>\$ <u>52,071,004</u></b>	<b><u>1,715,684</u></b>

As of June 30, 2008 and 2007, the unused credit lines for long-term borrowings amounted to NT\$5,600,000 (US\$184,514) and NT\$900,000 (US\$27,489), 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 June 30, 2008 and 2007, were as follows:

	Description	Annual interest rate	Issue date	2008		2007	
				NT dollars	US dollars	NT dollars	US dollars
Bonds payable	Taiwan Cooperative Bank	Floating	2004.02	\$ 500,000	16,474	500,000	15,272
Bonds payable	Land Bank	2.25%	2004.07	500,000	16,474	500,000	15,272
	Chang Hwa Bank	2.25%	2004.07	500,000	16,474	500,000	15,272
	Taipei Fubon Bank	2.25%	2004.07	500,000	16,474	500,000	15,272
Bonds payable	Bank of Taiwan	2.11%	2005.01	500,000	16,474	500,000	15,272
	Taiwan Cooperative Bank	2.11%	2005.01	500,000	16,474	500,000	15,272
Bonds payable	Far-Eastern International Bank	1.85%	2005.08	500,000	16,474	500,000	15,272
	Shanghai Commercial & Savings Bank	1.85%	2005.08	500,000	16,474	500,000	15,272
	Chinatrust Commercial Bank	1.85%	2005.08	600,000	19,771	600,000	18,325
	Hua Nan Bank	1.85%	2005.08	500,000	16,474	500,000	15,272
Bonds payable	Cathay United Bank	2.08%	2006.01	2,000,000	65,900	2,000,000	61,086
Bonds payable	Hua Nan Bank	2.29%	2006.07	500,000	16,474	500,000	15,272
	Taipei Fubon Bank	2.29%	2006.07	500,000	16,474	500,000	15,272
	Bank of Taiwan	2.29%	2006.07	500,000	16,474	500,000	15,272
	Taiwan Cooperative Bank	2.29%	2006.07	500,000	16,474	500,000	15,272
Convertible bonds payable		0.00%	2004.08	<u>646,700</u>	<u>21,310</u>	<u>1,565,050</u>	<u>47,802</u>
Subtotal				9,746,700	321,143	10,665,050	325,749
Less: current portion				<u>(500,000)</u>	<u>(16,474)</u>	<u>(1,565,050)</u>	<u>(47,802)</u>
				<b>\$ <u>9,246,700</u></b>	<b><u>304,669</u></b>	<b><u>9,100,000</u></b>	<b><u>277,947</u></b>

## (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.

(Continued)

## 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 June 30, 2008, the conversion price was NT\$13.51.

(l) Aircraft payable

The Company purchased aircraft by installments. As of June 30, 2008 and 2007, the details were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft payable	\$ 12,409,100	408,867	15,755,694	481,237
Less: current portion	<u>(2,215,573)</u>	<u>(73,001)</u>	<u>(2,371,447)</u>	<u>(72,433)</u>
	<u>\$ 10,193,527</u>	<u>335,866</u>	<u>13,384,247</u>	<u>408,804</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The current portion of aircraft payable was recorded as other payables. As of June 30, 2008, the remaining balances of aircraft payable were due as follows:

Year due	NT dollars	US dollars
July 1, 2008~June 30, 2009	\$ 2,215,573	73,001
July 1, 2009~June 30, 2010	2,268,984	74,761
July 1, 2010~June 30, 2011	2,088,122	68,801
July 1, 2011~June 30, 2012	1,603,964	52,849
July 1, 2012~June 30, 2013	1,316,092	43,364
And after	<u>2,916,365</u>	<u>96,091</u>
	\$ <u><b>12,409,100</b></u>	<u><b>408,867</b></u>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the six months ended June 30, 2008 and 2007, the average interest rates were 2.71%~6.77% and 4.58%~6.77%, respectively. The pledges for the aircraft payable are disclosed in note 6.

## (m) Retirement plans

As of and for the six months ended June 30, 2008 and 2007, the details of the retirement plans were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Balance of the retirement fund:				
Bank of Taiwan	\$ 1,927,528	63,510	1,679,579	51,301
Periodic pension cost:				
Defined benefit pension plan cost	136,956	4,419	125,617	3,804
Defined contribution pension plan cost	54,710	1,766	49,970	1,514
Accrued employee retirement liabilities	560,470	18,467	777,390	23,745

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (n) Income tax

- (1) For the six months ended June 30, 2008 and 2007, the components of estimated income tax benefits (expenses) were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expenses — current	\$ (21,507)	(694)	(16,799)	(508)
Income tax benefits — deferred	<u>-</u>	<u>-</u>	<u>108,909</u>	<u>3,298</u>
	<u>\$ (21,507)</u>	<u>(694)</u>	<u>92,110</u>	<u>2,790</u>

The deferred income tax benefits were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ 1,196,009	38,593	707,509	21,427
Investment tax credits	351,549	11,344	599,399	18,153
Unrealized exchange losses	28,691	926	16,562	502
Purchase of fixed assets in installments, adjusted for tax purposes	(65)	(2)	11,198	339
Provision (reversal) for loss on inventory market price decline	65,614	2,117	(95,797)	(2,901)
Accrued employee retirement liabilities	(7,561)	(244)	(6,826)	(207)
Unrealized gains on financial instruments	(11,438)	(369)	(226,463)	(6,859)
Other	(3,552)	(114)	(17,760)	(538)
Valuation allowance for deferred income tax assets	<u>(1,619,247)</u>	<u>(52,251)</u>	<u>(878,913)</u>	<u>(26,618)</u>
	<u>\$ -</u>	<u>-</u>	<u>108,909</u>	<u>3,298</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". The differences between expected income tax benefit at statutory rates and income tax benefit (expense) as reported in the accompanying financial statements for the six months ended June 30, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Income tax benefits calculated on pre-tax financial income at statutory income tax rate of 25%	\$ 1,486,472	47,966	445,130	13,481
Gains (losses) on disposal of investments	6,069	196	(26,207)	(794)
Investment income recognized under equity method				
— unrealized	1,428	46	70,019	2,121
Dividend income	24,015	775	19,053	577
Permanent difference in depreciation expenses	27,130	875	(36,948)	(1,119)
Exchange losses recorded as translation adjustments	(15,329)	(495)	(2,406)	(73)
Increase in investment tax credits	325,973	10,519	599,399	18,153
Others	(258,018)	(8,326)	(97,017)	(2,938)
Valuation allowance for deferred income tax assets	<u>(1,619,247)</u>	<u>(52,250)</u>	<u>(878,913)</u>	<u>(26,618)</u>
	<u>\$ (21,507)</u>	<u>(694)</u>	<u>92,110</u>	<u>2,790</u>

- (3) The components of the deferred income tax assets (liabilities) as of June 30, 2008 and 2007, were as follows:

	2008				2007			
	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	\$ 1,395,468	45,979	348,867	11,495	957,826	29,256	239,457	7,314
Unused investment tax credits	375,314	12,366	375,314	12,366	-	-	-	-
Unrealized gain on financial instruments	(214,491)	(7,067)	(53,623)	(1,767)	-	-	-	-
Unrealized exchange losses	111,376	3,670	27,844	917	92,184	2,816	23,046	704
Others	131,576	4,335	<u>32,894</u>	<u>1,084</u>	3,040	93	<u>760</u>	<u>23</u>
			731,296	24,095			263,263	8,041
Less: Valuation allowance for deferred income tax assets			<u>(375,314)</u>	<u>(12,366)</u>			-	-
Deferred income tax assets, net— current			<u>355,982</u>	<u>11,729</u>			<u>263,263</u>	<u>8,041</u>
Deferred income tax assets (liabilities)— noncurrent								
Unrealized losses on financial instruments	\$ -	-	-	-	31,275	955	7,819	239
Unused investment tax credits	1,803,993	59,440	1,803,993	59,440	1,214,366	37,091	1,214,366	37,091
Accrued employee retirement liabilities	66,464	2,190	16,616	547	147,352	4,501	36,838	1,125
Purchase of fixed assets in installments, adjusted for tax purposes	3,154,448	103,936	788,612	25,984	3,109,916	94,988	777,479	23,747
Unused loss carryforwards	10,641,630	350,630	2,660,407	87,658	6,120,360	186,938	1,530,090	46,735
Other	3,459,732	113,994	<u>864,933</u>	<u>28,498</u>	(1,698,480)	(51,878)	<u>(424,620)</u>	<u>(12,969)</u>
			6,134,561	202,127			3,141,972	95,968
Less: Valuation allowance for deferred income tax assets			<u>(3,533,632)</u>	<u>(116,429)</u>			<u>(1,738,913)</u>	<u>(53,113)</u>
Deferred income tax assets, net— noncurrent			<u>2,600,929</u>	<u>85,698</u>			<u>1,403,059</u>	<u>42,855</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (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 June 30, 2008, 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	12,366	2009
2006	259,139	8,538	2010
2007	1,218,881	40,161	2011
2008	<u>325,973</u>	<u>10,741</u>	2012
	\$ <u><b>2,179,307</b></u>	<u><b>71,806</b></u>	

- (5) As of June 30, 2008, unused loss carryforward tax credits available to the Company were as follows:

Year	Unused loss carryforward		Expiry year
	NT dollars	US dollars	
2006	\$ 2,791,932	91,991	2011
2007	1,943,785	64,046	2012
2008	<u>5,905,913</u>	<u>194,593</u>	2013
	\$ <u><b>10,641,630</b></u>	<u><b>350,630</b></u>	

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

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Unappropriated earnings before 1997	\$ -	-	-	-
Unappropriated earnings after 1998	<u>(5,967,395)</u>	<u>(192,559)</u>	<u>(657,899)</u>	<u>(22,856)</u>
	\$ <u><b>(5,967,395)</b></u>	<u><b>(192,559)</b></u>	<u><b>(657,899)</b></u>	<u><b>(22,856)</b></u>
ICA	\$ <u><b>754,850</b></u>	<u><b>24,871</b></u>	<u><b>565,458</b></u>	<u><b>17,271</b></u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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

- (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\$428) and NT\$23,416 (US\$772), 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, but paid both additional taxes. As of June 30, 2008, the ROC income tax authority had granted the Company a tax refund amounting to NT\$10,336 (US\$341) and NT\$17,534 (US\$578) for 2001 and 2003, respectively.

## (o) Stockholders' equity

## (1) Common stock

As of June 30, 2008 and 2007, 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 3,942,677 thousand shares and 3,874,979 thousand shares, respectively, were issued and outstanding.

For the six months ended June 30, 2008, convertible bonds of NT\$914,600 (US\$29,512) thousand had been converted into common stock of NT\$676,978 (US\$21,845). The amount in excess of par value, NT\$237,622 (US\$7,667), was credited to capital surplus. The stock issuance was authorized by and registered with the government authorities.

(Continued)

## 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 June 30, 2008 and 2007, were as follows:

	2008		2007	
	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	1,422,243	44,001	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	232,813	6,765	230,167	6,682
Donated assets	<u>649,376</u>	<u>21,243</u>	<u>649,367</u>	<u>21,243</u>
	<b>\$ <u>4,820,433</u></b>	<b><u>156,037</u></b>	<b><u>4,580,156</u></b>	<b><u>148,287</u></b>

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 and gifts received. In addition, the capital surplus which is credited to capital should not exceed 10 percent of the amount of paid-in capital in one year in accordance with the "Criteria Governing the Offering and Issuance of Securities by Securities Issuers".

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.

(Continued)

## 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.

On June 17, 2008, the Company's stockholders resolved to make up deficiencies from legal reserve of NT\$841,408 (US\$24,944) and not to appropriate stockholders' bonuses, employees' bonuses, and directors' and supervisors' remuneration.

## (p) Earnings per share

For the six months ended June 30, 2008 and 2007, earnings per share were calculated as follows:

	Dollars		NT dollars	Earnings per Share		Dollars		US dollars	Earnings per Share	
	Before Income Tax	After Income Tax	2008 Shares	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	2008 Shares	Before Income Tax	After Income Tax
Basic earnings per share	\$ <u>(5,945,888)</u>	<u>(5,967,395)</u>	<u>3,911,289</u>	\$ <u>(1.52)</u>	<u>(1.53)</u>	<u>(191,865)</u>	<u>(192,559)</u>	<u>3,911,289</u>	<u>(0.05)</u>	<u>(0.05)</u>
	Before Income Tax	After Income Tax	NT dollars	Earnings per Share		Dollars		US dollars	Earnings per Share	
	Before Income Tax	After Income Tax	2007 Shares	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	2007 Shares	Before Income Tax	After Income Tax
Basic earnings per share	\$ <u>(1,780,519)</u>	<u>(1,688,409)</u>	<u>3,874,979</u>	\$ <u>(0.46)</u>	<u>(0.44)</u>	<u>(53,923)</u>	<u>(51,133)</u>	<u>3,874,979</u>	<u>(0.01)</u>	<u>(0.01)</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (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.

As of June 30, 2008 and 2007, 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
		2008		2007			
		NT dollars	US dollars	NT dollars	US dollars		
Floating interest rate of bonds payable	Interest rate swap agreements	\$ (5,140)	(169)	(21,362)	(652)	2004~2009	Derivative financial liabilities for hedge purposes – current and derivative financial liabilities for hedge purposes – noncurrent

As of June 30, 2008 and 2007, the unrealized valuation loss on financial instruments due to hedging of cash flow amounted to NT\$5,140 (US\$169) and NT\$21,362 (US\$652), respectively, recorded under stockholders' equity.

(Continued)

## 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 June 30, 2008 and 2007, were as follows:

	Book value	2008		Book value	2007	
		NT dollars Fair value Public quote value	Assessment value		US dollars Fair value Public quote value	Assessment value
Financial assets:						
Cash and cash equivalents	\$ 6,237,932	-	6,237,932	205,533	-	205,533
Notes and accounts receivable (including receivables from related parties)	7,683,806	-	7,683,806	253,173	-	253,173
Other receivables (including receivables from related parties)	811,127	-	811,127	26,726	-	26,726
Available-for-sale financial assets—current	2,045,878	2,045,878	-	67,410	67,410	-
Available-for-sale financial assets— noncurrent	682,294	682,294	-	22,481	22,481	-
Financial assets carried at cost—noncurrent	2,278,161	-	-	75,063	-	-
Interest rate swap agreements	48,935	-	48,935	1,612	-	1,612
Fuel option agreements	326,638	-	326,638	10,762	-	10,762
Financial liabilities:						
Notes and accounts payable (including payables to related parties)	2,577,288	-	2,577,288	84,919	-	84,919
Accrued expenses	7,773,489	-	7,773,489	256,128	-	256,128
Other payables (including payables to related parties)	2,330,358	-	2,330,358	76,783	-	76,783
Current portion of long-term liabilities	9,690,793	-	9,690,793	319,301	-	319,301
Bonds payable	9,246,700	-	8,607,121	304,669	-	283,595
Long-term borrowings	42,880,211	-	42,880,211	1,412,857	-	1,412,857
Aircraft payable	10,193,527	-	10,193,527	335,866	-	335,866
Lease liability	15,392,363	-	15,392,363	507,162	-	507,162
Interest rate swap agreements	5,140	-	5,140	169	-	169
Fuel option agreements	161,082	-	161,082	5,307	-	5,307
Off-balance-sheet financial instruments:						
Letters of credit	-	-	821,161	-	-	27,056

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	2007					
	NT dollars			US dollars		
	Book value	Fair value Public quote value	Assessment value	Book value	Fair value Public quote value	Assessment value
<b>Financial assets:</b>						
Cash and cash equivalents	\$ 3,319,681	-	3,319,681	101,395	-	101,395
Notes and accounts receivable (including receivables from related parties)	8,047,157	-	8,047,157	245,790	-	245,790
Other receivables (including receivables from related parties)	545,467	-	545,467	16,661	-	16,661
Available-for-sale financial assets — current	6,211,075	6,211,075	-	189,709	189,709	-
Available-for-sale financial assets — noncurrent	660,206	660,206	-	20,165	20,165	-
Financial assets carried at cost — noncurrent	2,325,889	-	-	71,041	-	-
Interest rate swap agreements	141,116	-	141,116	4,310	-	4,310
Fuel option agreements	90,030	-	90,030	2,750	-	2,750
<b>Financial liabilities:</b>						
Notes and accounts payable (including payables to related parties)	2,276,738	-	2,276,738	69,540	-	69,540
Accrued expenses	7,233,874	-	7,233,874	220,949	-	220,949
Other payables (including payables to related parties)	2,553,979	-	2,553,979	78,008	-	78,008
Current portion of long-term liabilities	9,837,949	-	9,990,956	300,487	-	305,161
Bonds payable	9,100,000	-	8,153,009	277,947	-	249,023
Long-term borrowings	32,301,826	-	32,301,826	986,617	-	986,617
Aircraft payable	13,384,247	-	13,384,247	408,804	-	408,804
Lease liability	12,425,313	-	12,425,313	379,515	-	379,515
Interest rate swap agreements	21,567	-	21,567	658	-	658
Fuel option agreements	262,216	-	262,216	8,009	-	8,009
Off-balance-sheet financial instruments:						
Letters of credit	-	-	825,930	-	-	25,227

## (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 (including related parties), accrued expenses, and other payables (including related parties), 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.
- 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 six months ended June 30, 2008 and 2007, were 1.18%~6.93% p.a.

(Continued)

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

- iv) The fair value of letters of credit and financing guaranty is based on the contract.
- (3) For the six months ended June 30, 2008 and 2007, the evaluation gain or loss on financial assets at fair value through profit amounted to gains of NT\$558,512 (US\$18,022) and NT\$766,947 (US\$23,227), respectively.
- (4) Disclosure of financial risks

- (i) Market risk

As of June 30, 2008 and 2007, the bonds payable with the risk arising from floating interest rates amounted to NT\$8,600,000 (US\$283,359) and NT\$8,600,000 (US\$262,675), respectively.

The Company's bonds payable carried a fixed interest rate. If the market interest rate were to increase by 1%, the fair value of bonds payable would decrease by approximately NT\$219,052 (US\$7,218).

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.

The Company is exposed to foreign currency risk on accounts receivable which are denominated in a currency other than New Taiwan dollars. The above foreign currency risk will be offset by the same risk related to those accounts payable which are denominated in a foreign currency. Therefore, the Company believes its exposure to foreign currency risk is low.

- (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

(Continued)

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

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

The Company's derivative financial instruments are expected to sell at the rational price. Therefore, the liquidity risk is not significant.

The Company's available-for-sale financial assets had publicly traded prices and were expected to be sold promptly at close to their fair value. Therefore, the liquidity risk is not significant.

Liquidity risk resulted from financial assets carried at cost that had no publicly traded prices.

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

As of June 30, 2008 and 2007, the financial liabilities with the risk arising from floating interest rates amounted to NT\$52,571,004 (US\$1,732,158) and NT\$40,574,725 (US\$1,239,302), 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 June 30, 2008 and 2007, if the market interest rate were to increase by 1%, the Company's future cash outflow would increase by approximately NT\$262,855 (US\$8,482) and NT\$202,874 (US\$6,144), respectively.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 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
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 a Company subsidiary

## (b) Significant transactions with related parties

## (1) Revenue, cost and expenses

During the six months ended June 30, 2008 and 2007, the Company's transactions with related parties were as follows:

Revenue	2008			2007		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen Aviation Technologies Corp.	\$ 197,400	6,370	0.43	121,857	3,691	0.28
Shanghai Airlines Cargo International Co., Ltd.	42,544	1,373	0.10	11,546	350	0.03
Uni Airways Corp.	26,398	852	0.06	14,335	434	0.03
Evergreen International Corp.	10,825	349	0.02	8,461	256	0.02
Evergreen Air Cargo Services Corp.	10,206	329	0.02	10,674	323	0.02
Green Siam Air Services Co., Ltd.	1,432	46	-	1,552	47	-
Others	1,321	43	-	1,650	50	-
	<u>\$ 290,126</u>	<u>9,362</u>	<u>0.63</u>	<u>170,075</u>	<u>5,151</u>	<u>0.38</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Cost	2008			2007		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen Aviation Technologies Corp.	\$ 1,821,850	58,788	3.76	2,243,495	67,944	5.21
Evergreen Airline Services Corp.	455,355	14,694	0.94	452,713	13,710	1.05
Evergreen Sky Catering Corp.	431,350	13,919	0.89	439,319	13,305	1.02
Uni Airways Corp.	328,819	10,610	0.68	426,642	12,921	0.99
Evergreen Air Cargo Services Corp.	145,364	4,691	0.30	156,922	4,752	0.36
Evergreen International Storage & Transport Corp.	32,965	1,064	0.07	35,022	1,061	0.08
Evergreen International Corp.	22,788	735	0.05	23,752	719	0.06
Shanghai Airlines Cargo International Co., Ltd.	8,732	282	0.02	-	-	-
Others	522	17	-	633	19	-
	<u>\$ 3,247,745</u>	<u>104,800</u>	<u>6.71</u>	<u>3,778,498</u>	<u>114,431</u>	<u>8.77</u>

Expenses	2008			2007		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen International Corp.	\$ 65,558	2,115	1.93	61,413	1,860	1.78
Green Siam Air Services Co., Ltd.	46,254	1,493	1.36	41,593	1,260	1.21
Evergreen Security Corp.	19,690	635	0.58	20,096	609	0.58
RTW Air Services (S) Pte. Ltd.	17,758	573	0.52	18,637	564	0.54
PT Perdana Andalan Air Service	14,895	481	0.44	14,007	424	0.41
Evergreen Airline Services Corp.	13,615	439	0.40	14,114	427	0.41
Uni Airways Corp.	13,311	430	0.39	58,697	1,778	1.70
Evergreen Sky Catering Corp.	10,932	353	0.32	9,425	285	0.27
Evergreen International Storage & Transport Corp.	9,671	312	0.28	8,141	247	0.24
Evergreen Aviation Technologies Corp.	7,943	256	0.23	6,077	184	0.18
Others	671	22	0.02	694	21	0.01
	<u>\$ 220,298</u>	<u>7,109</u>	<u>6.47</u>	<u>252,894</u>	<u>7,659</u>	<u>7.33</u>

The Company sold spare parts to Evergreen Aviation Technologies Corp. amounting to NT\$92,908 (US\$3,061) and NT\$143,979 (US\$4,398) for the six months ended June 30, 2008 and 2007, respectively.

(Continued)



## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 6. Pledged Assets

The book values of the pledged assets as of June 30, 2008 and 2007, were as follows:

Pledged assets	Object	2008		2007	
		NT dollars	US dollars	NT dollars	US dollars
Land	Long-term borrowings	\$ 1,864,122	61,421	1,864,122	56,937
Buildings	Long-term borrowings	2,351,764	77,488	2,437,134	74,439
Aircraft	Long-term borrowings, Aircraft payable	55,187,110	1,818,356	47,470,210	1,449,915
Engines—included in machinery and equipment	Long-term borrowings	-	-	67,125	2,050
Simulators—included in machinery and equipment	Long-term borrowings	239,152	7,880	268,886	8,213
Time deposit—included in other assets	Customs duty and contract performance guaranties	528,521	17,414	580,612	17,734
		<u>\$ 60,170,669</u>	<u>1,982,559</u>	<u>52,688,089</u>	<u>1,609,288</u>

## 7. Commitments and Contingencies

(a) As of June 30, 2008, 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	2	US\$ 372,874	NT\$ 2,504,287 (US\$82,514)
April 2004	Boeing-777	3	US\$ 559,311	NT\$ 7,921,766 (US\$261,014)

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

(b) As of June 30, 2008, the Company had issued NT\$14,349,342 (US\$472,795) worth of promissory notes to banks to obtain guaranties for credit lines and to lessors for leasing aircraft. As of June 30, 2008, the Company had obtained guaranties from ABN-AMRO Bank, Citibank, HSBC Bank, ANZ Bank, Calyon Corporate and Investment Bank, and Mizuho Corporate Bank amounting to NT\$848,698 (US\$27,964).

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (c) The Company entered into aircraft, land, engine and aircraft parts lease contracts using the operating lease or capital lease method. As of June 30, 2008, the Company had paid NT\$5,577,490 (US\$183,772) as refundable deposits. According to these contracts, future lease payments in the following five years are as follows:

Year due	NT dollars	US dollars
July 1, 2008~June 30, 2009	\$ 8,344,087	274,929
July 1, 2009~June 30, 2010	7,980,179	262,938
July 1, 2010~June 30, 2011	6,905,103	227,516
July 1, 2011~June 30, 2012	6,276,648	206,809
July 1, 2012~June 30, 2013	6,241,929	205,665
And after	<u>26,748,087</u>	<u>881,320</u>
	\$ <u><b>62,496,033</b></u>	<u><b>2,059,177</b></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**

On July 15, 2008, the Company's board of directors resolved to issue 500,000 thousand shares of common stock with an issuance price of NT\$10 per share for cash subscription.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 10. Others

- (a) Total personnel expenses, depreciation and amortization for the six months ended June 30, 2008 and 2007, were as follows:

By function By item	2008					
	Operating cost	NT dollars Operating expenses	Total	Operating cost	US dollars Operating expenses	Total
Personnel expenses						
Salaries	\$ 1,561,445	1,296,478	2,857,923	50,386	41,835	92,221
Insurance	64,744	59,738	124,482	2,089	1,928	4,017
Pension	110,573	81,093	191,666	3,568	2,617	6,185
Others (meal allowances, etc.)	623,953	120,823	744,776	20,134	3,899	24,033
Depreciation	3,472,163	89,728	3,561,891	112,041	2,896	114,937
Amortization	879,751	83,507	963,258	28,388	2,695	31,083

  

By function By item	2007					
	Operating cost	NT dollars Operating expenses	Total	Operating cost	US dollars Operating expenses	Total
Personnel expenses						
Salaries	\$ 1,538,803	1,341,117	2,879,920	46,602	40,615	87,217
Insurance	67,648	60,449	128,097	2,049	1,830	3,879
Pension	101,104	74,483	175,587	3,062	2,256	5,318
Others (meal allowances, etc.)	626,106	126,533	752,639	18,961	3,832	22,793
Depreciation	3,466,700	102,107	3,568,807	104,988	3,092	108,080
Amortization	499,457	95,336	594,793	15,126	2,887	18,013

- (b) Reclassification

Certain amounts in the financial statements for the six months ended June 30, 2007, have been reclassified to conform with the presentation of the financial statements for the six months ended June 30, 2008, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****11. Segment Financial Information**

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