

**EVA AIRWAYS CORP.**  
**Financial Statements**  
**June 30, 2011 and 2010**  
**(With Independent Auditors' Report Thereon)**

Address: No. 376 Hsin-nan Road, Sec. 1, Luchu, Taoyuan Hsien, Taiwan  
Telephone No: 886(03)3515151

## **Independent Auditors' Report**

The Board of Directors  
EVA Airways Corp.:

We have audited the balance sheets of EVA Airways Corp. (the "Company") as of June 30, 2011 and 2010, and the related statements of operations, changes in stockholders' equity, and cash flows for the six months ended June 30, 2011 and 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain non-consolidated investee companies. The Company's investments in these companies as of June 30, 2011 and 2010, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$3,308,989 thousand (US\$115,175 thousand), constituting 2.37% of total assets, and NT\$3,134,679 thousand (US\$97,109 thousand), constituting 2.07% of total assets, respectively. The cumulative translation adjustments from the aforementioned investments amounted to NT\$8,975 thousand (US\$312 thousand) and NT\$12,154 thousand (US\$377 thousand), respectively. The resulting investment gains amounted to NT\$222,505 thousand (US\$7,654 thousand) and NT\$246,161 thousand (US\$7,718 thousand), constituting 64.17% and 4.70% of income before income tax, for the six months ended June 30, 2011 and 2010, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to these amounts included for the said investee companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the six months ended June 30, 2011 and 2010, 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 six months ended June 30, 2011 and 2010, have been translated into United States dollars. We have audited the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(c) of the notes to the accompanying financial statements.

Taipei, Taiwan (the Republic of China)  
August 5, 2011

**Note to Readers**

The accompanying financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with 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.

This document is an English translation of a report originally issued in Chinese. In the event of a conflict between the English translation and the original Chinese version, the Chinese language auditors' report shall prevail.

**EVA AIRWAYS CORP.**

**Balance Sheets**

**June 30, 2011 and 2010**

**(expressed in thousands of New Taiwan dollars and US dollars)**

Assets	2011		2010		Liabilities and Stockholders' Equity	2011		2010	
	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))	\$ 10,909,439	379,723	9,774,660	302,808	Financial liabilities at fair value through profit or loss — current (note 4(b))	\$ -	-	65,775	2,038
Available-for-sale financial assets — current (note 4(b))	2,093,781	72,878	1,575,819	48,817	Accounts payable	1,629,611	56,722	1,379,883	42,747
Derivative financial assets for hedge purposes — current (note 4(p))	40,929	1,425	14,121	437	Accounts payable — related parties (note 5)	2,624,843	91,363	1,653,130	51,212
Notes receivable (note 4(c))	397,145	13,823	332,964	10,315	Accrued expenses (note 7)	7,677,785	267,239	6,119,165	189,565
Accounts receivable, net (note 4(c))	6,620,495	230,438	8,211,284	254,377	Other payables — related parties (note 5)	1,280,407	44,567	174,787	5,415
Accounts receivable — related parties (note 5)	151,751	5,282	194,400	6,022	Other payables (notes 4(k), 5, and 6)	4,932,979	171,701	3,706,552	114,825
Other receivables	316,566	11,019	191,064	5,919	Unearned revenue	7,439,157	258,933	7,059,360	218,691
Other receivables — related parties (note 5)	535,813	18,650	408,946	12,669	Current portion of long-term liabilities (notes 4(i), 4(j) and 6)	8,727,341	303,771	14,767,989	457,497
Inventories (notes 4(d), 5 and 6)	8,374,584	291,493	8,596,872	266,322	Other current liabilities (note 4(g))	3,689,435	128,418	3,130,087	96,967
Other prepayments	413,469	14,392	528,870	16,384	<b>Total current liabilities</b>	<b>38,001,558</b>	<b>1,322,714</b>	<b>38,056,728</b>	<b>1,178,957</b>
Deferred income tax assets — current (note 4(m))	1,484,090	51,656	31,858	987	<b>Long-term liabilities:</b>				
Other current assets	23,107	804	88,314	2,736	Bonds payable (note 4(j))	5,600,000	194,918	7,000,000	216,853
<b>Total current assets</b>	<b>31,361,169</b>	<b>1,091,583</b>	<b>29,949,172</b>	<b>927,793</b>	Long-term borrowings (notes 4(i) and 6)	34,546,567	1,202,456	41,218,580	1,276,908
<b>Funds and investments:</b>					Installment accounts payable (notes 4(k), 5, and 6)	13,479,808	469,189	13,686,413	423,990
Available-for-sale financial assets — non-current (note 4(b))	733,046	25,515	714,745	22,142	Lease liability — non-current (note 4(g))	9,599,376	334,124	11,493,627	356,060
Financial assets carried at cost — non-current (note 4(b))	2,247,226	78,219	2,251,437	69,747	<b>Total long-term liabilities</b>	<b>63,225,751</b>	<b>2,200,687</b>	<b>73,398,620</b>	<b>2,273,811</b>
Long-term equity investments under equity method (note 4(e))	10,194,137	354,825	8,420,155	260,848	<b>Other liabilities:</b>				
<b>Total funds and investments</b>	<b>13,174,409</b>	<b>458,559</b>	<b>11,386,337</b>	<b>352,737</b>	Accrued employee retirement liabilities (note 4(l))	330,134	11,491	198,278	6,143
<b>Property, plant and equipment (notes 4(f), 4(g), 5, 6 and 7):</b>					Other liabilities	1,484,494	51,670	1,641,349	50,847
Land	1,869,572	65,074	1,869,572	57,917	<b>Total other liabilities</b>	<b>1,814,628</b>	<b>63,161</b>	<b>1,839,627</b>	<b>56,990</b>
Buildings	4,543,278	158,137	4,543,278	140,746	<b>Total liabilities</b>	<b>103,041,937</b>	<b>3,586,562</b>	<b>113,294,975</b>	<b>3,509,758</b>
Machinery and equipment	7,098,961	247,092	6,799,726	210,648	<b>Stockholders' equity (notes 4(b), 4(e), 4(m), 4(n) and 4(p)):</b>				
Aircraft	105,216,973	3,662,269	102,022,668	3,160,554	Common stock	29,626,772	1,035,332	29,626,772	1,035,332
Leased assets	14,574,051	507,276	16,324,677	505,721	Stock dividends to be distributed	2,962,677	93,994	-	-
	133,302,835	4,639,848	131,559,921	4,075,586	Capital surplus	2,649,436	82,625	2,649,431	82,625
Less: accumulated depreciation	(48,311,631)	(1,681,574)	(46,703,064)	(1,446,811)	Retained earnings:				
Advances for purchases of equipment	4,868	169	14,308,950	443,276	Legal reserve	1,201,674	38,124	-	-
<b>Net property, plant and equipment</b>	<b>84,996,072</b>	<b>2,958,443</b>	<b>99,165,807</b>	<b>3,072,051</b>	Special reserve	3,657,682	116,043	-	-
<b>Intangible assets:</b>					Unappropriated earnings	1,565,229	50,549	5,219,788	163,630
Deferred pension cost (note 4(l))	149,633	5,208	238,093	7,376	<b>Total retained earnings</b>	<b>6,424,585</b>	<b>204,716</b>	<b>5,219,788</b>	<b>163,630</b>
<b>Other assets:</b>					Other stockholders' equity adjustments:				
Refundable deposits (note 7)	1,745,153	60,743	1,769,388	54,814	Cumulative translation adjustments	(4,916,501)	(142,405)	707,591	(100,576)
Deferred charges (note 5(h) and 5)	4,672,663	162,641	4,085,586	126,567	Net loss not recognized as pension cost	(511,128)	(16,846)	(163,314)	(4,886)
Deferred income tax assets — non-current (note 4(m))	3,331,520	115,960	3,565,148	110,444	Unrealized gains or losses on financial instruments	368,273	16,657	321,072	12,268
Other assets (note 6)	215,432	7,498	1,496,784	46,369	<b>Total other stockholders' equity adjustments</b>	<b>(5,059,356)</b>	<b>(142,594)</b>	<b>865,349</b>	<b>(93,194)</b>
<b>Total other assets</b>	<b>9,964,768</b>	<b>346,842</b>	<b>10,916,906</b>	<b>338,194</b>	<b>Total stockholders' equity</b>	<b>36,604,114</b>	<b>1,274,073</b>	<b>38,361,340</b>	<b>1,188,393</b>
<b>Total assets</b>	<b>\$ 139,646,051</b>	<b>4,860,635</b>	<b>151,656,315</b>	<b>4,698,151</b>	<b>Commitments and contingencies (notes 5 and 7)</b>				
					<b>Total liabilities and stockholders' equity</b>	<b>\$ 139,646,051</b>	<b>4,860,635</b>	<b>151,656,315</b>	<b>4,698,151</b>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Statements of Operations**

**For the six months ended June 30, 2011 and 2010**  
(expressed in thousands of New Taiwan dollars and US dollars, except earnings per share)

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
<b>Operating revenue (note 5)</b>	\$ 49,855,026	1,714,999	50,140,840	1,571,813
<b>Operating cost (notes 4(d), 5 and 10)</b>	<u>(45,746,796)</u>	<u>(1,573,677)</u>	<u>(41,826,681)</u>	<u>(1,311,181)</u>
<b>Gross profit from operations</b>	4,108,230	141,322	8,314,159	260,632
<b>Operating expenses (notes 5 and 10)</b>	<u>(3,413,150)</u>	<u>(117,412)</u>	<u>(3,101,031)</u>	<u>(97,211)</u>
<b>Operating income</b>	<u>695,080</u>	<u>23,910</u>	<u>5,213,128</u>	<u>163,421</u>
<b>Non-operating income and gains:</b>				
Interest income	70,187	2,415	26,190	821
Investment income (note 4(e))	524,607	18,046	670,847	21,030
Gains on disposal of property, plant and equipment	-	-	18,788	589
Exchange gains, net	-	-	10,287	322
Other income (note 4(b))	<u>350,298</u>	<u>12,050</u>	<u>264,392</u>	<u>8,288</u>
	<u>945,092</u>	<u>32,511</u>	<u>990,504</u>	<u>31,050</u>
<b>Non-operating expenses and losses:</b>				
Interest expenses (notes 4(f) and 5)	(818,680)	(28,162)	(912,688)	(28,611)
Exchange losses, net	(254,460)	(8,753)	-	-
Losses on valuation of financial liabilities (note 4(q))	(7,962)	(274)	(50,004)	(1,567)
Other losses (note 4(b))	<u>(212,349)</u>	<u>(7,305)</u>	<u>(5,741)</u>	<u>(180)</u>
	<u>(1,293,451)</u>	<u>(44,494)</u>	<u>(968,433)</u>	<u>(30,358)</u>
<b>Income before income tax</b>	346,721	11,927	5,235,199	164,113
<b>Income tax expenses (note 4(m))</b>	<u>(13,518)</u>	<u>(465)</u>	<u>(15,411)</u>	<u>(483)</u>
<b>Net income</b>	\$ <u><u>333,203</u></u>	<u><u>11,462</u></u>	<u><u>5,219,788</u></u>	<u><u>163,630</u></u>

	Income				Income			
	<u>before income tax</u>		<u>Net income</u>		<u>before income tax</u>		<u>Net income</u>	
	NT	US	NT	US	NT	US	NT	US
	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>
<b>Basic earnings per share (expressed in dollars)</b> (note 4(o)):	\$ <u>0.12</u>	<u>-</u>	<u>0.11</u>	<u>-</u>	<u>1.77</u>	<u>0.06</u>	<u>1.76</u>	<u>0.06</u>
<b>Diluted earnings per share (expressed in dollars)</b> (note 4(o))	\$ <u>0.12</u>	<u>-</u>	<u>0.11</u>	<u>-</u>	<u>1.77</u>	<u>0.06</u>	<u>1.76</u>	<u>0.06</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Changes in Stockholders' Equity

For the six months ended June 30, 2011 and 2010  
(expressed in thousands of New Taiwan dollars and US dollars)

	NT Dollars										US Dollars									
	Common Stock	Stock Dividends to Be Distributed	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Cost	Unrealized Gains or Losses on Financial Instruments	Total	Common Stock	Stock Dividends to Be Distributed	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Cost	Unrealized Gains or Losses on Financial Instruments	Total
<b>Balance on December 31, 2009</b>	\$ 29,626,772	-	5,564,505	-	-	(2,915,074)	423,833	(157,412)	(515,511)	32,027,113	1,035,332	-	178,675	-	-	(111,306)	(84,439)	(4,703)	(13,649)	999,910
Make-up of the accumulated deficit	-	-	(2,915,074)	-	-	2,915,074	-	-	-	-	-	(111,306)	-	-	111,306	-	-	-	-	-
Increase in net equity due to the change in percentage of unrealized gains or losses on financial instruments owned by long-term equity investments under equity method	-	-	-	-	-	-	-	-	7,635	7,635	-	-	-	-	-	-	-	-	237	237
Recognized net loss not recognized as pension cost	-	-	-	-	-	-	-	(5,902)	-	(5,902)	-	-	-	-	-	-	-	(183)	-	(183)
Change in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	828,948	828,948	-	-	-	-	-	-	-	-	25,680	25,680
Net income for the six months ended June 30, 2010	-	-	-	-	-	5,219,788	-	-	-	5,219,788	-	-	-	-	-	163,630	-	-	163,630	163,630
Translation adjustments for the six months ended June 30, 2010	-	-	-	-	-	-	283,728	-	-	283,728	-	-	15,256	-	-	-	(16,137)	-	-	(881)
<b>Balance on June 30, 2010</b>	<b>\$ 29,626,772</b>	<b>2,962,677</b>	<b>2,649,431</b>	<b>-</b>	<b>-</b>	<b>5,219,788</b>	<b>707,591</b>	<b>(163,314)</b>	<b>321,072</b>	<b>38,361,340</b>	<b>1,035,332</b>	<b>-</b>	<b>82,625</b>	<b>-</b>	<b>-</b>	<b>163,630</b>	<b>(100,576)</b>	<b>(4,886)</b>	<b>12,268</b>	<b>1,188,393</b>
<b>Balance on December 31, 2010</b>	\$ 29,626,772	-	2,649,436	-	-	12,016,736	(3,554,690)	(511,128)	408,136	40,635,262	1,035,332	-	82,625	-	-	381,242	(105,448)	(16,846)	18,058	1,394,963
Appropriation approved by 2011 stockholders' meeting: (Note)	-	-	-	1,201,674	-	(1,201,674)	-	-	-	-	-	-	38,124	-	-	(38,124)	-	-	-	-
Legal reserve	-	-	-	1,201,674	-	(1,201,674)	-	-	-	-	-	-	38,124	-	-	(38,124)	-	-	-	-
Special reserve	-	-	-	3,657,682	-	(3,657,682)	-	-	-	-	-	-	-	116,043	-	(116,043)	-	-	-	-
Cash dividends	-	-	-	-	-	(2,962,677)	-	-	-	(2,962,677)	-	-	-	-	-	(93,994)	-	-	-	(93,994)
Stock dividends	-	2,962,677	-	-	-	(2,962,677)	-	-	-	-	-	93,994	-	-	-	(93,994)	-	-	-	-
Increase in net equity due to the change in percentage of unrealized gains or losses on financial instruments owned by long-term equity investments under equity method	-	-	-	-	-	-	-	-	(6,292)	(6,292)	-	-	-	-	-	-	-	-	(219)	(219)
Change in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	(3,571)	(3,571)	-	-	-	-	-	-	-	-	(1,182)	(1,182)
Net income for the six months ended June 30, 2011	-	-	-	-	-	333,203	-	-	-	333,203	-	-	-	-	-	11,462	-	-	-	11,462
Translation adjustments for the six months ended June 30, 2011	-	-	-	-	-	-	(1,361,811)	-	-	(1,361,811)	-	-	-	-	-	-	(56,937)	-	-	(56,937)
<b>Balance on June 30, 2011</b>	<b>\$ 29,626,772</b>	<b>2,962,677</b>	<b>2,649,436</b>	<b>1,201,674</b>	<b>3,657,682</b>	<b>1,565,229</b>	<b>(4,916,501)</b>	<b>(511,128)</b>	<b>368,273</b>	<b>36,004,114</b>	<b>1,035,332</b>	<b>93,994</b>	<b>82,625</b>	<b>38,124</b>	<b>116,043</b>	<b>50,549</b>	<b>(142,405)</b>	<b>(16,846)</b>	<b>16,657</b>	<b>1,274,073</b>

Note: The amounts of employees' bonuses and directors' and supervisors' remuneration amounting to NT\$100,000 (US\$3,173) and NT\$53,000 (US\$1,681), respectively, were deducted from the net income.

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the six months ended June 30, 2011 and 2010  
(expressed in thousands of New Taiwan dollars and US dollars)

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
<b>Cash flows from operating activities:</b>				
Net income	\$ 333,203	11,462	5,219,788	163,630
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	4,213,852	144,955	4,112,928	128,932
Amortization and maintenance expense	517,228	17,793	601,508	18,856
Other losses	204,753	7,043	-	-
Investment income	(524,607)	(18,046)	(670,847)	(21,030)
Proceeds from cash dividends on long-term equity investments	79,908	2,749	270,085	8,467
Losses on disposal and obsolescence of property, plant and equipment	1,502	51	480	15
Amortization expense recorded as interest expenses	18,980	653	18,913	593
Amortization of other deferred gain	(13,450)	(463)	(39,693)	(1,244)
Losses (gains) on sale of available-for-sale financial assets	(2,772)	(95)	190	6
Changes in operating assets and liabilities, net:				
Financial assets at fair value through profit or loss	-	-	17,247	541
Notes receivable	(166,537)	(5,729)	(43,764)	(1,372)
Accounts receivable	820,621	28,229	(1,405,831)	(44,070)
Accounts receivable — related parties	38,788	1,334	(31,432)	(985)
Other receivables	(241,028)	(8,291)	(168,615)	(5,286)
Other receivables — related parties	(160,813)	(5,532)	(222,967)	(6,990)
Inventories	151,485	5,211	93,511	2,931
Other prepayments	85,694	2,948	35,178	1,103
Other current assets	12,746	438	(66,941)	(2,098)
Financial liabilities at fair value through profit or loss	-	-	(620,022)	(19,436)
Accounts payable	40,393	1,390	211,470	6,629
Accounts payable — related parties	(67,608)	(2,326)	574,950	18,024
Accrued expenses	443,774	15,266	262,551	8,230
Other payables — related parties	93,242	3,207	25,847	810
Other payables	(36,582)	(1,258)	2,017	63
Unearned revenue	818,886	28,169	1,079,145	33,829
Other current liabilities	617,578	21,245	210,096	6,586
Accrued employee retirement liabilities	(68,088)	(2,342)	(70,683)	(2,216)
Other liabilities	16,501	568	(15,719)	(493)
<b>Net cash provided by operating activities</b>	<u>7,227,649</u>	<u>248,629</u>	<u>9,379,390</u>	<u>294,025</u>
<b>Cash flows from investing activities:</b>				
Decrease (increase) in available-for-sale financial assets — current	(143,994)	(4,953)	3,178,743	99,647
Proceeds from sale of investment — noncurrent	187,505	6,450	-	-
Withdrawal of financial assets carried at cost	4,211	145	1,151	36
Payments for purchase of long-term equity investments under equity method	(1,453,728)	(50,008)	-	-
Payments for purchase of property, plant and equipment	(213,053)	(7,329)	(228,864)	(7,174)
Proceeds from disposal of property, plant and equipment	2,541	87	354	11
Increase in refundable deposits	(23,932)	(823)	(61,784)	(1,937)
Increase in deferred charges	(225,238)	(7,748)	(724,473)	(22,711)
Decrease (increase) in other assets	502,644	17,291	(507,350)	(15,904)
<b>Net cash provided by (used in) investing activities</b>	<u>(1,363,044)</u>	<u>(46,888)</u>	<u>1,657,777</u>	<u>51,968</u>
<b>Cash flows from financing activities:</b>				
Decrease in short-term borrowings	-	-	(979,994)	(30,721)
Issue of bonds payable	3,100,000	106,639	-	-
Redemption of bonds payable	(4,500,000)	(154,799)	(1,000,000)	(31,348)
Increase in long-term borrowings	-	-	6,984,832	218,960
Redemption of long-term borrowings	(6,948,312)	(239,020)	(9,764,003)	(306,081)
Redemption of lease liability	(752,281)	(25,878)	(722,090)	(22,636)
<b>Net cash used in financing activities</b>	<u>(9,100,593)</u>	<u>(313,058)</u>	<u>(5,481,255)</u>	<u>(171,826)</u>
<b>Effect of exchange rate changes on cash</b>	-	5,443	-	(3,071)
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(3,235,988)</u>	<u>(105,874)</u>	<u>5,555,912</u>	<u>171,096</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>14,145,427</u>	<u>485,597</u>	<u>4,218,748</u>	<u>131,712</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 10,909,439</u>	<u>379,723</u>	<u>9,774,660</u>	<u>302,808</u>
<b>Additional disclosure of cash flow information:</b>				
Interest paid	\$ 855,479	29,428	964,836	30,246
Less: capitalized interest	27,885	959	112,184	3,517
Interest paid (excluding capitalized interest)	<u>\$ 827,594</u>	<u>28,469</u>	<u>852,652</u>	<u>26,729</u>
Income tax paid	<u>\$ 29,055</u>	<u>999</u>	<u>18,712</u>	<u>587</u>
<b>Supplemental schedule of noncash investing and financing activities:</b>				
Current portion of long-term liabilities and bonds payable	<u>\$ 8,727,341</u>	<u>303,771</u>	<u>14,767,989</u>	<u>457,497</u>
Current portion of installment accounts payable	<u>\$ 2,989,155</u>	<u>104,043</u>	<u>3,690,325</u>	<u>114,322</u>
Inventory transferred from fixed assets	<u>\$ -</u>	<u>-</u>	<u>13</u>	<u>-</u>
Unrealized gains or losses on financial instruments (including investee)	<u>\$ (39,863)</u>	<u>(1,401)</u>	<u>836,583</u>	<u>25,917</u>
Translation adjustments	<u>\$ (1,361,811)</u>	<u>(36,957)</u>	<u>283,758</u>	<u>(16,137)</u>
Cash dividend payable	<u>\$ 2,962,677</u>	<u>93,994</u>	<u>-</u>	<u>-</u>
Others	<u>\$ 218,508</u>	<u>7,606</u>	<u>293,636</u>	<u>9,097</u>

See accompanying notes to financial statements.

**EVA AIRWAYS CORP.**

**Notes to Financial Statements**

**June 30, 2011 and 2010**

**(expressed in thousands of New Taiwan dollars and US dollars unless otherwise specified)**

**1. Organization and Business Scope**

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

The Company's business activities are

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

(Continued)

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

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

As of June 30, 2011 and 2010, the Company had 5,256 and 4,552 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 was in conformity with the aforementioned guidelines, the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, the “Business Entity Accounting Act”, and the “Regulation on Business Entity Accounting Handling”.

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

**(a) Use of estimates**

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

(Continued)

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

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

(Continued)

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

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

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

(e) Classification of current and non-current 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 recognize 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, and 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.

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****(h) Financial instruments**

The Company uses transaction-date accounting for financial instrument transactions. At initial recognition, financial instruments are evaluated at fair value. Except for financial assets and liabilities measured at fair value through profit or loss, acquisition costs or issuance costs are added to the originally recognized amount.

Subsequent to initial recognition, financial instruments are classified into the following categories in accordance with the purpose of holding or issuing such financial instruments:

**1. Financial assets/liabilities at fair value through profit or loss**

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. Except for effective hedging derivative financial instruments, all financial derivatives are included in this category. At initial recognition, financial instruments are evaluated at fair value, and transaction cost or issuance cost is recognized in current profit or loss. Changes in fair values are charged to current operations at subsequent measurement. Trade-date accounting is adopted when purchasing or selling such financial instruments under transaction conventions.

**2. Available-for-sale financial assets**

Financial instruments that are recognized as available-for-sale financial assets are measured at fair value, and transaction costs are added to the originally recognized amount at initial recognition. Any changes in fair value, excluding impairment loss and unrealized foreign currency exchange gain or loss, are reported as a separate component of stockholders' equity until realized. Realized gain or loss on financial instruments is charged to current operations. If there is objective evidence of impairment, an impairment loss is recognized in profit or loss. If, in a subsequent period, events or changes in circumstances indicate that the amount of impairment loss has decreased, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and recorded as an adjustment to equity, while for debt securities, the reversal is allowed through 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**

When the Company does not have significant influence over an investee company whose fair value cannot be reliably measured, these financial instruments are carried at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

(Continued)

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

## 4. Notes receivable, accounts receivable, and other receivables

Notes receivable and accounts receivable originate from providing goods or services directly to a debtor, and other receivables originate from non-operating activities.

The Company considers evidence of impairment for financial assets carried at cost at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. Those that are not individually significant are collectively assessed for impairment by grouping together. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the financial assets.

When a decrease in the amount of impairment loss is clearly attributable to an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to the extent of the decrease through profit or loss.

## (i) Hedge accounting

Derivative financial instruments held by the Company were to manage the fluctuation risk of foreign exchange rates, interest rates, and fuel prices on the operating, investing, financing activities of the Company. According to this policy, derivative financial instruments held or issued by the Company were for hedging. When derivative financial instruments are no longer for hedging, they are treated as financial instruments held for trading.

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

## 1. Fair value hedges

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

(Continued)

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

## 2. Cash flow hedges

Changes in the fair value of a 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, 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 that had been recognized in equity shall be reclassified to 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% of the investee's voting shares or less than 20% but is able to exercise significant influence over the investee's operating and financial policies are accounted for by the equity method. In accordance with SFAS No. 23 "Interim Financial Reporting", the Company recognizes investment gains/losses under the equity method quarterly.

The difference between the selling price and the book value of the long-term equity investments under the equity method is recognized as disposal gain or loss in the accompanying non-consolidated statements of operations. 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/credited to disposal gain/loss based on the disposal ratio.

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

If the differences between investment cost and shareholding equity come from assets that can be depreciated, depleted or amortized, the Company shall amortize such differences over the estimated remaining economic lives. If the differences come from discrepancies between the carrying amounts of assets and their fair market values, the Company shall offset all unamortized differences when conditions making such over- or under-valuation are no longer present. When the investment cost exceeds the fair value of identifiable net assets acquired, the excess should be recorded as goodwill. When the fair value of identifiable net assets acquired exceeds the cost, the difference should be assigned to non-current assets acquired proportionate to their respective fair values. If these assets are all reduced to zero value, the remaining difference should be recognized as extraordinary gain.

If an investee company issues new shares and the original shareholders do not purchase or acquire new shares proportionately, then the investment percentage, and therefore the equity in net assets, 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, 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, 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.

When the Company has significant influence, according to SFAS No. 7 "Consolidated Financial Statements", consolidated financial statements should be provided at the end of the first quarter, half-year, third quarter, and fiscal year.

(l) Property, plant, and equipment, and related depreciation

Property, plant, and equipment are stated at acquisition cost. For construction of buildings and purchase of machinery and equipment, the Company capitalizes as part of the costs of related assets the related interest costs incurred before commencing to use such assets. Routine repair and maintenance are charged to current operations. Major repairs and maintenance, additions, enhancements, and replacements, 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.

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

The Company accrues for the removal and recovery costs for fixed assets during the non-production period in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation (ARDF). 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 and equipment. 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.

Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets using the straight-line method. The useful lives of the main property, plant and equipment are as follows:

Buildings: 55 years

Machinery and equipment: 3~18 years

Aircraft: 7~18 years

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

(m) Lease

The leased property is valued at the smaller of the following two values: (a) the present value of all future rental payments (less the lessor'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, 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, the interest expense is calculated based on the beginning balance of the lease payable and the maximum borrowing rate.

(Continued)

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

- b) If the value of the leased property is determined by its market price, the interest expense is also calculated based on the beginning balance of the lease payable and the maximum borrowing rate. However, a service charge is calculated based on the beginning balance of the lease payable and the difference between the lessor's interest rate implicit in the lease and the maximum borrowing rate.

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

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

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

The Company sold and leased back aircraft under operating lease agreements. If the translation differences resulting from the translation of the foreign currency cost of the aircraft and the related US dollar loans into New Taiwan dollars at the exchange rate prevailing on the selling date and historical rates and the gains or losses from disposal of the aircraft resulting from the translation of the US dollar selling price and US dollar book value of aircraft at the exchange rate prevailing on the selling date were net gains, these gains should be deferred using the unearned gain on sales—leaseback account according to 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. In accordance with SFAS No. 37 "Intangible Assets", an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost less any accumulated amortization and any accumulated impairment losses.

(Continued)

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

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

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

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

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

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

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

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

**(p) Revenue recognition**

Ticket sales for passengers and cargo are recorded as unearned revenue, included in current liabilities, and recognized as revenue when the services are provided.

(Continued)

**EVA AIRWAYS CORP.****Notes to Financial Statements****(q) Employees' bonuses and directors' and supervisors' remuneration**

Employees' 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 employees' 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. In addition, the number of shares distributed to employees as employees' bonuses is calculated based on the closing price on the day before the shareholders' resolution date, and the closing price is adjusted retroactively for dividends that had been distributed.

**(r) Income tax**

The Company adopted 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.

When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be reported as an adjustment to income tax expense (benefit) for income from continuing operations currently.

Deferred income tax assets or liabilities are classified as current or non-current 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 Act. Under the new system, the Company may retain the earnings after December 31, 1997, by paying a 10% surtax on such undistributed earnings, and the surtax is accounted for as income tax expenses in the following year when the shareholders approved a resolution not to distribute the earnings.

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

**(s) Earnings per share (EPS)**

The earnings per share are computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period.

(Continued)

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

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. For calculation of diluted EPS, all employees' bonuses accrued at the end of reporting period are deemed to be distributable in the form of shares, and bonuses are included in the calculation of the weighted-average number of shares at market price on the balance sheet date.

(t) Operating segment

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of resources to the segment and to assess its performance for which discrete financial information is available. The Company discloses its operating segment in the consolidated financial statements.

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

- (a) The Company adopted the third revisions of the SFAS No. 34 "Financial Instruments: Recognition and Measurement" effective January 1, 2011, for the recognition, measurement, and impairment of originated loans and receivables. The adoption of this amended accounting principle had no significant impact on the Company's financial statements as of and for the six months ended June 30, 2011.
- (b) The Company likewise adopted the SFAS No. 41 "Operating Segments" effective January 1, 2011. According to this new accounting standard, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effect of the business activities in which it engages and the economic environment in which it operates. Internal information that is provided to the operating decision maker is used as the basis for determining and disclosing the operating segment. This standard replaces the SFAS No. 20 "Segment Reporting". The adoption of this new accounting standard had no impact on the Company's profit and loss for the six months ended June 30, 2011.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 4. Important Accounts

## (a) Cash and cash equivalents

The components as of June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Cash on hand	\$ 94,694	3,296	101,489	3,144
Cash in bank	<u>10,814,745</u>	<u>376,427</u>	<u>9,673,171</u>	<u>299,664</u>
	<u>\$ 10,909,439</u>	<u>379,723</u>	<u>9,774,660</u>	<u>302,808</u>

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

The components as of June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets—current:				
Mutual funds	<u>\$ 2,093,781</u>	<u>72,878</u>	<u>1,575,819</u>	<u>48,817</u>

As of June 30, 2011 and 2010, gains on disposal of available-for-sale financial assets—current amounted to NT\$4,154 (US\$143) and NT\$4,031 (US\$126), respectively, which were recorded as other income and reduction of other losses, respectively.

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets—non-current:				
Trade-Van Information Services Co., Ltd.	\$ 161,121	5,608	178,976	5,544
Central Reinsurance Corp.	<u>571,925</u>	<u>19,907</u>	<u>535,769</u>	<u>16,598</u>
	<u>\$ 733,046</u>	<u>25,515</u>	<u>714,745</u>	<u>22,142</u>

For the six months ended June 30, 2011 and 2010, loss on disposal of U.S. Treasury notes which were recorded as available-for-sale financial assets—non-current were NT\$1,382 (US\$48) and NT\$4,221 (US\$132), respectively, and were recorded as reduction of other income and other losses, respectively.

As of June 30, 2011 and 2010, the changes in fair value of available-for-sale financial assets from subsequent remeasurement were NT\$313,356 (US\$10,907) and NT\$292,696 (US\$9,067), respectively, and were recorded as other stockholders' equity adjustments.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Financial assets carried at cost — non-current:

Investee	Shareholding percentage (%)	2011 Book value		Shareholding percentage (%)	2010 Book value	
		NT dollars	US dollars		NT dollars	US dollars
Taiwan High Speed Rail Corp.	1.20	\$ 1,246,549	43,388	1.20	1,246,549	38,617
Evergreen Development Corp. (note)	9.35	870,000	30,282	9.35	870,000	26,952
Abacus International Holding Ltd.	2.11	115,743	4,029	2.11	115,743	3,585
Technology Partner II Venture Capital Corp.	5.88	3,235	113	5.88	6,294	195
Chung Hwa Express Co., Ltd.	10.00	10,000	348	10.00	10,000	310
Pan-Pacific Venture Capital Co., Ltd.	2.30	<u>1,699</u>	<u>59</u>	2.30	<u>2,851</u>	<u>88</u>
Total		\$ <u>2,247,226</u>	<u>78,219</u>		<u>2,251,437</u>	<u>69,747</u>

Note: Evergreen Development Corporation changed its name to Evergreen Steel Corporation on July 1, 2011.

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.

On May 31, 2011, Technology Partner II Venture capital Corp. decreased issued stock by 20%, and the Company withdrew NT\$3,059 (US\$105) in cash in proportion to the Company's ownership percentage.

On June 10, 2011, and on June 11, 2010, Pan-Pacific Venture Capital Co., Ltd. decreased issued stock by 49.71% and 33%, respectively, and the Company withdrew NT\$1,152 (US\$40) and NT\$1,151 (US\$36), respectively, in cash in proportion to the Company's ownership percentage.

As of June 30, 2011 and 2010, the components of derivative financial instruments were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Derivative financial liabilities:				
Fuel option agreements	\$ <u>-</u>	<u>-</u>	<u>65,775</u>	<u>2,038</u>

Details of derivative financial assets and liabilities as of June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Financial liabilities at fair value through profit or loss — current	\$ <u>-</u>	<u>-</u>	<u>65,775</u>	<u>2,038</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (c) Notes and accounts receivable

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Notes receivable	\$ 397,145	13,823	332,964	10,315
Accounts receivable	<u>6,632,046</u>	<u>230,840</u>	<u>8,222,835</u>	<u>254,735</u>
	7,029,191	244,663	8,555,799	265,050
Less: allowance for doubtful accounts	<u>11,551</u>	<u>402</u>	<u>11,551</u>	<u>358</u>
	<u>\$ 7,017,640</u>	<u>244,261</u>	<u>8,544,248</u>	<u>264,692</u>

As of June 30, 2011 and 2010, the Company's notes and accounts receivable were not pledged. The carrying amounts of notes and accounts receivable are taken to be their fair value because of the near maturity dates.

## (d) Inventories

The components as of June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft spare parts	\$ 7,710,169	268,367	7,857,466	243,416
Consumables for use and merchandise for sale during flight	<u>570,899</u>	<u>19,871</u>	<u>533,369</u>	<u>16,523</u>
Fuel for aircraft	<u>93,516</u>	<u>3,255</u>	<u>206,037</u>	<u>6,383</u>
	<u>\$ 8,374,584</u>	<u>291,493</u>	<u>8,596,872</u>	<u>266,322</u>

For the six months ended June 30, 2011 and 2010, the movement of allowance for obsolete inventories was as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Beginning balance	\$ 1,238,830	42,528	951,909	29,719
Addition	<u>710,151</u>	<u>24,429</u>	<u>678,348</u>	<u>21,265</u>
Write-off	<u>(216,824)</u>	<u>(7,459)</u>	<u>(496,376)</u>	<u>(15,560)</u>
Effect of exchange rate	<u>-</u>	<u>793</u>	<u>-</u>	<u>(298)</u>
Ending balance	<u>\$ 1,732,157</u>	<u>60,291</u>	<u>1,133,881</u>	<u>35,126</u>

For the six months ended June 30, 2011 and 2010, the Company recognized related losses on inventories as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Losses on inventory obsolescence	<u>\$ 710,151</u>	<u>24,429</u>	<u>678,348</u>	<u>21,265</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The pledge for these inventories is disclosed in note 6.

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

Details as of and for the six months ended June 30, 2011 and 2010, were as follows:

Investee	Shareholding percentage (%)	2011 Book value		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars
Evergreen Aviation Technologies Corp.	80.00	\$ 5,050,987	175,809	386,417	13,293
Hsiang-Li Investment Corp.	100.00	45,464	1,582	2,476	85
Concord Pacific Ltd.	100.00	1,368,310	47,626	(121,277)	(4,172)
Sky Castle Investment Ltd.	100.00	292,604	10,185	16,278	560
Evergreen Airways Service (Macau) Ltd.	99.00	126,990	4,420	18,153	624
SINO GAIN LIMITED	100.00	794	28	56	2
Evergreen Air Cargo Services Corp.	60.00	1,047,692	36,467	51,206	1761
Evergreen Sky Catering Corp.	49.80	890,284	30,988	77,348	2,661
Evergreen Airline Services Corp.	56.33	694,519	24,174	89,704	3,086
Uni Airways Corp.	15.67	488,814	17,014	(7,928)	(273)
Evergreen Security Corp.	31.25	85,928	2,991	8,583	295
PT Perdana Andalan Air Service	51.00	57,818	2,012	(766)	(26)
RTW Air Services (S) Pte. Ltd.	49.00	24,417	850	1,124	39
Green Siam Air Services Co., Ltd.	49.00	19,516	679	3,233	111
		<u>\$ 10,194,137</u>	<u>354,825</u>	<u>524,607</u>	<u>18,046</u>

Investee	Shareholding percentage (%)	2010 Book value		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars
Evergreen Aviation Technologies Corp.	80.00	\$ 4,700,929	145,630	255,167	7,999
Hsiang-Li Investment Corp.	100.00	55,220	1,711	3,645	114
Concord Pacific Ltd.	100.00	46,604	1,444	125,566	3,936
Sky Castle Investment Ltd.	100.00	281,882	8,732	16,756	525
Evergreen Airways Service (Macau) Ltd.	99.00	200,060	6,198	23,482	736
SINO GAIN LIMITED	100.00	781	24	70	2
Evergreen Air Cargo Services Corp.	60.00	1,001,452	31,024	51,909	1,627
Evergreen Sky Catering Corp.	49.80	856,424	26,531	82,594	2,589
Evergreen Airline Services Corp.	56.33	606,931	18,802	52,816	1,656
Uni Airways Corp.	15.67	463,968	14,373	37,233	1,167
Evergreen Security Corp.	31.25	82,931	2,569	9,011	283
PT Perdana Andalan Air Service	51.00	74,719	2,315	3,026	95
RTW Air Services (S) Pte. Ltd.	49.00	25,469	789	3,883	122
Green Siam Air Services Co., Ltd.	49.00	22,785	706	5,689	179
		<u>\$ 8,420,155</u>	<u>260,848</u>	<u>670,847</u>	<u>21,030</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

Details of increases in long-term equity investments under the equity method of the Company for the six months ended June 30, 2011, were as follows:

Unit: thousands of shares

Investee	Shares	2011	
		NT dollars	US dollars
Concord Pacific Ltd.	<u>50,337</u>	<u>\$ 1,453,728</u>	<u>50,337</u>

There was no such transaction for the six months ended June 30, 2010.

As of June 30, 2011 and 2010, the cumulative translation adjustment was NT\$50 (US\$2) and NT\$41,312 (US\$1,280), respectively.

## (f) Property, plant and equipment

For the six months ended June 30, 2011 and 2010, the Company capitalized the interest expenses on purchase of assets amounting to NT\$27,885 (US\$959) and NT\$112,184 (US\$3,517), respectively. The monthly interest rates on the above transactions were 0.12%~0.13% and 0.14%, respectively. The pledge for this property, plant and equipment is disclosed in note 6.

## (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			
				2011		2010	
				NT dollars	US dollars	NT dollars	US dollars
Aircraft	GECAS	2004.4.13~ 2017.6.21	The rent is payable monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property	\$ 5,441,216	189,391	6,113,555	189,391
Aircraft	C&L Leasing Co., Ltd.	2007.5.31~ 2019.12.27	The rent is payable every three months, and the present value of payment for future rental is higher than 90% of the fair value of the leased asset	9,043,157	314,763	10,160,567	314,764
Computer equipment	IBM	2009.5.25~ 2014.6.24	The rent is payable monthly, and the lease transfers ownership of the leased property by the end of the lease term	50,555	1,760	50,555	1,566
Computer equipment	IBM	2010.12.25 ~2014.6.24	The rent is payable monthly, and the lease transfers ownership of the leased property by the end of the lease term	39,123	1,362	-	-
				14,574,051	507,276	16,324,677	505,721
				(3,994,747)	(139,044)	(3,260,554)	(101,008)
Less: accumulated depreciation				<u>\$ 10,579,304</u>	<u>368,232</u>	<u>13,064,123</u>	<u>404,713</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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

The abovementioned aircraft 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.

As of June 30, 2011 and 2010, the book value and present value of lease liability were as follows:

Year due	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
July 1, 2010~June 30, 2011	\$ -	-	2,078,959	64,404
July 1, 2011~June 30, 2012	1,965,809	68,423	2,056,260	63,701
July 1, 2012~June 30, 2013	1,942,122	67,599	2,032,573	62,967
July 1, 2013~June 30, 2014	1,918,929	66,792	2,009,379	62,248
July 1, 2014~June 30, 2015	1,874,346	65,240	1,976,586	61,233
July 1, 2015~June 30, 2016	1,816,917	63,241	1,914,897	59,321
And after	<u>3,514,425</u>	<u>122,326</u>	<u>3,557,289</u>	<u>110,201</u>
Book value	13,032,548	453,621	15,625,943	484,075
Less: unrealized interest expenses	<u>(1,969,101)</u>	<u>(68,538)</u>	<u>(2,656,307)</u>	<u>(82,290)</u>
Present value	11,063,447	385,083	12,969,636	401,785
Less: current portion	<u>(1,464,071)</u>	<u>(50,959)</u>	<u>(1,476,009)</u>	<u>(45,725)</u>
	\$ <u><u>9,599,376</u></u>	<u><u>334,124</u></u>	<u><u>11,493,627</u></u>	<u><u>356,060</u></u>

The current portion of lease liability was recorded under other current liabilities.

## (h) Deferred charges

As of June 30, 2011 and 2010, deferred charges, net of amortization, consisted of the following:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Leasehold improvements	\$ 1,844,893	64,215	2,109,354	65,346
Major overhaul for aircraft and engines	2,719,010	94,640	1,911,440	59,214
Others	<u>108,760</u>	<u>3,786</u>	<u>64,792</u>	<u>2,007</u>
	\$ <u><u>4,672,663</u></u>	<u><u>162,641</u></u>	<u><u>4,085,586</u></u>	<u><u>126,567</u></u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (i) Long-term borrowings

As of June 30, 2011 and 2010, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2011		Interest rate (%)	2010	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	1.02~1.38	\$ 2,332,143	81,174	0.89~1.28	1,371,428	42,486
Aircraft	1.07~1.50	35,627,032	1,240,064	0.94~2.30	42,262,276	1,309,240
Engines	1.26~1.48	<u>1,340,000</u>	<u>46,641</u>	0.80~2.66	<u>3,418,832</u>	<u>105,912</u>
Subtotal		<u>39,299,175</u>	<u>1,367,879</u>		<u>47,052,536</u>	<u>1,457,638</u>
Unsecured loans:	1.20~1.81	<u>1,974,733</u>	<u>68,734</u>	1.03~2.70	<u>4,834,033</u>	<u>149,753</u>
Total		41,273,908	1,436,613		51,886,569	1,607,391
Less: current portion		<u>(6,727,341)</u>	<u>(234,157)</u>		<u>(10,667,989)</u>	<u>(330,483)</u>
		<u>\$ 34,546,567</u>	<u>1,202,456</u>		<u>41,218,580</u>	<u>1,276,908</u>

As of June 30, 2011, the remaining balances of the borrowings were due as follows:

Year due	NT dollars	US dollars
July 1, 2011~June 30, 2012	\$ 6,727,341	234,157
July 1, 2012~June 30, 2013	6,245,164	217,374
July 1, 2013~June 30, 2014	6,043,306	210,348
July 1, 2014~June 30, 2015	4,601,116	160,150
July 1, 2015~June 30, 2016	4,029,163	140,243
And after	<u>13,627,818</u>	<u>474,341</u>
	<u>\$ 41,273,908</u>	<u>1,436,613</u>

As of June 30, 2011 and 2010, the unused credit lines for long-term borrowings amounted to NT\$1,777,000 (US\$61,852) and NT\$800,000 (US\$24,783), respectively. The pledge for these long-term borrowings is disclosed in note 6.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (j) Bonds payable

Details of bonds payable as of June 30, 2011 and 2010, were as follows:

	Description	Guaranteed by	Annual interest rate	Issue date	2011		2010	
					NT dollars	US dollars	NT dollars	US dollars
Bonds payable	Far-Eastern International Bank		1.85%	2005.08	\$ -	-	500,000	15,490
	The Shanghai Commercial & Savings Bank		1.85%	2005.08	-	-	500,000	15,490
	Chinatrust Commercial Bank		1.85%	2005.08	-	-	600,000	18,586
	Hua Nan Bank		1.85%	2005.08	-	-	500,000	15,490
Bonds payable	Cathay United Bank		2.08%	2006.01	-	-	2,000,000	61,957
Bonds payable	Hua Nan Bank		2.29%	2006.07	500,000	17,403	500,000	15,490
	Taipei Fubon Bank		2.29%	2006.07	500,000	17,403	500,000	15,490
	Bank of Taiwan		2.29%	2006.07	500,000	17,403	500,000	15,490
	Taiwan Cooperative Bank		2.29%	2006.07	500,000	17,403	500,000	15,490
Bonds payable	The Shanghai Commercial & Savings Bank		1.21%	2011.01	1,000,000	34,808	-	-
	Chinatrust Commercial Bank		1.21%	2011.01	600,000	20,885	-	-
	Land Bank		1.21%	2011.01	500,000	17,403	-	-
	Mega International Commercial Bank		1.21%	2011.01	500,000	17,403	-	-
	Hua Nan Bank		1.21%	2011.01	500,000	17,403	-	-
Ordinary corporate bonds payable issued in private placement			2.00%	2009.10	<u>2,500,000</u>	<u>87,018</u>	<u>5,000,000</u>	<u>154,894</u>
Subtotal					7,600,000	264,532	11,100,000	343,867
Less: current portion					<u>(2,000,000)</u>	<u>(69,614)</u>	<u>(4,100,000)</u>	<u>(127,014)</u>
					<u>\$ 5,600,000</u>	<u>194,918</u>	<u>7,000,000</u>	<u>216,853</u>

Ordinary corporate bonds payable issued in private placement amounting to NT\$2,500,000 (US\$87,017) had already been redeemed on April 12, 2011.

## (k) Installment accounts payable

The Company purchased aircraft, engines and inventories by installments. As of June 30, 2011 and 2010, the details were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft payable	\$ 16,208,963	564,182	15,909,071	492,846
Others	<u>260,000</u>	<u>9,050</u>	<u>1,467,667</u>	<u>45,466</u>
	16,468,963	573,232	17,376,738	538,312
Less: current portion	<u>(2,989,155)</u>	<u>(104,043)</u>	<u>(3,690,325)</u>	<u>(114,322)</u>
	<u>\$ 13,479,808</u>	<u>469,189</u>	<u>13,686,413</u>	<u>423,990</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The current portion of installment accounts payable was recorded as other payables. As of June 30, 2011, the remaining balances of installment accounts payable were due as follows:

Year due	NT dollars	US dollars
July 1, 2011~June 30, 2012	\$ 2,989,155	104,043
July 1, 2012~June 30, 2013	2,656,649	92,470
July 1, 2013~June 30, 2014	2,069,956	72,049
July 1, 2014~June 30, 2015	1,395,690	48,579
July 1, 2015~June 30, 2016	1,339,639	46,628
And after	6,017,874	209,463
	<b>\$ <u>16,468,963</u></b>	<b><u>573,232</u></b>

The interest expenses of the aforementioned installment accounts payable are calculated based on floating interest rates. For the six months ended June 30, 2011 and 2010, the average interest rates were 0.27%~6.77% and 0.25%~6.77%, respectively. The pledges for the installment accounts payable are disclosed in note 6.

## (l) Retirement plans

As of and for the six months ended June 30, 2011 and 2010, the details of the retirement plans were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Balance of the retirement fund:				
Bank of Taiwan	\$ 2,563,763	89,236	2,339,845	72,486
Periodic pension cost:				
Defined benefit pension plan cost	139,790	4,808	113,286	3,551
Defined contribution pension plan cost	74,240	2,554	62,389	1,956
Accrued employee retirement liabilities	330,134	11,491	198,278	6,143

## (m) Income tax

(1) For the six months ended June 30, 2011 and 2010, the components of estimated income tax benefits (expenses) were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expenses—current	\$ (13,518)	(465)	(15,411)	(483)
Income tax benefits—deferred	-	-	-	-
	<b>\$ <u>(13,518)</u></b>	<b><u>(465)</u></b>	<b><u>(15,411)</u></b>	<b><u>(483)</u></b>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The deferred income tax benefits were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ 454,744	15,643	(618,703)	(19,395)
Investment tax credits	(3,906)	(134)	729,154	22,858
Unrealized exchange gains	(4,379)	(151)	(9,136)	(286)
Provision (reversal) for loss on inventory market price decline	(330,897)	(11,383)	81,032	2,540
Purchase of fixed assets in installments, adjusted for tax purposes	(23,197)	(798)	(15,621)	(490)
Unrealized gains on financial instruments	(6,958)	(239)	(102,472)	(3,212)
Effect of change in income tax rate on valuation allowance for deferred income tax assets	-	-	(914,212)	(28,659)
Others	(6,156)	(212)	(45,130)	(1,415)
Valuation allowance for deferred income tax assets	<u>(79,251)</u>	<u>(2,726)</u>	<u>895,088</u>	<u>28,059</u>
	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (2) For the six months ended June 30, 2011 and 2010, the Company was subject to ROC income tax at a maximum rate of 17% and calculated the amounts of the basic tax in accordance with the "Income Basic Tax Act." The differences between expected income tax expense at statutory rates and income tax expense as reported in the accompanying financial statements for the six months ended June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Income tax benefits calculated on pre-tax financial income at statutory income tax rate of 17%	\$ (58,943)	(2,027)	(889,984)	(27,899)
Gains on disposal of investments	706	24	685	22
Investment income recognized under equity method—unrealized	89,183	3,068	114,044	3,575
Dividend income	41,316	1,421	21,713	681
Increase in investment tax credits	-	-	729,617	22,872
Permanent difference in depreciation expenses	58,120	1,999	3,846	121
Exchange gains recorded as translation adjustments	(27,547)	(948)	(7,514)	(236)
Effect of change in statutory income tax rate	-	-	(914,212)	(28,659)
Others	(37,102)	(1,276)	31,306	981
Valuation allowance for deferred income tax assets	<u>(79,251)</u>	<u>(2,726)</u>	<u>895,088</u>	<u>28,059</u>
	\$ <u>(13,518)</u>	<u>(465)</u>	<u>(15,411)</u>	<u>(483)</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (3) The components of the deferred income tax assets (liabilities) as of June 30, 2011 and 2010, were as follows:

	Amount		Tax effect		Amount		Tax effect	
	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Deferred income tax assets (liabilities)—current								
Allowance for obsolete inventories	\$ 1,658,963	57,743	282,024	9,816	3,104,694	96,180	527,798	16,351
Unused investment tax credits	1,253,630	43,635	1,253,630	43,635	259,139	8,028	259,139	8,028
Unused loss carryforwards	5,978,420	208,090	1,016,331	35,375	-	-	-	-
Unrealized exchange losses (gains)	38,504	1,340	6,546	228	(13,500)	(418)	(2,295)	(71)
Others	3,041	106	517	18	200,900	6,224	34,153	1,057
			2,559,048	89,072			818,795	25,365
Less: Valuation allowance for deferred income tax assets			(1,074,958)	(37,416)			(786,937)	(24,378)
Deferred income tax assets, net—current			\$ <u>1,484,090</u>	<u>51,656</u>			<u>31,858</u>	<u>987</u>
Deferred income tax assets (liabilities)—non-current								
Unused investment tax credits	\$ 1,769,351	61,585	1,769,351	61,586	3,319,050	102,821	3,319,050	102,821
Purchase of fixed assets in installments, adjusted for tax purposes	2,742,452	95,456	466,217	16,228	2,970,788	92,032	505,034	15,645
Unused loss carryforwards	8,440,675	293,793	1,434,915	49,945	19,637,178	608,339	3,338,320	103,418
Cumulative translation adjustments	5,923,495	206,178	1,006,994	35,050	(852,519)	(26,410)	(144,928)	(4,490)
Others	2,132,165	74,214	362,469	12,616	579,723	17,959	98,553	3,053
			5,039,946	175,425			7,116,029	220,447
Less: Valuation allowance for deferred income tax assets			(1,708,426)	(59,465)			(3,550,881)	(110,003)
Deferred income tax assets, net—non-current			\$ <u>3,331,520</u>	<u>115,960</u>			<u>3,565,148</u>	<u>110,444</u>

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

As of June 30, 2011, unused investment tax credits available to the Company were as follows:

Year granted	Unused investment tax credits		Expiry year
	NT dollars	US dollars	
2007	\$ 1,253,630	43,635	2011
2008	676,386	23,543	2012
2009	<u>1,092,965</u>	<u>38,042</u>	2013
	\$ <u>3,022,981</u>	<u>105,220</u>	

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

- (5) The Company's income tax returns have been examined by the local tax authorities through 2009. According to the Income Tax Act, the loss carry forward tax credit can be applied to offset income tax in the following ten years. As of June 30, 2011, unused loss carry forward tax credits available to the Company were as follows:

Year granted	Unused loss carryforward		Expiry year
	NT dollars	US dollars	
2008	\$ 5,978,420	208,090	2018
2009	8,374,277	291,482	2019
2011	<u>66,398</u>	<u>2,311</u>	2021
	<b>\$ <u>14,419,095</u></b>	<b><u>501,883</u></b>	

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

	2011		2010		
	NT dollars	US dollars	NT dollars	US dollars	
Unappropriated earnings before 1997	\$ -	-	-	-	
Unappropriated earnings after 1998	<u>1,565,229</u>	<u>50,549</u>	<u>5,219,788</u>	<u>163,630</u>	
	<b>\$ <u>1,565,229</u></b>	<b><u>50,549</u></b>	<b><u>5,219,788</u></b>	<b><u>163,630</u></b>	
ICA	<b>\$ <u>1,088,241</u></b>	<b><u>37,878</u></b>	<b><u>901,161</u></b>	<b><u>27,917</u></b>	
		<b>2010</b>		<b>2009</b>	
Creditable ratio for earnings distribution to domestic shareholders		<b><u>9.05%</u></b>	<b><u>(estimated)</u></b>	<b><u>- %</u></b>	<b><u>(actual)</u></b>

- (n) Stockholders' equity

- (1) Common stock and stock dividends to be distributed

As of June 30, 2011 and 2010, 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 2,962,677 thousand shares, were issued and outstanding.

On June 10, 2011, the Company's stockholders resolved to distribute stock dividends out of unappropriated earnings in the amount of NT\$2,962,677 (US\$93,994) by issuing 296,268 thousand shares. The aforementioned distribution is awaiting the approval of the government authorities. As of June 30, 2011, the distributed stock dividends were recorded as stock dividends to be distributed.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

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

The details of capital surplus as of June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Cash subscription in excess of par value of shares	\$ 29,672	1,008	29,672	1,008
Share options granted to employees	282,100	8,585	282,100	8,585
Additional paid-in capital from bond conversion	1,411,829	43,699	1,411,829	43,699
Gain on disposal of property, plant and equipment of investee company	1,668	53	1,668	53
Increase in net equity due to investee company issuing new shares and the Company not purchasing proportionately	50,318	1,531	50,318	1,531
Increase in net equity due to change in percentage of ownership in long-term investments under equity method	225,369	7,161	225,364	7,161
Donated assets	648,480	20,588	648,480	20,588
	<u>\$ 2,649,436</u>	<u>82,625</u>	<u>2,649,431</u>	<u>82,625</u>

The ROC Company Act stipulates that realized capital surplus should not be credited to capital except for making up deficiencies of the Company. The realized capital surplus includes the premiums from issuance of shares in excess of par value and gifts received. In addition, the capital surplus which is credited to capital should not exceed 10% 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 employees' bonuses of at least 1% of estimated earnings of each year, and less 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 appropriation of special reserve from unappropriated earnings at an amount equal to the net debit balance of those accounts in stockholders' equity.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

To promote long-term development, the Company has adopted a steady dividend policy, in which a cash dividend of around 0~50% of the appropriated dividend is distributed and a stock dividend of around 50%~100% of the appropriated dividend is distributed. However, if the expected earnings per share in the year when stock dividends are distributed decline to 20% or working capital is low, a cash dividend of 50%~100% of the appropriated dividend is distributed and a stock dividend of 0~50% of the appropriated dividend is distributed.

The Company's stockholders resolved to appropriate earnings of 2010 on June 10, 2011. The appropriations and dividends per share were as follows:

	2010	
	NT dollars	US dollars
Stock dividends	\$ 1.00	0.03
Cash dividends	1.00	0.03
Bonuses to employees	100,000	3,173
Remuneration to directors and supervisors	53,000	1,681

The amounts of the abovementioned appropriations of earnings for 2010 were consistent with the resolutions of the meetings of the board of directors. The related information can be found on websites such as the Market Observation Post System.

For the six month ended June 30, 2011, the Company did not recognize any bonuses to employees and remuneration to directors and supervisors. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are recognized as profit or loss.

On June 14, 2010, the Company's stockholders resolved to make up deficiencies from capital surplus of NT\$2,915,074 (US\$111,306) and not to appropriate dividends to stockholders, bonuses to employees, and remuneration to directors and supervisors for year 2009.

## (3) Cumulative translation adjustments

According to the accounting treatment of note 2(d), the cumulative translation adjustments had a debit balance of NT\$4,916,551 (US\$171,130) and a credit balance of NT\$666,279 (US\$20,641) as of June 30, 2011 and 2010, respectively.

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (o) Earnings per share

For the six months ended June 30, 2011 and 2010, earnings per share were calculated as follows:

	NT dollars 2011		US dollars 2011		NT dollars 2010		US dollars 2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
<b>Basic earnings per share:</b>								
Net income	\$ <u>346,721</u>	<u>333,203</u>	<u>11,927</u>	<u>11,462</u>	<u>5,235,199</u>	<u>5,219,788</u>	<u>164,113</u>	<u>163,630</u>
Weighted-average number of shares outstanding during the year (thousand shares)	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>
Basic EPS (dollars)	\$ <u>0.12</u>	<u>0.11</u>	<u>-</u>	<u>-</u>	<u>1.77</u>	<u>1.76</u>	<u>0.06</u>	<u>0.06</u>
<b>Diluted earnings per share:</b>								
Net income for calculating diluted EPS	\$ <u>346,721</u>	<u>333,203</u>	<u>11,927</u>	<u>11,462</u>	<u>5,235,199</u>	<u>5,219,788</u>	<u>164,113</u>	<u>163,630</u>
Weighted-average number of shares outstanding during the year (thousand shares)	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>
Employees' bonus that may be settled in shares (thousand shares)	<u>3,489</u>	<u>3,489</u>	<u>3,489</u>	<u>3,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Weighted-average number of shares outstanding for calculating diluted EPS (thousand shares)	<u>2,966,166</u>	<u>2,966,166</u>	<u>2,966,166</u>	<u>2,966,166</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>
Diluted EPS (dollars)	\$ <u>0.12</u>	<u>0.11</u>	<u>-</u>	<u>-</u>	<u>1.77</u>	<u>1.76</u>	<u>0.06</u>	<u>0.06</u>

The capital increase date of year 2010 was after the issuance date of the financial statements. Therefore, retroactive adjustment for the earnings per share of the Company was as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
<b>Basic earnings per share</b>				
Net income	\$ <u>333,203</u>	<u>11,462</u>	<u>5,219,788</u>	<u>163,630</u>
Retroactively adjusted weighted-average number of shares outstanding during the period	<u>3,258,945</u>	<u>3,258,945</u>	<u>3,258,945</u>	<u>3,258,945</u>
	\$ <u>0.10</u>	<u>-</u>	<u>1.60</u>	<u>0.05</u>
<b>Diluted earnings per share</b>				
Net income	\$ <u>333,203</u>	<u>11,462</u>	<u>5,219,788</u>	<u>163,630</u>
Weighted-average number of shares outstanding during the year (thousand shares)	<u>3,258,945</u>	<u>3,258,945</u>	<u>3,258,945</u>	<u>3,258,945</u>
Employees' bonuses that may be settled in shares (thousand shares)	<u>3,489</u>	<u>3,489</u>	<u>-</u>	<u>-</u>
Weighted-average number of shares outstanding for calculating diluted EPS (thousand shares)	<u>3,262,434</u>	<u>3,262,434</u>	<u>3,258,945</u>	<u>3,258,945</u>
	\$ <u>0.10</u>	<u>-</u>	<u>1.60</u>	<u>0.05</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (p) Hedge accounting

The Company needs fuel for operating, and the future cash flows for fuel fluctuate due to the floating market prices, and therefore cash flow risk occurs. The Company evaluates the risk as significant, and thus hedges the risk by signing swap agreements.

As of June 30, 2011 and 2010, 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
		2011		2010			
		NT dollars	US dollars	NT dollars	US dollars		
Floating price of fuel	Fuel swap agreements	\$ <u>40,929</u>	<u>1,425</u>	\$ <u>14,121</u>	<u>437</u>	2010~2011	Derivative financial assets for hedge purposes — current

As of June 30, 2011 and 2010, the unrealized valuation gain on financial instruments due to hedging of cash flow amounted to NT\$40,929 (US\$1,425) and NT\$14,121 (US\$437), respectively, recorded under stockholders' equity.

## (q) Disclosure of financial instruments

## (1) Fair value of financial instruments

The details of financial instruments as of June 30, 2011 and 2010, were as follows:

	Book value	2011		Book value	2010	
		NT dollars			US dollars	
		Public quote value	Assessment value		Public quote value	Assessment value
Financial assets:						
Cash and cash equivalents	\$ 10,909,439	-	10,909,439	379,723	-	379,723
Notes and accounts receivable (including receivables from related parties)	7,169,391	-	7,169,391	249,543	-	249,543
Other receivables (including receivables from related parties)	852,379	-	852,379	29,669	-	29,669
Available-for-sale financial assets — current	2,093,781	2,093,781	-	72,878	72,878	-
Available-for-sale financial assets — non-current — stock	733,046	733,046	-	25,515	25,515	-
Financial assets carried at cost — non-current	2,247,226	-	-	78,219	-	-
Fuel swap agreements	40,929	-	40,929	1,425	-	1,425
Other assets	215,432	-	215,432	7,498	-	7,498

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	2011					
	Book value	NT dollars Fair value		Book value	US dollars Fair value	
		Public quote value	Assessment value		Public quote value	Assessment value
Financial liabilities:						
Notes and accounts payable (including payables to related parties)	4,254,454	-	4,254,454	148,085	-	148,085
Accrued expenses	7,677,785	-	7,677,785	267,239	-	267,239
Other payables (including payables to related parties)	6,213,386	-	6,213,386	216,268	-	216,268
Bonds payable (including current portion)	7,600,000	5,073,518	2,511,190	264,532	176,593	87,407
Long-term borrowings (including current portion)	41,273,908	-	41,273,908	1,436,613	-	1,436,613
Installment accounts payable (including current portion)	16,468,963	-	16,710,921	573,232	-	581,654
Lease liability (including current portion)	11,063,447	-	11,415,740	385,083	-	397,346
Off-balance-sheet financial instruments:						
Letters of credit	-	-	1,342,760	-	-	46,737
Guaranteed borrowings	-	-	1,167,156	-	-	40,625
	2010					
	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	\$ 9,774,660	-	9,774,660	302,808	-	302,808
Notes and accounts receivable (including receivables from related parties)	8,738,648	-	8,738,648	270,714	-	270,714
Other receivables (including receivables from related parties)	600,010	-	600,010	18,588	-	18,588
Available-for-sale financial assets—current	1,575,819	1,575,819	-	48,817	48,817	-
Available-for-sale financial assets—non-current—stock	714,745	714,745	-	22,142	22,142	-
Financial assets carried at cost—non-current	2,251,437	-	-	69,747	-	-
Fuel swap agreements	14,121	-	14,121	437	-	437
Other assets	1,496,784	-	1,496,784	46,369	-	46,369
Financial liabilities:						
Notes and accounts payable (including payables to related parties)	3,033,013	-	3,033,013	93,959	-	93,959
Accrued expenses	6,119,165	-	6,119,165	189,565	-	189,565
Other payables (including payables to related parties)	3,881,339	-	3,881,339	120,240	-	120,240
Bonds payable (including current portion)	11,100,000	4,126,080	7,127,378	343,867	127,822	220,799
Long-term borrowings (including current portion)	51,886,569	-	51,886,569	1,607,391	-	1,607,391
Installment accounts payable (including current portion)	17,376,738	-	17,732,777	538,312	-	549,343
Lease liability (including current portion)	12,969,636	-	13,526,603	401,785	-	419,040
Fuel option agreements	65,775	-	65,775	2,038	-	2,038

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	2010					
	NT dollars			US dollars		
	Book value	Fair value Public quote value	Assessment value	Book value	Fair value Public quote value	Assessment value
Off-balance-sheet financial instruments:						
Letters of credit	-	-	1,608,133	-	-	49,818
Guaranteed borrowings	-	-	1,835,925	-	-	56,875

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

- i) The maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable/payable (including related parties), other receivables (including related parties), accrued expenses, and other payables (including related parties), are within one year of the balance sheet date, and therefore, their book value is equal to their fair value.
  - ii) If public quoting of financial assets and liabilities is available, then the quote price will be the fair value. If market value is not available, an assessment method will be used. The assumptions used should be the same as those used by the financial market traders when quoting their prices.
  - iii) The assessed value of bonds payable, long-term borrowings, installment accounts payable, and lease liability is the discounted future cash flows, and the discount rates during the six months ended June 30, 2011 and 2010, were 0.27%~6.93% and 0.25%~6.93% p.a., respectively.
  - iv) The fair value of letters of credit is based on the amount of the contract.
  - v) The fair value of guaranteed borrowings is based on the amount of the contract.
- (3) For the six months ended June 30, 2011 and 2010, the evaluation gain or loss on financial assets at fair value through profit or loss amounted to losses of NT\$7,962 (US\$274) and NT\$50,004 (US\$1,567), respectively.

## (4) Disclosure of financial risks

## (i) Market risk

As of June 30, 2011 and 2010, the bonds payable, installment accounts payable, and lease liability with the risk arising from floating interest rates amounted to NT\$14,443,127 (US\$502,719) and NT\$20,448,743 (US\$633,480), respectively.

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.

(Continued)

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

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.

The Company guarantees bank loans of an investee which is 100% owned by the Company, and therefore the Company concluded that it was not exposed to credit risk for this transaction.

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 guaranties.

(iii) Liquidity risk

The Company's capital, operating funds, and financing are sufficient to fulfill 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 price.

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

The Company's short-term and long-term borrowings, installment accounts payable, and lease liability carried floating interest rates. As a result, the effective interest rate changes along with the fluctuation of the market interest rate and thereby influences the Company's future cash flow.

(Continued)

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

As of June 30, 2011 and 2010, the financial liabilities with the risk arising from floating interest rates amounted to NT\$61,963,191 (US\$2,156,741) and NT\$72,884,200 (US\$2,257,875), 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 International Storage & Transport Corp.	Major shareholder
Evergreen Airline Services Corp.	Subsidiary
Evergreen Sky Catering Corp.	Subsidiary
Evergreen Aviation Technologies Corp.	Subsidiary
Evergreen Air Cargo Services Corp.	Subsidiary
Hsiang-Li Investment Corp.	Subsidiary
RTW Air Services (S) Pte. Ltd.	Subsidiary
Green Siam Air Services Co., Ltd.	Subsidiary
Evergreen Airways Service (Macau) Ltd.	Subsidiary
PT Perdana Andalan Air service	Subsidiary
Concord Pacific Ltd.	Subsidiary
SINO GAIN LIMITED	Subsidiary
Uni Airways Corp.	Investee company accounted for by equity method
Evergreen Security Corp.	Investee company accounted for by equity method
Evergreen Reinsurance Company Limited	Investee company of the Company's major shareholders
Shanghai Airlines Cargo International Co., Ltd. (note)	Investee company of a Company subsidiary

Note: Shanghai Airlines Cargo International Co., Ltd. ceased its operation on May 31, 2011. China Cargo Airlines Co., Ltd. acquired its net assets, and took over its rights and obligations.

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

## (b) Significant transactions with related parties

## (1) Revenue, cost and expenses

During the six months ended June 30, 2011 and 2010, the Company's transactions with related parties were as follows:

Revenue	2011			2010		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Uni Airways Corp.	\$ 309,429	10,644	0.62	216,845	6,797	0.43
Evergreen Aviation Technologies Corp.	115,128	3,960	0.23	195,665	6,134	0.39
Evergreen International Corp.	20,973	721	0.04	21,016	659	0.04
Shanghai Airlines Cargo International Co., Ltd.	7,458	257	0.02	22,360	701	0.05
Green Siam Air Services Co., Ltd.	2,167	75	0.01	1,561	49	-
Evergreen Air Cargo Services Corp.	769	26	-	10,084	316	0.02
Others	891	31	-	1,066	34	-
	<u>\$ 456,815</u>	<u>15,714</u>	<u>0.92</u>	<u>468,597</u>	<u>14,690</u>	<u>0.93</u>

Uni Airways Corp. leased aircraft from the Company to operate cross-strait flights between mainland China and Taiwan. The rental is charged by actual flight hours and recorded under operating revenue.

Cost	2011			2010		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen Aviation Technologies Corp.	\$ 2,357,125	81,084	5.15	2,444,744	76,638	5.85
Evergreen Sky Catering Corp.	588,158	20,233	1.29	579,739	18,174	1.39
Evergreen Airline Services Corp.	571,529	19,660	1.25	469,799	14,727	1.12
Uni Airways Corp.	295,216	10,155	0.65	311,283	9,758	0.74
Evergreen Air Cargo Services Corp.	151,530	5,213	0.33	123,509	3,872	0.30
Evergreen Reinsurance Company Limited	95,581	3,288	0.21	105,768	3,315	0.25
Shanghai Airlines Cargo International Co., Ltd.	61,293	2,109	0.13	103,579	3,247	0.25
Evergreen International storage & Transport Corp.	34,507	1,187	0.08	34,478	1,081	0.08
Evergreen International Corp.	32,825	1,129	0.07	20,987	658	0.05
Others	289	10	-	383	12	-
	<u>\$ 4,188,053</u>	<u>144,068</u>	<u>9.16</u>	<u>4,194,269</u>	<u>131,482</u>	<u>10.03</u>

Expenses	2011			2010		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen International Corp.	\$ 78,144	2,688	2.29	64,630	2,026	2.08
Green Siam Air Services Co., Ltd.	30,133	1,036	0.88	37,723	1,183	1.22
RTW Air Services (S) Pte. Ltd.	23,229	799	0.68	24,429	766	0.79
Evergreen Security Corp.	21,110	726	0.62	20,743	650	0.67
PT Perdana Andalan Air Service	15,248	524	0.45	18,724	587	0.60
Evergreen Airline Services Corp.	15,026	517	0.44	13,413	420	0.43
Uni Airways Corp.	13,913	479	0.41	34,093	1,069	1.10
Evergreen International Storage & Transport Corp.	12,927	445	0.38	10,842	340	0.35
Evergreen Sky Catering Corp.	12,670	436	0.37	9,922	311	0.32
Evergreen Aviation Technologies Corp.	4,348	150	0.13	4,020	126	0.13
Others	1,163	40	0.03	570	18	0.02
	<u>\$ 227,911</u>	<u>7,840</u>	<u>6.68</u>	<u>239,109</u>	<u>7,496</u>	<u>7.71</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

The Company sold spare parts to Evergreen Aviation Technologies Corp. amounting to NT\$161,934 (US\$5,570) and NT\$13,756 (US\$431) for the six months ended June 30, 2011 and 2010, respectively.

Evergreen Aviation Technologies Corp. provided maintenance services for aircraft and engines for the Company. As of June 30, 2011 and 2010, the balance amounted to NT\$2,719,009 (US\$94,640) and NT\$1,911,440 (US\$59,214), respectively, recorded under deferred charges.

## (2) Property transaction

The Company sold two aircraft for US\$97,067 to SINO GAIN LIMITED on November 27, 2009, and immediately bought them back by installments. There were no gains or losses on disposal recorded for this sale and buyback transaction. For the six months ended June 30, 2011 and 2010, installment payments amounted to NT\$1,167,156 (US\$40,625) and NT\$1,835,925 (US\$56,875), respectively, recorded under installment accounts payable.

## (3) Endorsements and guarantees

As of June 30, 2011 and 2010, the details of guarantees to related parties were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
SINO GAIN LIMITED	\$ <u>1,167,156</u>	<u>40,625</u>	<u>1,835,925</u>	<u>56,875</u>

## (4) 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 June 30, 2011 and 2010, resulting from the aforementioned transactions were as follows:

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Accounts receivable—related parties:				
Uni Airways Corp.	\$ 108,264	3,768	118,009	3,656
Evergreen Aviation Technologies Corp.	34,970	1,217	57,687	1,787
Evergreen International Corp.	3,960	138	3,789	117
Shanghai Airlines Cargo International Co., Ltd	3,225	112	11,177	346
Others	<u>1,332</u>	<u>47</u>	<u>3,738</u>	<u>116</u>
	\$ <u>151,751</u>	<u>5,282</u>	<u>194,400</u>	<u>6,022</u>
Other receivables—related parties:				
Shanghai Airlines Cargo International Co., Ltd	\$ 189,242	6,587	86,224	2,671
Evergreen Aviation Technologies Corp.	187,661	6,532	165,382	5,124
Evergreen Sky Catering Corp.	99,827	3,475	74,700	2,314
Evergreen Airline Services Corp.	33,056	1,150	33,124	1,026
Uni Airways Corp.	20,582	716	48,059	1,489
Others	<u>5,445</u>	<u>190</u>	<u>1,457</u>	<u>45</u>
	\$ <u>535,813</u>	<u>18,650</u>	<u>408,946</u>	<u>12,669</u>

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## EVA AIRWAYS CORP.

## Notes to Financial Statements

Note: As of June 30, 2011 and 2010, the overdue accounts receivable reclassified to other receivables were NT\$23,594 (US\$821) and NT\$85,149 (US\$2,638), respectively. The aging for the abovementioned overdue accounts receivable is shown below:

Name	Amount	2011						
		Aging for overdue accounts receivable						
		NT dollars			US dollars			
	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.	\$ 23,594	3,207	9,095	11,292	821	112	316	393

Name	Amount	2010						
		Aging for overdue accounts receivable						
		NT dollars			US dollars			
	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.	\$ 85,149	38,378	31,485	15,286	2,638	1,189	975	474

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Accounts payable—related parties:				
Evergreen Aviation Technologies Corp.	\$ 2,078,266	72,338	1,002,087	31,044
Evergreen Sky Catering Corp.	207,509	7,223	193,830	6,005
Evergreen Airline Services Corp.	131,447	4,575	161,013	4,988
Uni Airways Corp.	69,343	2,414	86,973	2,694
Shanghai Airlines Cargo International Co., Ltd	60,978	2,122	97,295	3,014
Evergreen Air Cargo Services Corp.	48,922	1,703	51,577	1,598
Evergreen International Corp.	10,845	377	15,887	492
Green Siam Air Services Co, Ltd.	5,996	209	18,183	563
RTW Air Services (S) Pte Ltd.	3,750	131	10,292	319
PT Perdana Andalan Air Service	1,991	69	10,442	323
Others	5,796	202	5,551	172
	<u>\$ 2,624,843</u>	<u>91,363</u>	<u>1,653,130</u>	<u>51,212</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

	2011		2010	
	NT dollars	US dollars	NT dollars	US dollars
Other payables — related parties:				
Evergreen Marine Corp. (note 1)	\$ 572,944	19,942	35	1
Evergreen International Corp. (note 2)	457,170	15,913	28,201	874
Evergreen Airline Services Corp.	155,095	5,398	59,697	1,850
Evergreen International Storage & Transport Corp (note 3)	36,730	1,279	1,648	51
Uni Airways Corp.	12,221	425	14,694	455
Evergreen Aviation Technologies Corp.	10,456	364	56,910	1,763
Evergreen Air Cargo Services Corp.	9,656	336	8,103	251
Green Siam Air Services Co, Ltd.	9,296	324	-	-
RTW Air Services (S) Pte Ltd.	5,575	194	-	-
PT Perdana Andalán Air Service	5,146	179	-	-
Others	6,118	213	5,499	170
	<u>\$ 1,280,407</u>	<u>44,567</u>	<u>174,787</u>	<u>5,415</u>

Note 1: Dividends payable amounting to NT\$572,257 (US\$19,918) as of June 30, 2011, are included.

Note 2: Dividends payable amounting to NT\$426,927 (US\$14,860) as of June 30, 2011, are included.

Note 3: Dividends payable amounting to NT\$34,587 (US\$1,204) as of June 30, 2011, are included.

## 6. Pledged Assets

The book values of the pledged assets as of June 30, 2011 and 2010, were as follows:

Pledged assets	Object	2011		2010	
		NT dollars	US dollars	NT dollars	US dollars
Land	Long-term borrowings	\$ 1,863,910	64,877	1,863,910	57,742
Buildings	Long-term borrowings	2,141,668	74,545	2,204,316	68,287
Aircraft	Long-term borrowings, Installment accounts payable	60,652,337	2,111,115	60,737,567	1,881,585
Simulators — included in machinery and equipment	Installment accounts payable	-	-	470,900	14,588
Engines — included in machinery and equipment	Long-term borrowings	2,509,437	87,345	3,117,327	96,571
Advances for purchases of equipment	Long-term borrowings	-	-	10,892,685	337,444
Time deposit — included in other assets	Letters of credit, customs duty, and contract performance guaranties	73,138	2,546	1,254,078	38,850
Spare parts — included in inventories	Installment accounts payable	500,033	17,404	1,350,137	41,826
Restricted assets — included in other assets	Contract performance guaranties	142,294	4,953	242,706	7,519
		<u>\$ 67,882,817</u>	<u>2,362,785</u>	<u>82,133,626</u>	<u>2,544,412</u>

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

## 7. Commitments and Contingencies

- (a) The Company entered into aircraft and building lease contracts using the operating lease or capital lease method. As of June 30, 2011, the Company had paid NT\$1,513,528 (US\$52,681) as refundable deposits. According to these contracts, future lease payments in the following five years are as follows:

Year due	NT dollars	US dollars
2011.7.1~2012.6.30	\$ 6,928,702	241,166
2012.7.1~2013.6.30	6,176,464	214,983
2013.7.1~2014.6.30	5,968,845	207,757
2014.7.1~2015.6.30	5,927,258	206,309
2015.7.1~2016.6.30	5,193,158	180,757
And after	<u>8,729,846</u>	<u>303,858</u>
	<u>\$ 38,924,273</u>	<u>1,354,830</u>

- (b) The details of guarantees to related parties as of June 30, 2011, are disclosed in note 5(b).
- (c) The Company is the subject of investigations by the related authorities of the United States, and these investigations are focused on air cargo competition and oil surcharges. On May 27, 2011, the Company agreed to pay US\$13,200 in a compromise with the United States Department of Justice. The fine imposed was accrued and recorded as accrued expenses as of June 30, 2011.

## 8. Important Damage Losses: none

## 9. Important Subsequent Events: none

## 10. Others

- (a) Total personnel expenses, depreciation, and amortization for the six months ended June 30, 2011 and 2010, were as follows:

By function	Operating cost	NT dollars Operating expenses	2011		US dollars Operating expenses	Total
			Total	Operating cost		
Personnel expenses						
Salaries	\$ 1,773,508	1,280,647	3,054,155	61,008	44,054	105,062
Insurance	89,344	73,052	162,396	3,073	2,513	5,586
Pension	133,338	80,692	214,030	4,587	2,775	7,362
Others (meal allowances, etc.)	578,462	107,293	685,755	19,899	3,691	23,590
Depreciation	4,073,196	140,656	4,213,852	140,117	4,838	144,955
Amortization	488,096	29,132	517,228	16,791	1,002	17,793

(Continued)

## EVA AIRWAYS CORP.

## Notes to Financial Statements

By function By item	2010					
	Operating cost	NT dollars Operating expenses	Total	Operating cost	US dollars Operating expenses	Total
Personnel expenses						
Salaries	\$ 1,424,664	1,103,495	2,528,159	44,660	34,593	79,253
Insurance	71,879	58,826	130,705	2,253	1,844	4,097
Pension	114,515	61,160	175,675	3,590	1,917	5,507
Others (meal allowances, etc.)	535,113	89,494	624,607	16,775	2,805	19,580
Depreciation	4,045,717	67,211	4,112,928	126,825	2,107	128,932
Amortization	567,159	34,349	601,508	17,779	1,077	18,856

## (b) Significant foreign currency financial assets and liabilities:

Financial assets	Amount	2011.6.30	NT dollars	Amount	2010.6.30	NT dollars
		Exchange Rate			Exchange Rate	
Currency						
USD	57,229	28.7250	1,643,902	121,083	32.2780	3,908,316
EUR	3,784	41.6627	157,668	1,644	39.4695	64,881
JPY	197,627	0.3567	70,493	233,886	0.3644	85,228
HKD	195,854	3.6912	722,936	281,407	4.1464	1,166,827
CNY	678,522	4.4442	3,015,488	582,558	4.7561	2,770,705
			<u>5,610,487</u>			<u>7,995,957</u>
Long-term equity investment under equity method						
USD	62,270	28.7250	<u>1,788,697</u>	16,399	32.2780	<u>529,327</u>
Financial liabilities						
Currency						
USD	200,582	28.7250	5,761,728	66,520	32.2780	2,147,141
EUR	6,119	41.6627	254,929	6,617	39.4695	261,171
JPY	1,089,372	0.3567	388,579	992,700	0.3644	361,740
HKD	13,001	3.6912	47,989	30,886	4.1464	128,064
CNY	140,037	4.4442	<u>622,352</u>	82,414	4.7561	<u>391,968</u>
			<u>7,075,577</u>			<u>3,290,084</u>

## 11. Segment Financial Information

The segment financial information is disclosed in its consolidated financial statements instead of the individual financial statements.