

**EVA AIRWAYS CORP.**  
**Financial Statements**  
**December 31, 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 December 31, 2008 and 2007, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain non-consolidated investee companies. The Company's investments in these companies as of December 31, 2008 and 2007, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$2,768,819 thousand (US\$84,261 thousand), constituting 1.93% of total assets, and NT\$2,312,161 thousand (US\$71,275 thousand), constituting 1.55% of total assets, respectively. The cumulative translation adjustments from the aforementioned investments amounted to NT\$639 thousand (US\$19 thousand) and NT\$14,866 thousand (US\$458 thousand), respectively. The resulting investment gains amounted to NT\$38,069 thousand (US\$1,208 thousand), constituting (0.22)% of loss before income tax, and NT\$32,745 thousand (US\$997 thousand), constituting (1.67)% of loss before income tax, for the years 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 standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the 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 years ended December 31, 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)  
March 9, 2009

**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**

**December 31, 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))	\$ 3,228,087	98,238	2,956,763	91,145	Short-term borrowings (note 4(i))	\$ 1,800,000	54,778	-	-
Financial assets at fair value through profit or loss—current (note 4(b))	425,020	12,934	63,245	1,949	Commercial paper payable (note 4(i))	500,000	15,216	-	-
Available-for-sale financial assets—current (note 4(b))	1,134,811	34,535	5,115,645	157,696	Financial liabilities at fair value through profit or loss—current (note 4(b))	3,996,048	121,608	85	3
Notes receivable	198,684	6,046	281,354	8,673	Derivative financial liabilities for hedge purposes—current (note 4(q))	2,489,189	75,751	-	-
Accounts receivable, net	5,809,225	176,787	8,358,045	257,646	Accounts payable	938,555	28,562	1,928,588	59,451
Accounts receivable—related parties (note 5)	159,646	4,858	46,128	1,422	Accounts payable—related parties (note 5)	728,743	22,177	651,760	20,091
Other receivables (note 4(c))	181,949	5,537	321,463	9,909	Accrued expenses	5,779,960	175,897	7,824,060	241,186
Other receivables—related parties (note 5)	74,505	2,267	55,817	1,721	Other payables—related parties (note 5)	107,353	3,267	141,214	4,353
Inventories (notes 4(d) and 5)	8,630,804	262,654	9,528,003	293,712	Other payables (notes 4(l) and 6)	3,091,025	94,067	3,065,069	94,484
Prepaid expenses	46,395	1,412	94,616	2,917	Unearned revenue	6,512,232	198,181	7,006,846	215,994
Other prepayments	567,101	17,258	491,237	15,143	Current portion of long-term liabilities (notes 4(j), 4(k), 6 and 7)	11,966,941	364,180	7,897,704	243,456
Deferred income tax assets—current (note 4(n))	933,933	28,422	313,292	9,658	Lease liability—current (note 4(g))	1,407,428	42,831	1,455,294	44,861
Other current assets	23,210	707	74,477	2,296	Other current liabilities	1,911,160	58,161	1,515,737	46,724
<b>Total current assets</b>	<u>21,413,370</u>	<u>651,655</u>	<u>27,700,085</u>	<u>853,887</u>	<b>Total current liabilities</b>	<u>41,228,634</u>	<u>1,254,676</u>	<u>31,486,357</u>	<u>970,603</u>
<b>Funds and investments:</b>					<b>Long-term liabilities:</b>				
Financial assets at fair value through profit or loss—noncurrent (note 4(b))	-	-	106,756	3,291	Financial liabilities at fair value through profit or loss—noncurrent (note 4(b))	1,790,636	54,493	1,176	36
Available-for-sale financial assets—noncurrent (note 4(b))	385,150	11,721	666,526	20,546	Derivative financial liabilities for hedge purposes—noncurrent (note 4(q))	1,427,877	43,453	12,731	392
Financial assets carried at cost—noncurrent (note 4(b))	2,252,588	68,551	2,281,612	70,333	Bonds payable (note 4(k))	7,100,000	216,068	10,661,300	328,647
Long-term equity investments under equity method (note 4(e))	7,563,622	230,177	7,889,041	243,189	Long-term borrowings (notes 4(j), 6 and 7)	40,186,382	1,222,957	32,911,612	1,014,538
<b>Total funds and investments</b>	<u>10,201,360</u>	<u>310,449</u>	<u>10,943,935</u>	<u>337,359</u>	Aircraft payable (notes 4(l) and 6)	9,816,524	298,738	12,087,424	372,609
<b>Property, plant and equipment (notes 4(f), 4(g), 6 and 7):</b>					Lease liability—noncurrent (note 4(g))	13,763,331	418,848	15,092,833	465,254
Land	1,869,784	56,902	1,869,784	57,638	<b>Total long-term liabilities</b>	<u>74,084,750</u>	<u>2,254,557</u>	<u>70,767,076</u>	<u>2,181,476</u>
Buildings	4,543,278	138,262	4,543,278	140,052	<b>Other liabilities:</b>				
Machinery and equipment	7,077,378	215,380	6,570,840	202,553	Accrued employee retirement liabilities (note 4(m))	195,262	5,942	590,714	18,209
Aircraft	95,467,577	2,905,282	84,596,114	2,607,772	Other liabilities	2,004,520	61,002	2,105,552	64,906
Leased assets	16,613,171	505,574	19,979,240	615,883	<b>Total other liabilities</b>	<u>2,199,782</u>	<u>66,944</u>	<u>2,696,266</u>	<u>83,115</u>
Other equipment	7,971	242	92,133	2,840	<b>Total liabilities</b>	<u>117,513,166</u>	<u>3,576,177</u>	<u>104,949,699</u>	<u>3,235,194</u>
	125,579,159	3,821,642	117,651,389	3,626,738	<b>Stockholders' equity (notes 4(e), 4(m), 4(o) and 4(q)):</b>				
Less: accumulated depreciation	(37,185,904)	(1,131,647)	(35,958,394)	(1,108,459)	Common stock	39,426,772	1,332,170	38,749,794	1,310,325
Advances for purchases of equipment	9,480,782	288,521	13,173,517	406,089	Capital surplus	4,866,753	157,445	4,582,191	148,350
<b>Net property, plant and equipment</b>	<u>97,874,037</u>	<u>2,978,516</u>	<u>94,866,512</u>	<u>2,924,368</u>	Retained earnings (accumulated deficit):				
<b>Intangible assets:</b>					Legal reserve	18,864	586	860,272	25,530
Deferred pension cost (note 4(m))	81,888	2,492	109,182	3,366	Accumulated deficit	(16,889,684)	(535,670)	(841,408)	(28,707)
<b>Other assets:</b>					<b>Total retained earnings (accumulated deficit)</b>	<u>(16,870,820)</u>	<u>(535,084)</u>	<u>18,864</u>	<u>(3,177)</u>
Refundable deposits (note 7)	4,902,304	149,188	7,500,806	231,221	Other stockholders' equity adjustments:				
Deferred charges (note 4(h))	5,035,517	153,242	5,851,223	180,371	Cumulative translation adjustments	1,491,895	(74,754)	1,085,636	(85,946)
Deferred income tax assets—noncurrent (note 4(n))	2,357,222	71,735	1,601,171	49,358	Net loss not yet recognized as net pension cost	(162,517)	(4,862)	(472,617)	(14,299)
Other assets (note 6)	1,389,606	42,288	564,881	17,413	Unrealized gains or losses on financial instruments	(3,009,945)	(91,527)	224,228	6,896
<b>Total other assets</b>	<u>13,684,649</u>	<u>416,453</u>	<u>15,518,081</u>	<u>478,363</u>	<b>Total other stockholders' equity adjustments</b>	<u>(1,680,567)</u>	<u>(171,143)</u>	<u>837,247</u>	<u>(93,349)</u>
					<b>Total stockholders' equity</b>	<u>25,742,138</u>	<u>783,388</u>	<u>44,188,096</u>	<u>1,362,149</u>
<b>Total assets</b>	<u>\$ 143,255,304</u>	<u>4,359,565</u>	<u>149,137,795</u>	<u>4,597,343</u>	<b>Commitments and contingencies (note 7)</b>				
					<b>Total liabilities and stockholders' equity</b>	<u>\$ 143,255,304</u>	<u>4,359,565</u>	<u>149,137,795</u>	<u>4,597,343</u>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Statements of Operations**

**For the years ended December 31, 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>	\$ 90,655,666	2,875,219	93,103,131	2,834,189
<b>Operating cost (notes 5 and 10)</b>	<u>(92,755,242)</u>	<u>(2,941,809)</u>	<u>(88,518,900)</u>	<u>(2,694,639)</u>
<b>Gross profit (loss) from operations</b>	(2,099,576)	(66,590)	4,584,231	139,550
<b>Operating expenses (notes 5 and 10)</b>	<u>(6,507,141)</u>	<u>(206,379)</u>	<u>(6,858,651)</u>	<u>(208,787)</u>
<b>Operating loss</b>	<u>(8,606,717)</u>	<u>(272,969)</u>	<u>(2,274,420)</u>	<u>(69,237)</u>
<b>Non-operating income and gains:</b>				
Interest income	124,772	3,958	189,780	5,777
Investment income (note 4(e))	191,550	6,075	394,557	12,011
Gains on disposal of property, plant and equipment, net	114,903	3,644	69,296	2,110
Gains on sale of investments, net (note 4(b))	55,462	1,759	-	-
Exchange gains, net	-	-	303,226	9,231
Gains on valuation of financial assets (note 4(r))	-	-	1,235,201	37,601
Other income	<u>478,444</u>	<u>15,174</u>	<u>431,169</u>	<u>13,125</u>
	<u>965,131</u>	<u>30,610</u>	<u>2,623,229</u>	<u>79,855</u>
<b>Non-operating expenses and losses:</b>				
Interest expenses, net of capitalized interest of NT\$314,370 (US\$9,971) and NT\$440,511 (US\$13,410) in 2008 and 2007, respectively (notes 4(f) and 4(r))	(2,725,605)	(86,445)	(2,215,286)	(67,436)
Losses on sale of investments, net (note 4(b))	-	-	(52,311)	(1,593)
Losses on valuation of financial assets (note 4(r))	(6,946,649)	(220,319)	-	-
Exchange losses, net	(4,545)	(144)	-	-
Other losses (note 4(b))	<u>(71,905)</u>	<u>(2,280)</u>	<u>(39,361)</u>	<u>(1,198)</u>
	<u>(9,748,704)</u>	<u>(309,188)</u>	<u>(2,306,958)</u>	<u>(70,227)</u>
<b>Loss from continuing operations before income tax</b>	(17,390,290)	(551,547)	(1,958,149)	(59,609)
<b>Income tax benefit (note 4(n))</b>	<u>500,606</u>	<u>15,877</u>	<u>86,231</u>	<u>2,625</u>
<b>Net loss</b>	<u>\$ (16,889,684)</u>	<u>(535,670)</u>	<u>(1,871,918)</u>	<u>(56,984)</u>
	<b>Loss</b>	<b>Net loss</b>	<b>Loss before</b>	<b>Net loss</b>
	<b>before income</b>		<b>income tax</b>	
	<b>tax</b>			<b>Net loss</b>
	NT	US	NT	US
	<b>dollars</b>	<b>dollars</b>	<b>dollars</b>	<b>dollars</b>
<b>Basic earnings per share (expressed in dollars)</b> <b>(note 4(p)):</b>				
Net loss	<u>\$ (4.43)</u>	<u>(0.14)</u>	<u>(4.30)</u>	<u>(0.14)</u>
	<u>(0.51)</u>	<u>(0.02)</u>	<u>(0.48)</u>	<u>(0.01)</u>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Statements of Changes in Stockholders' Equity**

**For the years ended December 31, 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 or losses 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 or losses 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	-	2,073	-	-	-	-	-	2,073	-	64	-	-	-	-	-	64
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	3,955	-	3,955	-	-	-	-	-	122	-	122
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	108,734	-	108,734	-	-	-	-	-	3,352	-	3,352
Decrease in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	-	-	-	(149)	-	-	(149)	-	-	-	-	(5)	-	-	(5)
Increase in net equity due to the change in percentage of unrealized gains or losses on financial instruments in long-term equity investments under equity method	-	-	-	-	-	-	10,025	10,025	-	-	-	-	-	-	309	309
Change in unrealized gains on financial instruments	-	-	-	-	-	-	147,216	147,216	-	-	-	-	-	-	4,538	4,538
Net loss for the year ended December 31, 2007	-	-	-	(1,871,918)	-	-	-	(1,871,918)	-	-	-	(56,984)	-	-	-	(56,984)
Translation adjustments for the year ended December 31, 2007	-	-	-	-	(352,443)	-	-	(352,443)	-	-	-	-	(4,603)	-	-	(4,603)
<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 investee company issuing new shares and the Company not purchasing proportionately	-	50,318	-	-	-	-	-	50,318	-	1,531	-	-	-	-	-	1,531
Decrease in net equity due to the change in percentage of capital surplus in long-term equity investments under equity method	-	(3,378)	-	-	-	-	-	(3,378)	-	(103)	-	-	-	-	-	(103)
Decrease in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	(4,340)	-	(4,340)	-	-	-	-	-	(132)	-	(132)
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	314,440	-	314,440	-	-	-	-	-	9,569	-	9,569
Decrease in net equity due to the change in percentage of unrealized losses on financial instruments in long-term equity investments under equity method	-	-	-	-	-	-	(24,761)	(24,761)	-	-	-	-	-	-	(754)	(754)
Change in unrealized losses on financial instruments	-	-	-	-	-	-	(3,209,412)	(3,209,412)	-	-	-	-	-	-	(97,669)	(97,669)
Net loss for the year ended December 31, 2008	-	-	-	(16,889,684)	-	-	-	(16,889,684)	-	-	-	(535,670)	-	-	-	(535,670)
Translation adjustments for the year ended December 31, 2008	-	-	-	-	406,259	-	-	406,259	-	-	-	3,763	11,192	-	-	14,955
<b>Balance on December 31, 2008</b>	<u>\$ 39,426,772</u>	<u>4,866,753</u>	<u>18,864</u>	<u>(16,889,684)</u>	<u>1,491,895</u>	<u>(162,517)</u>	<u>(3,009,945)</u>	<u>25,742,138</u>	<u>1,332,170</u>	<u>157,445</u>	<u>586</u>	<u>(535,670)</u>	<u>(74,754)</u>	<u>(4,862)</u>	<u>(91,527)</u>	<u>783,388</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the years ended December 31, 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	\$ (16,889,684)	(535,670)	(1,871,918)	(56,984)
Adjustments to reconcile net loss to net cash flow provided by operating activities:				
Depreciation	7,360,204	233,435	7,344,746	223,584
Impairment loss	9,000	285	-	-
Amortization and maintenance expense	1,626,447	51,584	1,313,919	39,998
Amortization expense recorded as interest expenses	30,812	977	27,137	826
Losses (gains) on sale of investments	(55,462)	(1,759)	52,311	1,592
Exchange gains arising from disposal of foreign operating units	(58,839)	(1,866)	(240,165)	(7,311)
Gains on disposal of property, plant and equipment recorded as exchange gains	(168,245)	(5,336)	-	-
Gains on disposal and obsolescence of property, plant and equipment	(89,782)	(2,848)	(51,340)	(1,563)
Provision for unrealized exchange gain from long-term borrowings	-	-	(6,378)	(194)
Investment income	(191,550)	(6,075)	(394,557)	(12,011)
Amortization of deferred gain from sale and leaseback of fixed assets	-	-	(505)	(15)
Amortization of other deferred gain	(115,841)	(3,674)	(147,440)	(4,488)
Proceeds from cash dividends on long-term equity investments	418,508	13,273	630,978	19,208
Deferred income tax benefit	(536,989)	(17,031)	(120,094)	(3,656)
Changes in operating assets and liabilities, net:				
Financial assets at fair value through profit or loss—current	(361,775)	(11,474)	(41,561)	(1,265)
Financial assets at fair value through profit or loss—noncurrent	106,756	3,386	(41,801)	(1,272)
Financial liabilities at fair value through profit or loss—current	3,995,963	126,735	(255,199)	(7,769)
Financial liabilities at fair value through profit or loss—noncurrent	1,789,460	56,754	(767,306)	(23,358)
Notes receivable	82,670	2,622	110,386	3,360
Accounts receivable (including related parties)	2,449,979	77,703	(113,853)	(3,466)
Other receivables (including related parties)	123,489	3,917	(18,447)	(562)
Inventories	887,477	28,147	(828,360)	(25,216)
Prepaid expenses	48,221	1,529	(35,837)	(1,091)
Other prepayments	(75,864)	(2,406)	115,444	3,514
Other current assets	51,267	1,626	(7,520)	(229)
Accounts payable (including related parties)	(913,050)	(28,958)	148,423	4,518
Accrued expenses	(2,044,100)	(64,830)	913,709	27,815
Other payables (including related parties)	(94,986)	(3,013)	810,021	24,658
Unearned revenue	(494,614)	(15,687)	540,147	16,443
Other current liabilities	395,423	12,541	276,284	8,411
Accrued employee retirement liabilities	(53,718)	(1,703)	(101,270)	(3,083)
Other liabilities	93,634	2,970	125,759	3,828
<b>Net cash provided by (used in) operating activities</b>	<u>(2,675,189)</u>	<u>(84,846)</u>	<u>7,365,713</u>	<u>224,223</u>
<b>Cash flows from investing activities:</b>				
Withdrawal of long-term equity investments, net	556,573	17,652	3,290	100
Decrease in available-for-sale financial assets—current	4,036,554	128,023	1,704,450	51,886
Proceeds from sale of available-for-sale financial assets—noncurrent	-	-	6,694	204
Proceeds from sale of financial assets carried at cost—noncurrent	3,409	108	737,565	22,453
Payments for purchase of long-term equity investments under equity method	(428,625)	(13,594)	(89,124)	(2,713)
Proceeds from disposal of property, plant and equipment	6,662,964	211,321	12,838,975	390,836
Payments for purchase of property, plant and equipment	(16,122,885)	(511,351)	(25,312,297)	(770,542)
Decrease in refundable deposits and in other assets	1,810,027	57,407	3,381,844	102,948
Increase in deferred charges	(841,553)	(26,691)	(1,223,680)	(37,251)
<b>Net cash used in investing activities</b>	<u>(4,323,536)</u>	<u>(137,125)</u>	<u>(7,952,283)</u>	<u>(242,079)</u>
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term borrowings	2,300,000	72,947	(500,000)	(15,220)
Increase in long-term borrowings	18,144,000	575,452	16,960,000	516,286
Redemption of long-term borrowings	(9,446,693)	(299,610)	(11,152,500)	(339,498)
Installment payments for purchase of property, plant and equipment	(2,273,494)	(72,106)	(2,428,693)	(73,933)
Redemption of lease liability	(1,453,764)	(46,107)	(2,332,933)	(71,018)
<b>Net cash provided by financing activities</b>	<u>7,270,049</u>	<u>230,576</u>	<u>545,874</u>	<u>16,617</u>
<b>Effect of exchange rate changes on cash</b>	<u>-</u>	<u>(1,512)</u>	<u>-</u>	<u>437</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>271,324</u>	<u>7,093</u>	<u>(40,696)</u>	<u>(802)</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>2,956,763</u>	<u>91,145</u>	<u>2,997,459</u>	<u>91,947</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 3,228,087</u>	<u>98,238</u>	<u>2,956,763</u>	<u>91,145</u>
<b>Additional disclosure of cash flow information:</b>				
Cash payments of interest (excluding capitalized interest expense)	\$ <u>2,600,279</u>	<u>82,470</u>	<u>2,105,812</u>	<u>64,104</u>
Cash payments of income tax	\$ <u>34,039</u>	<u>1,080</u>	<u>12,148</u>	<u>370</u>
<b>Supplemental schedule of noncash investing and financing activities:</b>				
Current portion of long-term liabilities	\$ <u>11,966,941</u>	<u>364,180</u>	<u>7,897,704</u>	<u>243,456</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>9,722</u>	<u>308</u>	<u>-</u>	<u>-</u>
Inventory transferred from fixed assets	\$ <u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>
Translation adjustments (including investee)	\$ <u>406,259</u>	<u>11,192</u>	<u>(352,592)</u>	<u>(4,608)</u>
Unrealized gains or losses on financial instruments (including investee)	\$ <u>(3,234,173)</u>	<u>(98,423)</u>	<u>157,241</u>	<u>4,847</u>
Increase in lease liability	\$ <u>-</u>	<u>-</u>	<u>(10,291,848)</u>	<u>(313,298)</u>
Gains from sale and leaseback of fixed assets	\$ <u>-</u>	<u>-</u>	<u>(908,152)</u>	<u>(27,645)</u>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Notes to Financial Statements**

**December 31, 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 December 31, 2008 and 2007, the Company had 4,772 and 5,153 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.

**(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

(Continued)

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

foreign currencies that are stated at fair value are translated into NT dollars at the 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.

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.

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****(e) Classification of current and noncurrent assets and liabilities**

Cash or cash equivalents, and 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 those 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.

**(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.

(Continued)

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

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

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

(i) Hedge accounting

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 accounted for 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.

(Continued)

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

## 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.

## (k) Long-term equity investments

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

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

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

(Continued)

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

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.

If an investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage, and therefore the equity in net assets for the investment that an investor company has invested, will be changed. Such difference shall be used to adjust the "additional paid-in capital" and the "long-term investments" accounts. If the adjustment stated above is to debit the "additional paid-in capital" account and the book balance of additional paid-in capital from long-term investments is not enough to be offset, then the difference shall be debited to the "retained earnings" account.

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.

(1) 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, and the costs of dismantling and removing the items and restoring the site on which they are located, are capitalized in the cost of related assets.

When parts of an item of property, plant or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant or equipment.

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 Company evaluates the useful lives and depreciation method at the end of every year. Any changes in the useful lives and depreciation method are accounted for as changes in accounting estimates. The useful lives of the main property, plant and equipment are as follows:

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

Buildings: 55 years

Machinery and equipment: 3~18 years

Aircraft: 18 years

Other equipment: 5~18 years

Gains (losses) on disposal of such assets 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.

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.

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

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.

(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.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

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.

(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.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

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.

(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.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

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 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 year ended December 31, 2008.

**4. Important Accounts**

## (a) Cash and cash equivalents

The components as of December 31, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Cash on hand	\$ 96,351	2,932	91,905	2,833
Cash in bank	<u>3,131,736</u>	<u>95,306</u>	<u>2,864,858</u>	<u>88,312</u>
	<u>\$ 3,228,087</u>	<u>98,238</u>	<u>2,956,763</u>	<u>91,145</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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

The components as of December 31, 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>1,134,811</u>	<u>34,535</u>	<u>5,115,645</u>	<u>157,696</u>

As of December 31, 2008 and 2007, gains on disposal of available-for-sale financial assets—current amounted to NT\$55,504 (US\$1,760) and NT\$87,338 (US\$2,659), respectively, which were recorded under gains on sale of investments and deduction of losses on sale of investments, respectively.

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets—noncurrent:				
Trade-Van Information Services Co., Ltd.	\$ 133,371	4,059	170,356	5,251
Central Reinsurance Corp.	<u>251,779</u>	<u>7,662</u>	<u>496,170</u>	<u>15,295</u>
	\$ <u>385,150</u>	<u>11,721</u>	<u>666,526</u>	<u>20,546</u>

Details of selling available-for-sale financial assets—noncurrent of the Company for the year ended December 31, 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.	358	\$ <u>2,921</u>	<u>89</u>	<u>3,773</u>	<u>115</u>

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

There was no such transaction for the year ended December 31, 2008.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Financial assets carried at cost/noncurrent:

Investee	Shareholding percentage (%)	2008		Shareholding percentage (%)	2007	
		Book value			Book value	
		NT dollars	US dollars		NT dollars	US dollars
Taiwan High Speed Rail Corp.	1.20	\$ 1,246,549	37,935	1.21	1,250,000	38,533
Evergreen Development Corp.	9.47	870,000	26,476	9.47	870,000	26,819
Abacus International Holding Ltd.	2.11	115,743	3,522	2.11	115,743	3,568
Technology Partner II Venture Capital Corp.	5.88	6,294	192	5.88	20,000	616
Chung Hwa Express Co., Ltd.	10.00	10,000	304	10.00	20,000	616
Pan-Pacific Venture Capital Co., Ltd.	2.30	4,002	122	2.30	5,869	181
Total		<u>\$ 2,252,588</u>	<u>68,551</u>		<u>2,281,612</u>	<u>70,333</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 years ended December 31, 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		Gain (loss) on disposal of financial assets carried at cost/noncurrent		
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	
Taiwan Fixed Network Corp.	-	-	-	-	-	84,000	840,000	25,571	(142,800)	(4,347)
Sun Shine Corp.	-	-	-	-	-	4,037	40,365	1,229	-	-
Taiwan High Speed Rail Corp.	350	3,451	109	(42)	(1)	-	-	-	-	-
		<u>\$ 3,451</u>	<u>109</u>	<u>(42)</u>	<u>(1)</u>		<u>\$ 880,365</u>	<u>26,800</u>	<u>(142,800)</u>	<u>(4,347)</u>

On July 4, 2008, Chung Hwa Express Co., Ltd. decreased issued stock by 50%, and the Company withdrew NT\$10,000 (US\$317) in cash in proportion to the Company's ownership percentage. On August 14, 2008, Technology Partner II Venture Capital Corp. decreased issued stock by 23.53%, and the Company withdrew NT\$4,706 (US\$149) in cash in proportion to the Company's ownership percentage. On December 26, 2008, Pan-Pacific Venture Capital Co., Ltd. decreased issued stock by 35%, and the Company withdrew NT\$1,867 (US\$59) in cash in proportion to the Company's ownership.

On July 2, 2007, Pan-Pacific Venture Capital Co., Ltd. decreased issued stock by 40%, and the Company withdrew NT\$3,290 (US\$100) in cash in proportion to the Company's ownership. The difference between cash received and original cost of NT\$3,912 (US\$119) amounting to NT\$622 (US\$19) was recorded as losses on sale of investments.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The Company recognized permanent impairment loss of NT\$9,000 (US\$285) for Technology Partner II Venture Capital Corp., which was recorded under other losses for the year ended December 31, 2008. There was no such transaction in 2007.

As of December 31, 2008 and 2007, the components of derivative financial instruments were as follows:

	Nominal Amount	2008		Nominal Amount	2007	
		Book Value			Book Value	
		NT dollars	US dollars		NT dollars	US dollars
Derivative financial assets:						
Fuel option agreements		\$ 420,357	12,792		63,245	1,949
Interest rate swap agreements	NTD 1,700,000			NTD 4,100,000		
	USD -	<u>4,663</u>	<u>142</u>	USD 90,000	<u>106,756</u>	<u>3,291</u>
		<b>\$ 425,020</b>	<b>12,934</b>		<b>170,001</b>	<b>5,240</b>

	Nominal Amount	2008		Nominal Amount	2007	
		Book Value			Book Value	
		NT dollars	US dollars		NT dollars	US dollars
Derivative financial liabilities:						
Fuel option agreements		\$ 5,771,422	175,637		1,261	39
Interest rate swap agreements	NTD 2,400,000					
	USD 90,000	<u>15,262</u>	<u>464</u>	<u>-</u>	<u>-</u>	
		<b>\$ 5,786,684</b>	<b>176,101</b>		<b>1,261</b>	<b>39</b>

Details of derivative financial assets and liabilities as of December 31, 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>\$ 425,020</u>	<u>12,934</u>	<u>63,245</u>	<u>1,949</u>
Financial assets at fair value through profit or loss—noncurrent	<u>\$ -</u>	<u>-</u>	<u>106,756</u>	<u>3,291</u>
Financial liabilities at fair value through profit or loss—current	<u>\$ 3,996,048</u>	<u>121,608</u>	<u>85</u>	<u>3</u>
Financial liabilities at fair value through profit or loss—noncurrent	<u>\$ 1,790,636</u>	<u>54,493</u>	<u>1,176</u>	<u>36</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (c) Other receivables

The components as of December 31, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Tax refund receivable	\$ 87,097	2,650	284,433	8,768
Non-operating revenues receivable	11,200	341	23,305	718
Other receivables	<u>83,652</u>	<u>2,546</u>	<u>13,725</u>	<u>423</u>
	<b>\$ <u>181,949</u></b>	<b><u>5,537</u></b>	<b><u>321,463</u></b>	<b><u>9,909</u></b>

## (d) Inventories

The components as of December 31, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft spare parts	\$ 8,950,803	272,392	10,200,256	314,435
Consumables for use and merchandise for sale during flight	391,442	11,913	403,045	12,424
Fuel for aircraft	38,780	1,180	57,714	1,779
Less: allowance for obsolete inventories	<u>(750,221)</u>	<u>(22,831)</u>	<u>(1,133,012)</u>	<u>(34,926)</u>
	<b>\$ <u>8,630,804</u></b>	<b><u>262,654</u></b>	<b><u>9,528,003</u></b>	<b><u>293,712</u></b>

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

Details as of and for the years ended December 31, 2008 and 2007, were as follows:

Investee	Shareholding percentage (%)	2008		Investment income (loss)	
		Book value			
		NT dollars	US dollars	NT dollars	US dollars
Evergreen Airline Services Corp.	56.33	\$ 499,046	15,187	55,335	1,755
RTW Air Services (S) Pte. Ltd.	49.00	22,402	682	883	28
Green Siam Air Services Co., Ltd.	49.00	27,596	840	12,087	383
Evergreen Sky Catering Corp.	49.80	758,409	23,080	86,872	2,755
Evergreen Airways Service (Macau) Ltd.	99.00	235,895	7,179	52,671	1,671
Uni Airways Corp.	15.67	400,464	12,187	(146,087)	(4,633)
Evergreen Aviation Technologies Corp.	80.00	4,254,576	129,476	425,103	13,482
Evergreen Security Corp.	31.25	63,982	1,947	10,305	327
Evergreen Air Cargo Services Corp.	60.00	932,348	28,373	7,338	233

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Investee	Shareholding percentage (%)	2008		Investment income (loss)	
		Book value			
		NT dollars	US dollars	NT dollars	US dollars
Hsiang-Li Investment Corp.	100.00	30,056	914	(40,160)	(1,274)
PT Perdana Andalan Air Service	51.00	64,572	1,965	11,336	360
Concord Pacific Ltd.	100.00	(5,487)	(167)	(316,050)	(10,024)
Sky Castle Investment Ltd.	100.00	<u>274,276</u>	<u>8,347</u>	<u>31,917</u>	<u>1,012</u>
		7,558,135	230,010	<u>191,550</u>	<u>6,075</u>
Add: recorded as reduction of account receivables[related parties]		<u>5,487</u>	<u>167</u>		
		\$ <u>7,563,622</u>	<u>230,177</u>		
Investee	Shareholding percentage (%)	2007		Investment income (loss)	
		Book value			
		NT dollars	US dollars	NT dollars	US dollars
Evergreen Airline Services Corp.	56.33	\$ 489,484	15,089	67,974	2,069
RTW Air Services (S) Pte. Ltd.	49.00	24,363	751	4,075	124
Green Siam Air Services Co., Ltd.	49.00	32,118	990	13,117	399
Evergreen Sky Catering Corp.	49.80	735,280	22,666	74,790	2,277
Evergreen Airways Service (Macau) Ltd.	99.00	339,268	10,458	146,290	4,453
Uni Airways Corp.	17.92	(22,828)	(704)	(221,507)	(6,742)
Evergreen Aviation Technologies Corp.	80.00	3,935,173	121,306	341,274	10,389
Evergreen Security Corp.	31.25	53,677	1,655	5,292	161
Evergreen Air Cargo Services Corp.	60.00	939,381	28,957	49,951	1,520
Hsiang-Li Investment Corp.	100.00	1,060,351	32,687	54,066	1,646
PT Perdana Andalan Air Service	49.00	60,686	1,871	39,053	1,189
Concord Pacific Ltd.	100.00	12,276	378	(212,778)	(6,477)
Sky Castle Investment Ltd.	100.00	<u>206,984</u>	<u>6,381</u>	<u>32,960</u>	<u>1,003</u>
		7,866,213	242,485	<u>394,557</u>	<u>12,011</u>
Add: recorded as reduction of account/other receivables[related parties]		<u>22,828</u>	<u>704</u>		
		\$ <u>7,889,041</u>	<u>243,189</u>		

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Details of increases in long-term equity investments under the equity method of the Company in 2008 and 2007 were as follows:

Unit: thousands of shares

Investee	Shares	2008		Shares	2007	
		NT dollars	US dollars		NT dollars	US dollars
Uni Airways Corp.	27,306	\$ 114,686	3,637	-	-	-
Evergreen Airline Services Corp.	-	-	-	-	1	-
Concord Pacific Ltd.	9,600	296,064	9,390	2,700	89,123	2,713
Sky Castle Investment Ltd.	500	15,355	487	-	-	-
PT Perdana Andalan Air Service	2	<u>2,520</u>	<u>80</u>	-	-	-
		\$ <u>428,625</u>	<u>13,594</u>		<u>89,124</u>	<u>2,713</u>

On May 12, 2008, Hsiang-Li Investment Corp. decreased issued stock by 42%, and the Company withdrew NT\$420,000 (US\$13,321) 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\$3,806) in cash in proportion to the Company's ownership percentage.

On June 27, 2008, Uni Airways Corp.'s stockholders resolved to make up deficiencies by decreasing issued stock before cash subscription. Uni Airways Corp. decreased issued stock by 40.99% on August 18, 2008, and received capital by cash subscription on October 7, 2008. However, the Company did not invest in Uni Airways Corp. in proportion to its shareholding percentage, which caused a difference in net equity amounting to NT\$50,318 (US\$1,531), credited to capital surplus.

(f) Property, plant and equipment

For the years ended December 31, 2008 and 2007, the Company capitalized the interest expenses on purchase of assets amounting to NT\$314,370 (US\$9,971) and NT\$440,511 (US\$13,410), respectively. The monthly interest rates on the above transactions were 0.23%~0.27% and 0.25%~0.27%, respectively.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (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	\$ 6,223,402	189,391	7,408,031	228,361
Aircraft	GECAS	2006.4.26~ 2008.4.25	The rent is payable monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property	-	-	2,313,641	71,321
Aircraft	C&L Leasing Co., Ltd.	2007.5.31~ 2019.12.27	The rent is payable every three months, and the present value of payment for future rental is higher than 90% of the fair value of the lease asset	10,343,131	314,764	10,210,930	314,764
Computer equipment	IBM	2004.7.25~ 2009.7.24	The rent is payable monthly, and the lease transfers ownership of the leased property by the end of the lease term	<u>46,638</u>	<u>1,419</u>	<u>46,638</u>	<u>1,437</u>
Less: accumulated depreciation				<u>16,613,171</u>	<u>505,574</u>	<u>19,979,240</u>	<u>615,883</u>
				<u>\$ 15,123,346</u>	<u>460,236</u>	<u>\$ 16,398,608</u>	<u>505,506</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.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

As of December 31, 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
January 1, 2008~December 31, 2008	\$ -	-	2,257,030	69,576
January 1, 2009~December 31, 2009	2,126,086	64,701	2,154,190	66,405
January 1, 2010~December 31, 2010	2,097,628	63,835	2,118,528	65,306
January 1, 2011~December 31, 2011	2,074,435	63,129	2,091,760	64,481
January 1, 2012~December 31, 2012	2,051,736	62,439	2,065,560	63,673
January 1, 2013~December 31, 2013	2,028,048	61,718	2,038,224	62,831
And after	<u>8,511,111</u>	<u>259,012</u>	<u>8,515,390</u>	<u>262,496</u>
Book value	18,889,044	574,834	21,240,682	654,768
Less: unrealized interest expenses	<u>(3,718,285)</u>	<u>(113,155)</u>	<u>(4,692,555)</u>	<u>(144,653)</u>
Present value	15,170,759	461,679	16,548,127	510,115
Less: current portion	<u>(1,407,428)</u>	<u>(42,831)</u>	<u>(1,455,294)</u>	<u>(44,861)</u>
	<b>\$ <u>13,763,331</u></b>	<b><u>418,848</u></b>	<b><u>15,092,833</u></b>	<b><u>465,254</u></b>

## (h) Deferred charges

As of December 31, 2008 and 2007, deferred charges, net of amortization, consisted of the following:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Leasehold improvements	\$ 2,606,559	79,323	2,898,091	89,337
Major overhaul for aircraft and engines	2,039,519	62,067	2,465,805	76,011
Others	<u>389,439</u>	<u>11,852</u>	<u>487,327</u>	<u>15,023</u>
	<b>\$ <u>5,035,517</u></b>	<b><u>153,242</u></b>	<b><u>5,851,223</u></b>	<b><u>180,371</u></b>

## (i) Short-term borrowings and commercial paper payable

The components as of December 31, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Unsecured loans	\$ 1,800,000	54,778	-	-
Commercial paper issued	<u>500,000</u>	<u>15,216</u>	<u>-</u>	<u>-</u>
	<b>\$ <u>2,300,000</u></b>	<b><u>69,994</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The interest expense on the aforementioned short-term borrowings and commercial paper payable is calculated based on floating interest rates. For the years ended December 31, 2008 and 2007, the interest rates were 2.11~3.05% and 2.32%~2.40%, respectively. As of December 31, 2008 and 2007, the unused credit line amounted to approximately NT\$2,240,918 (US\$68,196) and NT\$5,253,603 (US\$161,948), respectively.

## (j) Long-term borrowings

As of December 31, 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	2.51~3.17	\$ 2,142,857	65,212	2.42~2.97	1,800,000	55,487
Aircraft						
NT\$ loans	1.56~2.93	37,970,266	1,155,516	2.15~3.16	26,557,988	818,680
		<u>37,970,266</u>	<u>1,155,516</u>		<u>26,557,988</u>	<u>818,680</u>
Simulators						
US\$ loans	-	-	-	5.81~5.97	143,495	4,424
		<u>-</u>	<u>-</u>		<u>143,495</u>	<u>4,424</u>
Subtotal		<u>40,113,123</u>	<u>1,220,728</u>		<u>28,501,483</u>	<u>878,591</u>
Unsecured loans:	1.71~3.03	9,393,500	285,864	1.91~3.34	12,307,833	379,403
Total		49,506,623	1,506,592		40,809,316	1,257,994
Less: current portion		(9,320,241)	(283,635)		(7,897,704)	(243,456)
		<u>\$ 40,186,382</u>	<u>1,222,957</u>		<u>32,911,612</u>	<u>1,014,538</u>

As of December 31, 2008, the remaining balances of the borrowings were due as follows:

Year due	NT dollars	US dollars
January 1, 2009~December 31, 2009	\$ 9,320,241	283,635
January 1, 2010~December 31, 2010	9,627,641	292,990
January 1, 2011~December 31, 2011	6,189,241	188,352
January 1, 2012~December 31, 2012	4,832,886	147,075
January 1, 2013~December 31, 2013	4,194,332	127,642
And after	<u>15,342,282</u>	<u>466,898</u>
	<u>\$ 49,506,623</u>	<u>1,506,592</u>

As of December 31, 2008 and 2007, the unused credit lines for long-term borrowings amounted to NT\$5,600,000 (US\$170,420) and NT\$500,000 (US\$15,413), respectively. The pledge for these long-term borrowings is disclosed in note 6.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (k) Bonds payable

Details of bonds payable as of December 31, 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	15,216	500,000	15,413
Bonds payable	Land Bank	2.25%	2004.07	500,000	15,216	500,000	15,413
	Chang Hwa Bank	2.25%	2004.07	500,000	15,216	500,000	15,413
	Taipei Fubon Bank	2.25%	2004.07	500,000	15,216	500,000	15,413
Bonds payable	Bank of Taiwan	2.11%	2005.01	500,000	15,216	500,000	15,413
	Taiwan Cooperative Bank	2.11%	2005.01	500,000	15,216	500,000	15,413
Bonds payable	Far-Eastern International Bank	1.85%	2005.08	500,000	15,216	500,000	15,413
	Shanghai Commercial & Savings Bank	1.85%	2005.08	500,000	15,216	500,000	15,413
	Chinatrust Commercial Bank	1.85%	2005.08	600,000	18,260	600,000	18,496
	Hua Nan Bank	1.85%	2005.08	500,000	15,126	500,000	15,413
Bonds payable	Cathay United Bank	2.08%	2006.01	2,000,000	60,864	2,000,000	61,653
Bonds payable	Hua Nan Bank	2.29%	2006.07	500,000	15,216	500,000	15,413
	Taipei Fubon Bank	2.29%	2006.07	500,000	15,216	500,000	15,413
	Bank of Taiwan	2.29%	2006.07	500,000	15,216	500,000	15,413
	Taiwan Cooperative Bank	2.29%	2006.07	500,000	15,216	500,000	15,413
Convertible bonds payable		0.00%	2004.08	<u>646,700</u>	<u>19,681</u>	<u>1,561,300</u>	<u>48,129</u>
Subtotal				9,746,700	296,613	10,661,300	328,647
Less: current portion				<u>(2,646,700)</u>	<u>(80,545)</u>	-	-
				<u>\$ 7,100,000</u>	<u>216,068</u>	<u>10,661,300</u>	<u>328,647</u>

## (1) Second convertible bonds payable

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

- (i) Coupon rate: 0%
- (ii) Issue period: From August 9, 2004, to August 8, 2009.
- (iii) Redemption: Except for the bonds that have already been redeemed, converted, or purchased and cancelled, the bonds can be redeemed on the fifth anniversary of the issue date at par value.
- (iv) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 150% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the issue amount.
- (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.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (vi) Conversion

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

## B) Conversion price:

The conversion price is set at NT\$14.50, which is a premium of 111% over the base price. The base price is defined as the average of the closing prices of the issuer's common shares traded on the Taiwan Stock Exchange for a period of 1, 3 or 5 trading days, whichever is adopted, immediately preceding but excluding the pricing date, which is July 26, 2004. The conversion price is subject to adjustments in the event that any change occurs to the capital structure. As of December 31, 2008, the conversion price was NT\$13.51.

## (l) Aircraft payable

The Company purchased aircraft by installments. As of December 31, 2008 and 2007, the details were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft payable	\$ 12,243,919	372,609	14,427,738	444,752
Less: current portion	<u>(2,427,395)</u>	<u>(73,871)</u>	<u>(2,340,314)</u>	<u>(72,143)</u>
	\$ <u>9,816,524</u>	<u>298,738</u>	<u>12,087,424</u>	<u>372,609</u>

The current portion of aircraft payable was recorded as other payables. As of December 31, 2008, the remaining balances of aircraft payable were due as follows:

Year due	NT dollars	US dollars
January 1, 2009~December 31, 2009	\$ 2,427,395	73,871
January 1, 2010~December 31, 2010	2,459,792	74,857
January 1, 2011~December 31, 2011	1,961,502	59,693
January 1, 2012~December 31, 2012	1,557,864	47,409
January 1, 2013~December 31, 2013	1,374,152	41,818
And after	<u>2,463,214</u>	<u>74,961</u>
	\$ <u>12,243,919</u>	<u>372,609</u>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the years ended December 31, 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.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (m) Retirement plans

Net retirement plan liabilities based on the actuarial computation at December 31, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Benefit obligation:				
Vested benefit obligation	\$ 148,624	4,523	151,564	4,672
Nonvested benefit obligation	<u>2,102,308</u>	<u>63,977</u>	<u>2,266,478</u>	<u>69,867</u>
Accumulated benefit obligation	2,250,932	68,500	2,418,042	74,539
Projected effects of salary adjustments	<u>389,193</u>	<u>11,844</u>	<u>708,399</u>	<u>21,837</u>
Projected benefit obligation	2,640,125	80,344	3,126,441	96,376
Plan assets at fair value	<u>(2,055,670)</u>	<u>(62,558)</u>	<u>(1,827,328)</u>	<u>(56,329)</u>
Projected benefit obligation in excess of plan assets	584,455	17,786	1,299,113	40,047
Unrecognized net transition obligation	(81,888)	(2,492)	(109,182)	(3,366)
Unrecognized pension loss	(474,853)	(14,451)	(1,108,500)	(34,171)
Pension liabilities that need to be accrued	<u>167,548</u>	<u>5,099</u>	<u>509,283</u>	<u>15,699</u>
Accrued employee retirement liabilities	\$ <u><u>195,262</u></u>	<u><u>5,942</u></u>	<u><u>590,714</u></u>	<u><u>18,209</u></u>

The components of net pension cost were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Service cost	\$ 173,690	5,509	168,493	5,129
Interest cost	84,472	2,679	72,848	2,218
Actual return on plan assets	(66,947)	(2,123)	(45,257)	(1,378)
Unrecognized net transition obligation	<u>82,698</u>	<u>2,622</u>	<u>55,121</u>	<u>1,678</u>
Net pension cost	\$ <u><u>273,913</u></u>	<u><u>8,687</u></u>	<u><u>251,205</u></u>	<u><u>7,647</u></u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Actuarial assumptions at December 31, 2008 and 2007, were as follows:

	2008	2007
Discount rate	2.75%	2.75%
Rate of increase in future compensation levels	1.00%	2.00%
Expected long-term rate of return on plan assets	2.75%	2.75%

As of and for the years ended December 31, 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	\$ 2,055,670	62,558	1,827,328	56,329
Periodic pension cost:				
Defined benefit pension plan cost	273,913	8,687	251,205	7,647
Defined contribution pension plan cost	108,492	3,441	101,693	3,096

## (n) Income tax

(1) For the years ended December 31, 2008 and 2007, the components of estimated income tax benefits were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expenses—current	\$ (36,383)	(1,154)	(33,863)	(1,031)
Income tax benefits—deferred	<u>536,989</u>	<u>17,031</u>	<u>120,094</u>	<u>3,656</u>
	<u>\$ 500,606</u>	<u>15,877</u>	<u>86,231</u>	<u>2,625</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The deferred income tax benefits were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ 2,256,813	71,577	641,817	19,538
Investment tax credits	947,262	30,043	1,212,791	36,919
Unrealized exchange losses (gains)	9,129	289	(7,331)	(223)
Provision (reversal) for loss on inventory market price decline	348,934	11,067	(52,001)	(1,583)
Purchase of fixed assets in installments, adjusted for tax purposes	(130)	(4)	22,396	682
Accrued employee retirement liabilities	(13,429)	(426)	(19,487)	(593)
Unrealized losses (gains) on financial instruments	1,382,601	43,850	(276,467)	(8,416)
Others	5,794	184	28,075	854
Valuation allowance for deferred income tax assets	<u>(4,399,985)</u>	<u>(139,549)</u>	<u>(1,429,699)</u>	<u>(43,522)</u>
	<u>\$ 536,989</u>	<u>17,031</u>	<u>120,094</u>	<u>3,656</u>

- (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 as reported in the accompanying financial statements for the years ended December 31, 2008 and 2007, were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Income tax benefits calculated on pre-tax financial loss at statutory income tax rate of 25%	\$ 4,347,573	137,887	489,537	14,902
Gain (loss) on disposal of investments	13,862	440	(12,922)	(393)
Investment income recognized under equity method—unrealized	47,888	1,519	98,639	3,003
Dividend income	(148,540)	(4,711)	(97,317)	(2,962)
Increase in investment tax credits	921,686	29,232	1,193,305	36,326
Exchange losses recorded as translation adjustments	(25,716)	(816)	(5,019)	(153)
Others	(256,162)	(8,125)	(150,293)	(4,576)
Valuation allowance for deferred income tax assets	<u>(4,399,985)</u>	<u>(139,549)</u>	<u>(1,429,699)</u>	<u>(43,522)</u>
	<u>\$ 500,606</u>	<u>15,877</u>	<u>86,231</u>	<u>2,625</u>

- (3) The components of the deferred income tax assets (liabilities) as of December 31, 2008 and 2007, were as follows:

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	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	\$ 2,528,748	76,955	632,187	19,239	1,133,012	34,926	283,253	8,732
Unrealized exchange losses (gains)	33,128	1,008	8,282	252	(3,388)	(104)	(847)	(26)
Unrealized losses (gains) on financial instruments	6,060,217	184,425	1,515,054	46,106	(63,160)	(1,947)	(15,790)	(487)
Unused investment tax credits	375,314	11,422	375,314	11,422	-	-	-	-
Others	131,576	4,004	<u>32,894</u>	<u>1,001</u>	186,704	5,755	<u>46,676</u>	<u>1,439</u>
			2,563,731	78,020			313,292	9,658
Less: Valuation allowance for deferred income tax assets			<u>(1,629,798)</u>	<u>(49,598)</u>			-	-
Deferred income tax assets, net of current			\$ <u>933,933</u>	<u>28,422</u>			\$ <u>313,292</u>	<u>9,658</u>
Deferred income tax assets (liabilities)								
Noncurrent:								
Unrealized losses (gains) on financial instruments	\$ 3,218,513	97,946	804,628	24,486	(92,849)	(2,862)	(23,212)	(716)
Unused investment tax credits	2,399,706	73,028	2,399,706	73,028	1,827,758	56,343	1,827,758	56,343
Accrued employee retirement liabilities	42,992	1,308	10,748	327	96,708	2,981	24,177	745
Purchase of fixed assets in installments, adjusted for tax purposes	3,154,188	95,989	788,547	23,997	3,154,708	97,247	788,677	24,312
Unused loss carryforwards	14,884,846	452,978	3,721,211	113,245	5,857,593	180,567	1,464,398	45,142
Others	(1,230,930)	(37,460)	<u>(307,732)</u>	<u>(9,365)</u>	(763,711)	(23,543)	<u>(190,928)</u>	<u>(5,885)</u>
			<u>7,417,108</u>	<u>225,718</u>			<u>3,890,870</u>	<u>119,941</u>
Less: Valuation allowance for deferred income tax assets			<u>(5,059,886)</u>	<u>(153,983)</u>			<u>(2,289,699)</u>	<u>(70,583)</u>
Deferred income tax assets, net of noncurrent			\$ <u>2,357,222</u>	<u>71,735</u>			\$ <u>1,601,171</u>	<u>49,358</u>

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

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

As of December 31, 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	11,422	2009
2006	259,139	7,886	2010
2007	1,218,881	37,093	2011
2008	<u>921,686</u>	<u>28,049</u>	2012
	<b>\$ <u>2,775,020</u></b>	<b><u>84,450</u></b>	

(5) As of December 31, 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	84,964	2011
2007	1,943,785	59,154	2012
2008	<u>10,149,129</u>	<u>308,860</u>	2013
	<b>\$ <u>14,884,846</u></b>	<b><u>452,978</u></b>	

(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>(16,889,684)</u>	<u>(535,670)</u>	<u>(841,408)</u>	<u>(28,707)</u>
	<b>\$ <u>(16,889,684)</u></b>	<b><u>(535,670)</u></b>	<b><u>(841,408)</u></b>	<b><u>(28,707)</u></b>
ICA	<b>\$ <u>894,378</u></b>	<b><u>27,218</u></b>	<b><u>726,582</u></b>	<b><u>22,398</u></b>
		<b>2008</b>		<b>2007</b>
Creditable ratio for earnings distribution to domestic shareholders		<u>-</u> <b>(estimated)</b>	<u>-</u>	<b>(actual)</b>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (7) The Company's income tax returns have been examined through 2005 by the ROC income tax authority. The Company was assessed additional 2001 and 2003 Corporate Income Tax of NT\$12,998 (US\$396) and NT\$23,416 (US\$713), 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. The ROC income tax authority revised the tax returns in 2008, and the tax refund receivables amounted to NT\$10,336 (US\$315) and NT\$17,534 (US\$534) for 2001 and 2003, respectively, and were recorded under other receivables.
- (8) According to a new amendment to the Income Tax Act which was promulgated on January 21, 2009, and is effective from January 23, 2009, the loss carryforward tax credits period has been extended from 5 years to 10 years, and it is retroactive for any unused loss carryforward that occurred after 2003.

## (o) Stockholders' equity

## (1) Common stock

As of December 31, 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 year ended December 31, 2008, convertible bonds of NT\$914,600 (US\$29,512) thousand were 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.

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

The details of capital surplus as of December 31, 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 the investee company issuing new shares and the Company not purchasing proportionately	50,318	1,531	-	-
Increase in net equity due to change in percentage of ownership in long-term investments under equity method	229,711	7,297	233,089	7,400
Donated assets	648,480	20,588	648,480	20,588
	<u>\$ 4,866,753</u>	<u>157,445</u>	<u>4,582,191</u>	<u>148,350</u>

(Continued)

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

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.

The Company's articles of incorporation stipulate that the Company must appropriate employee 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, employee bonuses, and directors' and supervisors' remuneration.

According to ROC SFC regulations, beginning in 2002, information related to the appropriation of employee bonuses and remuneration for directors and supervisors can be found on web sites such as the Market Observation Post System after the stockholders' meeting.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (p) Earnings per share

For the years ended December 31, 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>(17,390,290)</u>	<u>(16,889,684)</u>	<u>3,927,026</u>	\$ <u>(4.43)</u>	<u>(4.30)</u>	<u>(551,547)</u>	<u>(535,670)</u>	<u>3,927,026</u>	<u>(0.14)</u>	<u>(0.14)</u>

  

	Dollars		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>(1,958,149)</u>	<u>(1,871,918)</u>	<u>3,874,979</u>	\$ <u>(0.51)</u>	<u>(0.48)</u>	<u>(59,609)</u>	<u>(56,984)</u>	<u>3,874,979</u>	<u>(0.02)</u>	<u>(0.01)</u>

## (q) Hedge accounting

## (1) Cash flow hedging

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

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

As of December 31, 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	\$ (5,837)	(177)	(12,731)	(392)	2004~2009	Derivative financial liabilities for hedge purposes current and noncurrent
Floating price of fuel	Fuel option agreements	(3,911,229)	(119,027)	-	-	2009~2010	Derivative financial liabilities for hedge purposes current and noncurrent

As of December 31, 2008 and 2007, the unrealized valuation loss on financial instruments due to hedging of cash flow amounted to NT\$3,917,066 (US\$119,204) and NT\$12,731 (US\$392), 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 December 31, 2008 and 2007, were as follows:

	Book value	2008		Book value	2007	
		NT dollars Public quote value	Assessment value		US dollars Public quote value	Assessment value
Financial assets:						
Cash and cash equivalents	\$ 3,228,087	-	3,228,087	98,238	-	98,238
Notes and accounts receivable (including receivables from related parties)	6,167,555	-	6,167,555	187,691	-	187,691
Other receivables (including receivables from related parties)	256,454	-	256,454	7,804	-	7,804
Available-for-sale financial assets—current	1,134,811	1,134,811	-	34,535	34,535	-
Available-for-sale financial assets— noncurrent	385,150	385,150	-	11,721	11,721	-
Financial assets carried at cost—noncurrent	2,252,588	-	-	68,551	-	-
Interest rate swap agreements	4,663	-	4,663	142	-	142
Fuel option agreements	420,357	-	420,357	12,792	-	12,792
Financial liabilities:						
Short-term borrowings and commercial paper payable	2,300,000	-	2,300,000	69,994	-	69,994
Notes and accounts payable (including payable from related parties)	1,667,298	-	1,667,298	50,739	-	50,739
Accrued expenses	5,779,960	-	5,779,960	175,897	-	175,897
Other payables (including payable from related parties)	3,198,378	-	3,198,378	97,334	-	97,334
Current portion of long-term liabilities	11,966,941	-	11,954,007	364,180	-	363,786
Bonds payable	7,100,000	-	6,780,092	216,068	-	206,333
Long-term borrowings	40,186,382	-	40,186,382	1,222,957	-	1,222,957
Aircraft payable	9,816,524	-	9,816,524	298,738	-	298,738
Lease liability	15,170,759	-	15,170,759	461,679	-	461,679
Interest rate swap agreements	21,099	-	21,099	641	-	641
Fuel option agreements	9,682,651	-	9,682,651	294,664	-	294,664
Off-balance-sheet financial instruments:						
Letters of credit	-	-	885,347	-	-	26,943

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	2007					
	Book value	NT dollars Fair value		Book value	US dollars Fair value	
		Public quote value	Assessment value		Public quote value	Assessment value
Financial assets:						
Cash and cash equivalents	\$ 2,956,763	-	2,956,763	91,145	-	91,145
Notes and accounts receivable (including receivables from related parties)	8,685,527	-	8,685,527	267,741	-	267,741
Other receivables (including receivables from related parties)	377,280	-	377,280	11,630	-	11,630
Available-for-sale financial assets—current	5,115,645	5,115,645	-	157,696	157,696	-
Available-for-sale financial assets— noncurrent	666,526	666,526	-	20,546	20,546	-
Financial assets carried at cost—noncurrent	2,281,612	-	-	70,333	-	-
Interest rate swap agreements	106,756	-	106,756	3,291	-	3,291
Fuel option agreements	63,245	-	63,245	1,949	-	1,949
Financial liabilities:						
Notes and accounts payable (including payable from related parties)	2,580,348	-	2,580,348	79,542	-	79,542
Accrued expenses	7,824,060	-	7,824,060	241,186	-	241,186
Other payable (including payable from related parties)	3,206,283	-	3,206,283	98,837	-	98,837
Current portion of long-term liabilities	7,897,704	-	7,897,704	243,456	-	243,456
Bonds payable	10,661,300	-	9,942,809	328,647	-	306,498
Long-term borrowings	32,911,612	-	32,911,612	1,014,538	-	1,014,538
Aircraft payable	12,087,424	-	12,087,424	372,609	-	372,609
Lease liability	16,548,127	-	16,548,127	510,115	-	510,115
Interest rate swap agreements	12,731	-	12,731	392	-	392
Fuel option agreements	1,261	-	1,261	39	-	39
Off-balance-sheet financial instruments:						
Letters of credit	-	-	845,741	-	-	26,071

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

- i) Since 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), short-term borrowings, commercial paper payable, 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.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

iii) The fair value of bonds payable, long-term borrowings, aircraft payable, and lease liability is the discounted future cash flows, and the discount rates during the years ended December 31, 2008 and 2007, were 1.18%~6.93% p.a.

iv) The fair value of letters of credit is based on the contract.

(3) For the years ended December 31, 2008 and 2007, the evaluation gain or loss on financial assets / liabilities at fair value through profit or loss amounted to losses of NT\$6,946,649 (US\$220,319) and gains of NT\$1,235,201 (US\$37,601), respectively.

(4) Disclosure of financial risks

(i) Market risk

As of December 31, 2008 and 2007, the bonds payable with the risk arising from floating interest rates amounted to NT\$8,600,000 (US\$261,716) and NT\$8,600,000 (US\$265,105), 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\$101,098 (US\$3,077).

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 and requested clients to provide quarantees.

(iii) Liquidity risk

(Continued)

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

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

The Company's derivative financial instruments are expected to sell at the rational price. Therefore, 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, 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 December 31, 2008 and 2007, the financial liabilities with the risk arising from floating interest rates amounted to NT\$52,306,623 (US\$1,591,802) and NT\$41,309,316 (US\$1,273,407), respectively.

The Company's short-term and long-term borrowings carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Company's future cash flow. As of December 31, 2008 and 2007, if the market interest rate were to increase by 1%, the Company's future cash outflow would increase by approximately NT\$523,066 (US\$16,589) and NT\$413,093 (US\$12,575), respectively.

**5. Transactions with Related Parties**

(a) Name and relationship of related parties

Name	Relationship with the Company
Evergreen Marine Corp.	Major shareholder
Evergreen International Corp.	Major shareholder
Evergreen Airline Services Corp.	Subsidiary
RTW Air Services (S) Pte. Ltd.	Subsidiary
Green Siam Air Services Co., Ltd.	Subsidiary
Evergreen Sky Catering Corp.	Subsidiary
Evergreen Aviation Technologies Corp.	Subsidiary
Evergreen Air Cargo Services Corp.	Subsidiary
Hsiang-Li Investment Corp.	Subsidiary
Evergreen Airways Service (Macau) Ltd.	Subsidiary
PT Perdana Andalan Air service	Subsidiary

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Name	Relationship with the Company
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
Directors, Supervisors, Managers	The Company's major management

## (b) Significant transactions with related parties

## (1) Revenue, cost and expenses

During the years ended December 31, 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.	\$ 456,644	14,483	0.50	244,825	7,453	0.26
Shanghai Airlines Cargo International Co., Ltd.	91,295	2,896	0.10	55,230	1,681	0.06
Uni Airways Corp.	70,698	2,242	0.08	35,732	1,088	0.04
Evergreen International Corp.	43,344	1,375	0.05	17,484	532	0.02
Evergreen Marine Corp.	43,085	1,366	0.05	714	22	-
Evergreen International Storage & Transport Corp.	10,352	328	0.01	1,132	34	-
Evergreen Air Cargo Services Corp.	9,669	307	0.01	20,943	638	0.02
Evergreen Airline Services Corp.	1,430	45	-	1,527	47	-
Others	3,051	97	-	3,834	116	0.01
	<u>\$ 729,568</u>	<u>23,139</u>	<u>0.80</u>	<u>381,421</u>	<u>11,611</u>	<u>0.41</u>

  

Cost	2008			2007		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen Aviation Technologies Corp.	\$ 3,502,273	111,077	3.78	3,948,277	120,191	4.46
Evergreen Airline Services Corp.	884,856	28,064	0.95	884,177	26,916	1.00
Evergreen Sky Catering Corp.	884,249	28,045	0.95	811,243	24,695	0.91
Uni Airways Corp.	631,597	20,032	0.68	746,582	22,727	0.84
Evergreen Air Cargo Services Corp.	262,670	8,331	0.28	324,600	9,881	0.37
Shanghai Airlines Cargo International Co., Ltd.	72,804	2,309	0.08	25,272	769	0.03
Evergreen International Storage & Transport Corp.	66,791	2,118	0.07	69,044	2,102	0.08
Evergreen International Corp.	43,448	1,378	0.05	44,394	1,351	0.05
Others	953	30	-	1,170	36	-
	<u>\$ 6,349,641</u>	<u>201,384</u>	<u>6.84</u>	<u>6,854,759</u>	<u>208,668</u>	<u>7.74</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Expenses	2008			2007		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen International Corp.	\$ 134,381	4,262	2.07	116,772	3,555	1.70
Green Siam Air Services Co., Ltd.	81,664	2,590	1.26	86,670	2,638	1.26
Evergreen Security Corp.	40,387	1,281	0.62	40,304	1,227	0.59
Uni Airways Corp.	40,383	1,281	0.62	100,370	3,055	1.46
RTW Air Services (S) Pte. Ltd.	32,626	1,035	0.50	39,298	1,196	0.57
PT Perdana Andalan Air Service	31,348	994	0.48	30,890	940	0.45
Evergreen Airline Services Corp.	27,228	863	0.42	27,821	847	0.41
Evergreen International Storage & Transport Corp.	24,332	772	0.38	17,778	541	0.26
Evergreen Sky Catering Corp.	22,785	723	0.35	21,016	640	0.31
Evergreen Aviation Technologies Corp.	12,844	407	0.20	8,917	272	0.13
Others	1,271	40	-	1,445	44	0.02
	<u>\$ 449,249</u>	<u>14,248</u>	<u>6.90</u>	<u>491,281</u>	<u>14,955</u>	<u>7.16</u>

The Company sold spare parts to Evergreen Aviation Technologies Corp. amounting to NT\$249,247 (US\$7,905) and NT\$159,370 (US\$4,851) for the years ended December 31, 2008 and 2007, respectively.

- (2) The abovementioned transactions with related parties were made with no significant difference from those with non-related parties, but sometimes the payments were overdue. Receivables and payables as of December 31, 2008 and 2007, resulting from the aforementioned transactions were as follows:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Accounts receivable—related parties:				
Evergreen Aviation Technologies Corp.	\$ 79,597	2,422	23,703	731
Shanghai Airlines Cargo International Co., Ltd.	36,007	1,096	14,974	462
Uni Airways Corp.	32,484	988	20,164	621
Evergreen International Corp.	6,989	213	2,205	68
Evergreen Air Cargo Service Corp.	458	14	4,332	134
Others	9,598	292	914	28
	<u>165,133</u>	<u>5,025</u>	<u>66,292</u>	<u>2,044</u>
Less: credit to long-term equity investments under equity method	<u>(5,487)</u>	<u>(167)</u>	<u>(20,164)</u>	<u>(622)</u>
	<u>159,646</u>	<u>4,858</u>	<u>46,128</u>	<u>1,422</u>
Other receivables—related parties:				
Shanghai Airlines Cargo International Co., Ltd.	42,831	1,303	28,438	877
Uni Airways Corp.	17,980	547	20,987	647
Evergreen Aviation Technologies Corp.	11,329	345	7,610	234
Others	2,365	72	1,446	45
	<u>74,505</u>	<u>2,267</u>	<u>58,481</u>	<u>1,803</u>
Less: credit to long-term equity investments under equity method	<u>-</u>	<u>-</u>	<u>(2,664)</u>	<u>(82)</u>
	<u>74,505</u>	<u>2,267</u>	<u>55,817</u>	<u>1,721</u>
Total receivables—related parties	<u>\$ 234,151</u>	<u>7,125</u>	<u>101,945</u>	<u>3,143</u>

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

Note: As of December 31, 2008 and 2007, the overdue accounts receivable transferred to other receivables were NT\$38,852 (US\$1,182) and NT\$19,198 (US\$592), respectively. The aging for the abovementioned overdue accounts receivable was as shown below:

		2008						
		Aging for overdue accounts receivable						
		NT dollars			US dollars			
Name	Amount	Over 1-6 months	Over 7-12 months	Over one year	Amount	Over 1-6 months	Over 7-12 months	Over one year
Shanghai Airlines Cargo International Co., Ltd.	\$ 38,852	31,428	7,404	20	1,182	956	225	1

		2007						
		Aging for overdue accounts receivable						
		NT dollars			US dollars			
Name	Amount	Over 1-6 months	Over 7-12 months	Over one year	Amount	Over 1-6 months	Over 7-12 months	Over one year
Shanghai Airlines Cargo International Co., Ltd.	\$ 19,198	18,381	817	-	592	567	25	-

		2008		2007	
		NT dollars	US dollars	NT dollars	US dollars
Accounts payable—related parties:					
Evergreen Aviation Technologies Corp.	\$	402,135	12,238	222,560	6,861
Evergreen Airline Services Corp.		140,512	4,276	141,082	4,349
Evergreen Sky Catering Corp.		75,054	2,284	59,099	1,822
Uni Airways Corp.		42,016	1,279	133,663	4,120
Evergreen Air Cargo Services Corp.		32,673	994	56,768	1,750
Green Siam Air Services Co, Ltd.		12,515	381	11,240	346
Evergreen International Storage & Transport Corp.		10,283	313	4,943	152
RTW Air Services (S) Pte Ltd.		5,528	168	4,646	143
PT Perdana Andalan Air Service		4,551	138	8,551	264
Evergreen International Corp.		3,394	103	9,081	280
Others		82	3	127	4
		<u>728,743</u>	<u>22,177</u>	<u>651,760</u>	<u>20,091</u>
Other payables—related parties:					
Evergreen Airline Services Corp.		51,937	1,581	65,469	2,018
Evergreen Aviation Technologies Corp.		15,776	480	31,683	977
Evergreen International Corp.		14,799	450	18,815	580
Uni Airways Corp.		11,777	358	15,337	473
Evergreen Air Cargo Services Corp.		4,104	125	3,532	109
Evergreen Security Corp.		3,565	108	3,502	108
Evergreen International Storage & Transport Corp.		3,052	93	1,212	37
Evergreen Sky Catering Corp.		2,164	66	1,625	50
Others		179	6	39	1
		<u>107,353</u>	<u>3,267</u>	<u>141,214</u>	<u>4,353</u>
Total payables—related parties	\$	<u>836,096</u>	<u>25,444</u>	<u>792,974</u>	<u>24,444</u>

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (3) Summary of remuneration of the Company's major management

For the years ended December 31, 2008 and 2007, the related information about remuneration of major management, such as directors, supervisors and managers, etc, received from the Company was as below:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Salaries	\$ 30,140	956	35,136	1,070
Bonus and extra payment	4,219	134	6,674	203
	<u>\$ 34,359</u>	<u>1,090</u>	<u>41,810</u>	<u>1,273</u>

The Company did not appropriate directors' and supervisors' remuneration and employee bonuses for 2008 and 2007.

## 6. Pledged Assets

The book values of the pledged assets as of December 31, 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	56,729	999,911	30,823
Buildings	Long-term borrowings	2,309,484	70,283	2,033,692	62,691
Aircraft	Long-term borrowings, Aircraft payable	60,830,541	1,851,203	48,449,062	1,493,498
Simulators included in machinery and equipment	Long-term borrowings	-	-	254,019	7,830
Time deposit included in other assets	Customs duty and contract performance guaranties	1,389,606	42,289	564,881	17,413
		<u>\$ 66,393,753</u>	<u>2,020,504</u>	<u>52,301,565</u>	<u>1,612,255</u>

## 7. Commitments and Contingencies

(a) As of December 31, 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\$ 3,327,901 (US\$101,275)
April 2004	Boeing-777	2	US\$ 372,874	NT\$ 5,273,085 (US\$160,471)

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

(b) As of December 31, 2008, the Company had issued NT\$13,882,613 (US\$422,478) worth of promissory notes to banks to obtain guaranties for credit lines and to lessors for leasing aircraft. As of December 31, 2008, the Company had obtained guaranties from ABN-AMRO Bank, Citibank,

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

Calyon Corporate and Investment Bank, Bank of Taiwan, Mizuho Corporate Bank, HSBC Bank, and ANZ Bank amounting to NT\$885,347 (US\$26,943).

- (c) The Company entered into aircraft, land, engine and aircraft parts lease contracts using the operating lease or capital lease method. As of December 31, 2008, the Company had paid NT\$4,747,485 (US\$144,476) as refundable deposits. According to these contracts, future lease payments in the following five years are as follows:

Year due	NT dollars	US dollars
January 1, 2009~December 31, 2009	\$ 8,846,381	269,214
January 1, 2010~December 31, 2010	8,322,333	253,266
January 1, 2011~December 31, 2011	6,919,023	210,561
January 1, 2012~December 31, 2012	6,707,982	204,138
January 1, 2013~December 31, 2013	6,623,902	201,579
And after	<u>24,954,238</u>	<u>759,412</u>
	<b>\$ <u>62,373,859</u></b>	<b><u>1,898,170</u></b>

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

**8. Important Damage Losses: none**

**9. Important Subsequent Events: none**

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 10. Others

- (a) Total personnel expenses, depreciation and amortization for the years ended December 31, 2008 and 2007, were as follows:

By function By item	Operating cost	NT dollars Operating expenses	2008		US dollars Operating expenses	Total
			Total	Operating cost		
Personnel expenses						
Salaries	\$ 2,985,586	2,449,659	5,435,245	94,690	77,693	172,383
Insurance	127,557	118,452	246,009	4,045	3,757	7,802
Pension	219,480	162,925	382,405	6,961	5,167	12,128
Others (meal allowances, etc)	1,161,217	268,767	1,429,984	36,829	8,524	45,353
Depreciation	7,184,327	175,877	7,360,204	227,857	5,578	233,435
Amortization	1,482,153	144,294	1,626,447	47,008	4,576	51,584

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

- (b) Reclassification

Certain amounts in the financial statements for the year ended December 31, 2007, have been reclassified to conform with the presentation of the financial statements for the year ended December 31, 2008, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 11. Segment Financial Information

## (a) Industry information:

The Company mainly operates an international air transportation business.

## (b) Geographic area information:

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
South East Asia:				
Operating revenue	\$ <u>31,914,761</u>	<u>1,012,203</u>	<u>35,490,914</u>	<u>1,080,393</u>
Loss from operations	\$ <u>(3,029,941)</u>	<u>(96,097)</u>	<u>(867,009)</u>	<u>(26,393)</u>
Identifiable assets	\$ <u>459,717</u>	<u>13,990</u>	<u>591,899</u>	<u>18,246</u>
North America:				
Operating revenue	\$ <u>20,523,036</u>	<u>650,905</u>	<u>18,825,453</u>	<u>573,073</u>
Loss from operations	\$ <u>(1,948,427)</u>	<u>(61,796)</u>	<u>(459,888)</u>	<u>(14,000)</u>
Identifiable assets	\$ <u>188,407</u>	<u>5,734</u>	<u>387,791</u>	<u>11,954</u>
Other foreign areas:				
Operating revenue	\$ <u>7,833,919</u>	<u>248,459</u>	<u>7,978,938</u>	<u>242,890</u>
Loss from operations	\$ <u>(743,741)</u>	<u>(23,588)</u>	<u>(194,918)</u>	<u>(5,934)</u>
Identifiable assets	\$ <u>513,741</u>	<u>15,634</u>	<u>648,914</u>	<u>20,004</u>
Domestic:				
Operating revenue	\$ <u>30,383,950</u>	<u>963,652</u>	<u>30,807,826</u>	<u>937,833</u>
Loss from operations	\$ <u>(2,884,608)</u>	<u>(91,488)</u>	<u>(752,605)</u>	<u>(22,910)</u>
Identifiable assets	\$ <u>131,892,079</u>	<u>4,013,758</u>	<u>136,672,012</u>	<u>4,213,071</u>
<b>Total operating revenue</b>	\$ <u>90,655,666</u>	<u>2,875,219</u>	<u>93,103,131</u>	<u>2,834,189</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	2008		2007	
	NT dollars	US dollars	NT dollars	US dollars
Loss from operations	\$ (8,606,717)	(272,969)	(2,274,420)	(69,237)
Investment income, net	191,550	6,075	394,557	12,011
General income	(6,249,518)	(198,208)	2,137,000	65,053
Interest expenses	<u>(2,725,605)</u>	<u>(86,445)</u>	<u>(2,215,286)</u>	<u>(67,436)</u>
Loss before income tax	<b>\$ <u>(17,390,290)</u></b>	<b><u>(551,547)</u></b>	<b><u>(1,958,149)</u></b>	<b><u>(59,609)</u></b>
Total identifiable assets	\$ 133,053,944	4,049,116	138,300,616	4,263,275
Long-term equity investments	<u>10,201,360</u>	<u>310,449</u>	<u>10,837,179</u>	<u>334,068</u>
<b>Total assets</b>	<b>\$ <u>143,255,304</u></b>	<b><u>4,359,565</u></b>	<b><u>149,137,795</u></b>	<b><u>4,597,343</u></b>

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