

EVA AIRWAYS CORP.
Financial Statements
June 30, 2006 and 2005
(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Directors
EVA Airways Corp.:

We have audited the balance sheets of EVA Airways Corp. (the "Company") as of June 30, 2006 and 2005, and the related statements of operations, changes in stockholders' equity, and cash flows for the six months ended June 30, 2006 and 2005. 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, 2006 and 2005, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$2,220,589 thousand (US\$68,537 thousand) and NT\$2,154,282 thousand (US\$68,135 thousand), respectively. The resulting investment gains amounted to NT\$97,029 thousand (US\$3,014 thousand) and NT\$115,499 thousand (US\$3,669 thousand) for the six months ended June 30, 2006 and 2005, respectively. The financial statements of these companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the said investee companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants". Those standards and rules 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, 2006 and 2005, and the results of its operations and its cash flows for the six months ended June 30, 2006 and 2005, in conformity with Republic of China generally accepted accounting principles.

As stated in note 3 to the accompanying financial statements, the Company adopted SFAS No. 34 “Accounting for Financial Instruments”, SFAS No. 36 “Disclosure and Presentation of Financial Instruments”, the newly amended SFAS No. 1 “Conceptual Framework of Financial Accounting and Preparation of Financial Statements”, and SFAS No. 5 “Long-term Investments in Equity Securities” commencing from January 1, 2006. In accordance with SFAS No. 34, the Company used fair value and cost after amortization to evaluate its financial assets and liabilities on January 1, 2006. The cumulative effect of changes in accounting principle, the effect of changes in accounting principle on earnings per share, and stockholders’ equity adjustments resulting from the changes in accounting principle aggregated to NT\$160,691 thousand (US\$4,992 thousand), NT\$0.04 (US\$0.001) and NT\$27,185 thousand (US\$828 thousand), respectively, for the six months ended June 30, 2006.

The accompanying financial statements as of and for the six months ended June 30, 2006 and 2005, 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(s) of the notes to the financial statements.

Taipei, Taiwan (the Republic of China)
August 11, 2006

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

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, 2006 and 2005

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

Assets	2006		2005		Liabilities and Stockholders' Equity	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars		NT dollars	US dollars	NT dollars	US dollars
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4(a))	\$ 3,172,198	97,907	1,090,789	34,499	Short-term borrowings (note 4(i))	\$ 790,000	24,383	1,550,000	49,023
Financial assets at fair value through profit or loss— current (note 4(b))	806,814	24,902	641,556	20,291	Accounts payable	1,761,935	54,380	1,381,084	43,680
Available-for-sale financial assets—current (note 4(b))	4,150,523	128,102	4,431,227	140,149	Accounts payable—related parties (note 5)	789,815	24,377	969,762	30,671
Notes receivable	482,706	14,898	561,592	17,762	Tax payable	-	-	197,602	6,250
Accounts receivable, net	7,832,881	241,756	7,753,868	245,236	Accrued expenses	8,019,641	247,520	7,979,155	252,361
Accounts receivable—related parties (note 5)	31,651	977	53,724	1,699	Other payables—related parties (note 5)	45,417	1,402	64,285	2,033
Other receivables—related parties (note 5)	120,096	3,707	153,631	4,859	Other payables (notes 4(l) and 4(m))	2,656,137	81,979	2,790,831	88,267
Other financial assets—current (note 4(c))	873,912	26,973	775,400	24,524	Unearned revenue	8,691,786	268,265	8,297,791	262,439
Inventories (note 4(d))	8,461,680	261,163	7,390,647	233,748	Current portion of long-term liabilities (notes 4(j), 4(k), 6 and 7)	5,813,044	179,415	10,219,845	323,229
Prepaid expenses	2,597,529	80,171	2,714,232	85,844	Other current liabilities (note 4(g))	<u>2,882,273</u>	<u>88,959</u>	<u>1,070,928</u>	<u>33,871</u>
Other prepayments	870,241	26,859	599,084	18,948	Total current liabilities	<u>31,450,048</u>	<u>970,680</u>	<u>34,521,283</u>	<u>1,091,824</u>
Deferred income tax assets—current (note 4(o))	134,794	4,160	543,538	17,191	Long-term liabilities:				
Other current assets	<u>51,096</u>	<u>1,577</u>	<u>125,417</u>	<u>3,966</u>	Financial liabilities at fair value through profit or loss— noncurrent (note 4(b))	199,774	6,166	19,401	614
Total current assets	<u>29,586,121</u>	<u>913,152</u>	<u>26,834,705</u>	<u>848,716</u>	Bonds payable (note 4(k))	10,379,254	320,347	6,791,254	214,791
Funds and investments:					Long-term borrowings (notes 4(j), 6 and 7)	23,471,614	724,433	14,584,053	461,258
Financial assets at fair value through profit or loss— noncurrent (note 4(b))	34,198	1,055	170,350	5,388	Derivative financial liabilities for hedge purposes— noncurrent (note 4(r))	24,266	749	-	-
Available-for-sale financial assets—noncurrent (note 4(b))	476,990	14,722	407,858	12,900	Other installments payable (note 4(l))	-	-	214,204	6,775
Financial assets carried at cost—noncurrent (note 4(b))	3,655,768	112,832	3,660,520	115,773	Aircraft payable (notes 4(m) and 6))	15,594,529	481,313	11,463,591	362,565
Long-term equity investments under equity method (note 4(e))	<u>7,425,880</u>	<u>229,194</u>	<u>6,906,228</u>	<u>218,427</u>	Lease liability (note 4(g))	<u>7,657,039</u>	<u>236,328</u>	<u>5,691,239</u>	<u>180,000</u>
Total funds and investments	<u>11,592,836</u>	<u>357,803</u>	<u>11,144,956</u>	<u>352,488</u>	Total long-term liabilities	<u>57,326,476</u>	<u>1,769,336</u>	<u>38,763,742</u>	<u>1,226,003</u>
Property, plant and equipment (notes 4(f), 4(g), 6 and 7):					Other liabilities:				
Land	1,869,784	57,709	1,869,784	59,137	Accrued employee retirement liabilities (note 4(n))	599,735	18,511	779,452	24,652
Buildings	4,543,278	140,225	4,515,326	142,809	Other liabilities	<u>1,421,880</u>	<u>43,885</u>	<u>1,934,976</u>	<u>61,198</u>
Machinery and equipment	4,684,129	144,572	4,503,405	142,432	Total other liabilities	<u>2,021,615</u>	<u>62,396</u>	<u>2,714,428</u>	<u>85,850</u>
Aircraft	70,099,861	2,163,576	58,839,373	1,860,945	Total liabilities	<u>90,798,139</u>	<u>2,802,412</u>	<u>75,999,453</u>	<u>2,403,677</u>
Rotable parts	<u>332,277</u>	<u>10,255</u>	<u>427,528</u>	<u>13,521</u>	Stockholders' equity (note 4(p)):				
	81,529,329	2,516,337	70,155,416	2,218,844	Common stock	<u>37,498,869</u>	<u>1,271,513</u>	<u>33,567,445</u>	<u>1,150,675</u>
Less: accumulated depreciation	(28,313,669)	(873,878)	(27,176,937)	(859,540)	Stock dividend to be distributed	-	-	329,229	9,866
Leased assets, net	9,784,222	301,982	6,257,000	197,894	Capital surplus	<u>4,144,988</u>	<u>134,784</u>	<u>3,424,149</u>	<u>112,578</u>
Construction in progress	4,868	150	4,868	154	Retained earnings:				
Advances for purchases of equipment	<u>11,727,462</u>	<u>361,959</u>	<u>11,619,999</u>	<u>367,512</u>	Legal reserve	860,272	25,530	727,666	21,408
Net property, plant and equipment	<u>74,732,212</u>	<u>2,306,550</u>	<u>60,860,346</u>	<u>1,924,864</u>	Retained earnings	<u>1,872,080</u>	<u>53,921</u>	<u>2,926,276</u>	<u>87,076</u>
Intangible assets:					Total retained earnings	<u>2,732,352</u>	<u>79,451</u>	<u>3,653,942</u>	<u>108,484</u>
Deferred pension cost	<u>163,770</u>	<u>5,055</u>	<u>191,064</u>	<u>6,043</u>	Other stockholders' equity adjustment:				
Other assets:					Deferred credit	-	-	781,435	24,715
Refundable deposits (note 7)	12,291,132	379,356	14,321,765	452,962	Cumulative translation adjustments	1,618,840	(66,372)	1,437,627	(40,593)
Deferred charges (note 4(h))	5,604,381	172,975	4,225,946	133,656	Net loss not yet recognized as net pension cost	(222,505)	(6,644)	(225,399)	(6,739)
Deferred income tax assets—noncurrent (note 4(o))	2,032,113	62,719	880,036	27,833	Unrealized gains or losses on financial instruments (notes 4(b) and 4(r))	<u>8,668</u>	<u>268</u>	-	-
Other assets (note 6)	<u>576,786</u>	<u>17,802</u>	<u>509,063</u>	<u>16,101</u>	Total other stockholders' equity adjustments	<u>1,405,003</u>	<u>(72,748)</u>	<u>1,993,663</u>	<u>(22,617)</u>
Total other assets	<u>20,504,412</u>	<u>632,852</u>	<u>19,936,810</u>	<u>630,552</u>	Total stockholders' equity	45,781,212	1,413,000	42,968,428	1,358,986
Total assets	\$ <u>136,579,351</u>	<u>4,215,412</u>	<u>118,967,881</u>	<u>3,762,663</u>	Commitments and contingencies (note 7)				
					Total liabilities and stockholders' equity	\$ <u>136,579,351</u>	<u>4,215,412</u>	<u>118,967,881</u>	<u>3,762,663</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Operations

For the six months ended June 30, 2006 and 2005

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

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Operating revenue (note 5)	\$ 45,126,794	1,401,889	41,352,093	1,313,599
Operating cost (notes 5 and 10)	<u>(44,395,183)</u>	<u>(1,379,161)</u>	<u>(37,116,866)</u>	<u>(1,179,062)</u>
Gross profit from operations	731,611	22,728	4,235,227	134,537
Operating expenses (notes 5 and 10)	<u>(3,324,473)</u>	<u>(103,277)</u>	<u>(3,301,837)</u>	<u>(104,887)</u>
Operating income (loss)	<u>(2,592,862)</u>	<u>(80,549)</u>	<u>933,390</u>	<u>29,650</u>
Non-operating income and gains:				
Interest income (note 4(s))	71,962	2,235	46,075	1,463
Investment income (note 4(e))	459,036	14,260	365,357	11,606
Gain on disposal of property, plant and equipment, net	-	-	315,047	10,008
Exchange gains, net	464,636	14,434	-	-
Gain on valuation of financial assets	1,140,771	35,439	-	-
Other income	<u>263,372</u>	<u>8,182</u>	<u>105,014</u>	<u>3,336</u>
	<u>2,399,777</u>	<u>74,550</u>	<u>831,493</u>	<u>26,413</u>
Non-operating expenses and losses:				
Interest expenses, net of capitalized interest of NT\$189,100 (US\$5,874) and NT\$157,283 (US\$4,996) in 2006 and 2005, respectively (notes 4(f) and 4(s))	(937,448)	(29,122)	(795,018)	(25,255)
Loss on disposal of property, plant and equipment, net	(302,464)	(9,396)	-	-
Exchange losses, net	-	-	(149,823)	(4,759)
Other losses	<u>(25,196)</u>	<u>(783)</u>	<u>(15,853)</u>	<u>(503)</u>
	<u>(1,265,108)</u>	<u>(39,301)</u>	<u>(960,694)</u>	<u>(30,517)</u>
Income (loss) before income tax	(1,458,193)	(45,300)	804,189	25,546
Income tax benefit (expenses) (note 4(o))	<u>452,487</u>	<u>14,057</u>	<u>(214,752)</u>	<u>(6,822)</u>
Income (loss) before cumulative effect of changes in accounting principle	(1,005,706)	(31,243)	589,437	18,724
Cumulative effect of changes in accounting principle (net of income tax expenses of NT\$53,564 (US\$1,664) (notes 3 and 4(o))	<u>160,691</u>	<u>4,992</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (845,015)</u>	<u>(26,251)</u>	<u>589,437</u>	<u>18,724</u>

	<u>Income (loss)</u>		<u>Net income</u>		<u>Income before</u>		<u>Net income</u>	
	<u>before income tax</u>		<u>(loss)</u>		<u>income tax</u>		<u>Net income</u>	
	<u>NT</u>	<u>US</u>	<u>NT</u>	<u>US</u>	<u>NT</u>	<u>US</u>	<u>NT</u>	<u>US</u>
Earnings per share (expressed in dollars) (note 4(q)):	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>	<u>dollars</u>
Basic earnings per share:								
Income (loss) before cumulative effect of changes in accounting principle	\$ (0.41)	(0.01)	(0.28)	(0.01)	0.24	0.01	0.18	0.01
Cumulative effect of changes in accounting principle	<u>0.06</u>	<u>-</u>	<u>0.04</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (0.35)</u>	<u>(0.01)</u>	<u>(0.24)</u>	<u>(0.01)</u>	<u>0.24</u>	<u>0.01</u>	<u>0.18</u>	<u>0.01</u>
Diluted earnings per share:								
Income before cumulative effect of changes in accounting principle	\$ -	-	-	-	0.23	0.01	0.17	0.01
Cumulative effect of changes in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.23</u>	<u>0.01</u>	<u>0.17</u>	<u>0.01</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Changes in Stockholders' Equity

For the six months ended June 30, 2006 and 2005
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

	NT Dollars										US Dollars									
	Common Stock	Stock Dividend To Be Distributed	Capital Surplus	Legal Reserve	Retained Earnings	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Unrealized Gains or Losses on Financial Instruments	Total	Common Stock	Stock Dividend To Be Distributed	Capital Surplus	Legal Reserve	Retained Earnings	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Unrealized Gains or Losses on Financial Instruments	Total
Balance on December 31, 2004	\$ 32,714,259	-	3,099,862	403,372	4,708,083	334,275	2,067,954	(219,593)	-	43,108,212	1,123,557	-	102,271	11,690	139,411	10,144	(29,883)	(6,555)	-	1,350,635
Appropriation of earnings (note 4(p)):																				
Legal reserve	-	-	-	324,294	(324,294)	-	-	-	-	-	-	-	-	9,718	(9,718)	-	-	-	-	-
Stock dividends	-	329,229	-	-	(329,229)	-	-	-	-	-	-	9,866	-	-	(9,866)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,646,147)	-	-	-	-	(1,646,147)	-	-	-	-	(49,330)	-	-	-	-	(49,330)
Directors' and supervisors' remuneration	-	-	-	-	(20,400)	-	-	-	-	(20,400)	-	-	-	-	(611)	-	-	-	-	(611)
Employees' bonuses	-	-	-	-	(51,174)	-	-	-	-	(51,174)	-	-	-	-	(1,534)	-	-	-	-	(1,534)
Convertible bonds converted into common stock	853,186	-	324,214	-	-	-	-	-	-	1,177,400	27,118	-	10,305	-	-	-	-	-	-	37,423
Transfer of donated assets of investee company under equity method to capital surplus	-	-	73	-	-	-	-	-	-	73	-	-	2	-	-	-	-	-	-	2
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	-	-	(5,806)	-	(5,806)	-	-	-	-	-	-	(184)	-	-	(184)
Increase in net equity due to recording cumulative translation adjustments under equity method	-	-	-	-	-	-	(139)	-	-	(139)	-	-	-	-	-	(4)	-	-	-	(4)
Deferred credit	-	-	-	-	-	447,160	-	-	-	447,160	-	-	-	-	14,571	-	-	-	-	14,571
Net income for the six months ended June 30, 2005	-	-	-	-	589,437	-	-	-	-	589,437	-	-	-	-	18,724	-	-	-	-	18,724
Translation adjustments for the six months ended June 30, 2005	-	-	-	-	-	-	(630,188)	-	-	(630,188)	-	-	-	-	-	-	(10,706)	-	-	(10,706)
Balance on June 30, 2005	\$ 33,567,445	329,229	3,424,149	727,666	2,926,276	781,435	1,437,627	(225,399)	-	42,968,428	1,150,675	9,866	112,578	21,408	87,076	24,715	(40,593)	(6,739)	-	1,358,986
Balance on December 31, 2005	\$ 33,898,869	-	3,424,986	727,666	3,662,898	192,631	2,291,327	(222,505)	-	43,975,872	1,160,607	-	112,603	21,408	109,572	5,864	(64,723)	(6,644)	-	1,338,687
Effect of adopting SFAS No. 34 "Accounting for Financial Instruments" commencing from January 1, 2006 (note 3)	-	-	-	-	-	-	-	-	27,185	27,185	-	-	-	-	-	-	-	-	828	828
Appropriation of earnings (note 4(p)):																				
Legal reserve	-	-	-	132,606	(132,606)	-	-	-	-	-	-	-	4,122	(4,122)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(749,977)	-	-	-	-	(749,977)	-	-	-	-	(23,313)	-	-	-	-	(23,313)
Directors' and supervisors' remuneration	-	-	-	-	(10,900)	-	-	-	-	(10,900)	-	-	-	-	(339)	-	-	-	-	(339)
Employees' bonuses	-	-	-	-	(52,320)	-	-	-	-	(52,320)	-	-	-	-	(1,626)	-	-	-	-	(1,626)
Cash subscription	3,600,000	-	720,000	-	-	-	-	-	-	4,320,000	110,906	-	22,181	-	-	-	-	-	-	133,087
Increase in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	-	-	-	-	-	(676)	-	-	(676)	-	-	-	-	-	-	(21)	-	-	(21)
Transfer of donated assets of investee company under equity method to capital surplus	-	-	2	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-
Change in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	(18,517)	(18,517)	-	-	-	-	-	-	-	-	(560)	(560)
Deferred credit	-	-	-	-	-	(192,631)	-	-	-	(192,631)	-	-	-	-	(5,864)	-	-	-	-	(5,864)
Net loss for the six months ended June 30, 2006	-	-	-	-	(845,015)	-	-	-	-	(845,015)	-	-	-	-	(26,251)	-	-	-	-	(26,251)
Translation adjustments for the six months ended June 30, 2006	-	-	-	-	-	-	(671,811)	-	-	(671,811)	-	-	-	-	-	-	(1,628)	-	-	(1,628)
Balance on June 30, 2006	\$ 37,498,869	-	4,144,988	860,272	1,872,080	-	1,618,840	(222,505)	8,668	45,781,212	1,271,513	-	134,784	25,530	53,921	-	(66,372)	(6,644)	268	1,413,000

See accompanying notes to financial statements.

EVA AIRWAYS CORP.
Statements of Cash Flows

For the six months ended June 30, 2006 and 2005
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Cash flows from operating activities:				
Net income (loss)	\$ (845,015)	(26,251)	589,437	18,724
Adjustments to reconcile net income (loss) to net cash flow provided by operating activities:				
Depreciation	2,726,225	84,692	2,118,116	67,284
Amortization and maintenance expense	571,742	17,761	591,613	18,793
Amortization recorded as interest expenses	12,339	384	-	-
Gain on disposal of available-for-sale financial assets—current	(18,531)	(576)	(70,293)	(2,233)
Exchange gains arising from disposal of foreign operating units	(414,248)	(12,869)	-	-
Loss (gain) on disposal and obsolescence of property, plant and equipment	318,128	9,883	(299,614)	(9,518)
Amortization of deferred gain from sale and leaseback of fixed assets	(476)	(15)	(78,947)	(2,508)
Amortization of other deferred gain	(89,683)	(2,786)	(207,034)	(6,577)
Provision for unrealized exchange gain from long-term borrowings	(13,145)	(408)	(20,054)	(637)
Investment income	(459,036)	(14,260)	(365,357)	(11,606)
Proceeds from cash dividends on long-term equity investments	209,346	6,503	158,141	5,024
Deferred income tax benefit	(429,390)	(13,339)	(12,980)	(412)
Increase in financial assets at fair value through profit or loss—current	(311,224)	(9,668)	(11,070)	(351)
Increase in notes receivable	(92,381)	(2,870)	(164,429)	(5,223)
Decrease (increase) in accounts receivable (including related parties)	185,922	5,776	(500,207)	(15,890)
Decrease in other receivables from related parties	87,364	2,714	88,551	2,813
Increase in inventories	(568,254)	(17,653)	(143,929)	(4,572)
Decrease (increase) in prepaid expenses	191,218	5,940	(246,107)	(7,818)
Increase in other prepayments	(147,447)	(4,581)	(310,470)	(9,862)
Decrease (increase) in other financial assets—current	6,776	210	(430,006)	(13,660)
Decrease (increase) in other current assets	23,304	724	(99,519)	(3,161)
Decrease (increase) in other assets	(44,888)	(1,394)	96,687	3,072
Decrease in financial liabilities at fair value through profit or loss—noncurrent	(136,941)	(4,254)	-	-
Decrease in tax payable	-	-	(316,957)	(10,069)
Increase in notes and accounts payable (including related parties)	214,390	6,660	53,219	1,691
Increase (decrease) in other payables (including related parties)	(517,145)	(16,065)	491,781	15,622
Increase in accrued expenses	542,585	16,856	497,347	15,799
Increase in unearned revenue	401,075	12,459	867,441	27,555
Increase (decrease) in other current liabilities	96,558	3,000	(22,480)	(714)
Increase in other liabilities	8,206	255	380,604	12,090
Decrease in accrued employee retirement liabilities	(66,651)	(2,071)	(54,517)	(1,732)
Cumulative effect of changes in accounting principle	(214,255)	(6,656)	-	-
Unrealized gains on financial assets	13,455	418	-	-
Net cash provided by operating activities	<u>1,239,923</u>	<u>38,519</u>	<u>2,578,967</u>	<u>81,924</u>
Cash flows from investing activities:				
Decrease (increase) in available-for-sale financial assets	(1,403,997)	(43,616)	989,093	31,420
Payments for purchase of funds and investments	-	-	(1,017)	(32)
Payments for purchase of property, plant and equipment	(12,406,447)	(385,413)	(4,833,479)	(153,541)
Proceeds from disposal of property, plant and equipment	4,120,331	128,000	1,890,079	60,041
Decrease in refundable deposits	3,464,698	107,633	695,521	22,094
Increase in deferred charges	(1,116,528)	(34,685)	(1,203,639)	(38,235)
Net cash used in investing activities	<u>(7,341,943)</u>	<u>(228,081)</u>	<u>(2,463,442)</u>	<u>(78,253)</u>
Cash flows from financing activities:				
Increase in short-term borrowings	11,800,000	366,573	1,550,000	49,238
Increase in long-term borrowings	10,268,381	318,993	6,680,033	212,199
Repayment of short-term borrowings	(14,109,662)	(438,324)	(1,699,958)	(54,001)
Repayment of long-term borrowings	(2,723,318)	(84,601)	(4,951,373)	(157,286)
Installment payments for purchase of property, plant and equipment	(1,382,736)	(42,955)	(1,247,307)	(39,622)
Installment payments for purchase of inventories	-	-	(534,916)	(16,992)
Repayment of lease liability	(742,643)	(23,071)	(293,816)	(9,333)
Cash subscription	4,320,000	133,087	-	-
Net cash provided by (used in) financing activities	<u>7,430,022</u>	<u>229,702</u>	<u>(497,337)</u>	<u>(15,797)</u>
Effect of exchange rate changes on cash	<u>-</u>	<u>1,627</u>	<u>-</u>	<u>487</u>
Net increase (decrease) in cash and cash equivalents	1,328,002	41,767	(381,812)	(11,639)
Cash and cash equivalents at beginning of period	1,844,196	56,140	1,472,601	46,138
Cash and cash equivalents at end of period	<u>\$ 3,172,198</u>	<u>97,907</u>	<u>1,090,789</u>	<u>34,499</u>
Additional disclosure of cash flow information:				
Cash payments of interest (excluding capitalized interest expense)	<u>\$ 846,939</u>	<u>26,311</u>	<u>902,734</u>	<u>28,676</u>
Cash payments of income tax	<u>\$ -</u>	<u>-</u>	<u>529,044</u>	<u>16,806</u>
Supplemental schedule of non-cash investing and financing activities:				
Current portion of long-term borrowings	<u>\$ (47,169)</u>	<u>(1,465)</u>	<u>(2,260,627)</u>	<u>(71,812)</u>
Inventory transferred from fixed assets	<u>\$ -</u>	<u>-</u>	<u>85</u>	<u>3</u>
Cash dividends payable	<u>\$ 749,977</u>	<u>23,313</u>	<u>1,646,147</u>	<u>49,330</u>
Employees' bonuses and directors' and supervisors' remuneration payable	<u>\$ 63,220</u>	<u>1,965</u>	<u>71,574</u>	<u>2,145</u>
Translation adjustments	<u>\$ (258,239)</u>	<u>(1,649)</u>	<u>609,947</u>	<u>(10,710)</u>
Unrealized gains on financial instruments	<u>\$ 30,026</u>	<u>933</u>	<u>434,050</u>	<u>13,788</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Notes to Financial Statements

June 30, 2006 and 2005

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

1. Organization and Business Scope

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

(Continued)

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

- 1.19 to engage in the retailing of sporting goods;
- 1.20 to engage in the retailing of toys and amusement goods;
- 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, 2006 and 2005, the Company had 5,056 and 4,920 employees, respectively.

2. Summary of Significant Accounting Policies

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

(a) Foreign currency transactions and 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 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements", commencing from January 1, 2006, 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 and loss, the resulting unrealized exchange income (loss) from such translations is reflected in the accompanying non-consolidated statements of income. If the adjustments of financial assets or liabilities are evaluated at fair value through stockholders' equity, the resulting unrealized exchange income (loss) from such translations is recorded as a separate component of stockholders' equity.

(Continued)

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

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

(b) US dollar financial statement presentation

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

(c) Translation of foreign currency for foreign operating units

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

The US dollar-denominated aircraft purchase costs and the related US dollar loans at the balance sheet date are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. The US dollar aircraft depreciation amounts are translated into New Taiwan dollars at the current year's average exchange rate. The translation differences resulting from these translations are reported as cumulative translation adjustments.

The lease assets and lease liability arising from capital lease of aircraft at the balance sheet date are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. The US dollar leased aircraft depreciation amounts are translated into New Taiwan dollars at the current year's average exchange rate. The translation differences resulting from these translations are reported as cumulative translation adjustments.

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

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

Current assets are cash and other assets that a business will convert to cash or use within relatively short period of time, one year or one operating cycle, whichever is longer. Current liabilities are debts due within one year or one operating cycle, whichever is longer.

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EVA AIRWAYS CORP.**Notes to Financial Statements****(e) Asset impairment**

In accordance with Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment", the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill 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 cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

(f) Cash and cash equivalents

Cash includes cash on hand, savings and checking deposits, fixed time deposits, cash equivalents, etc. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(g) Financial assets

The Company adopted Statement of Financial Accounting Standard No. 34 "Accounting for Financial Instruments" commencing from January 1, 2006. Financial assets are classified into three accounts: financial assets at fair value through profit or loss; available-for-sale financial assets; and financial assets carried at cost.

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

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

(Continued)

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

1. Financial assets at fair value through profit or loss: The main purposes of the financial instruments are selling or repurchasing in the short term. Except for the derivatives that the Company held for hedging purposes and are considered to be effective, all derivatives should be classified into this account.
2. Available-for-sale financial assets: These are evaluated at fair value, and any changes are recorded as a separate component of stockholders' equity. If there is evidence of impairment, impairment loss should be recognized. If the impairment losses decrease subsequently, the decreased amount of impairment for equity financial instruments cannot be reversed. If the impairment loss on debt financial instruments decreases and is apparently related to events that occurred after the impairment, the decreased amount of impairment loss should be reversed and recognized in the accompanying non-consolidated statements of income.
3. Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are booked at original cost. If there is evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.

The investments of the Company as of December 31, 2005, are classified into short-term investments and long-term investments, in accordance with their holding purposes. Investments are accounted for at acquisition cost and are evaluated at the lower of cost or market value. The market value used for publicly listed stocks is the average closing price of the last month of the period. The market value of open-end mutual funds is based on the net asset value of the mutual funds at the balance sheet date. Devaluation loss on long-term investments is recorded under stockholders' equity. Devaluation loss on short-term investments is recorded in the accompanying non-consolidated statements of income.

(h) Derivative financial instruments and hedging

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

Fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation that met all the conditions of hedge accounting were netted, with the resulting amount presented as gain or loss. The Company adopted cash flow hedges, and gain or loss from hedging instruments was recognized as an adjustment to stockholders' equity.

(Continued)

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

(i) Inventories

Inventories represent parts and supplies for maintenance of aircraft and merchandise for sale during the flight. 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.

(j) Long-term equity investments

Long-term equity investments in which the Company owns less than 20% of the investee's voting shares or is unable to exercise significant influence over the investee's operating and financial policies are accounted for as follows:

- a) The long-term investments in listed equity securities are stated at the lower of cost or market value. Unrealized loss thereon is recorded as a reduction in stockholders' equity.
- b) Long-term investments in nonlisted equity securities are stated at cost. If there is evidence showing that a decline in the market value of such investment is other than temporary and the possibility of recovery is remote, the carrying value of the investment is reduced to reflect the market value, and the resulting loss is recognized in the period of such reduction.

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

Long-term equity investments in which the Company owns more than 20% of the investee's voting shares, or less than 20% of voting shares but has significant influence on the operating and financial policies of the investee company, are accounted for by the equity method. According to ROC SFAS No. 23, "Interim Financial Reporting and Disclosures", the Company recognizes investment gains losses under the equity method quarterly.

For a long-term equity investment accounted for by the equity method, where the investment cost differs from the Company's net equity in the investee company at the time of investment, the difference is amortized over a period of less than 20 years. The amortization period is assessed and determined on a case-by-case basis.

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

(Continued)

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

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

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

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

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

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

Buildings: 55 years

Machinery and equipment: 3~18 years

Aircraft: 18 years

Ratable parts: 5~18 years

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

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EVA AIRWAYS CORP.**Notes to Financial Statements****(l) Leases**

The Company sold and leased back aircraft under operating lease agreements. If the translation differences resulting from the translation of the foreign currency cost of the aircraft and the related US dollar loans into New Taiwan dollars at the exchange rate prevailing on the selling date and historical rates and the gains or losses from disposal of the aircraft resulting from the translation of the US dollar selling price and US dollar book value of aircraft at the exchange rate prevailing on the selling date were net gains, these gains should be deferred using the unearned gain on sales — leaseback account according to ROC Statement of Financial Accounting Standards (SFAS) No. 2, “Accounting for 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.

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

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

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

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

(Continued)

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

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

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

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

(m) Deferred charges

Deferred charges principally include the capitalized costs for computer software, leasehold improvements, trademarks, air flight route development, training of navigators, "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.

(n) Other financial assets

Other financial assets are financial assets other than cash and cash equivalents, financial assets at fair value through profit and loss, accounts receivable and other receivables, funds and investments, and refundable deposits.

(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.

(Continued)

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

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

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

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

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

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.

(p) Revenue recognition

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

(q) Income tax

The Company adopted ROC SFAS No. 22, "Accounting for Income Tax". 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.

(Continued)

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

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

The tax imputation system was adopted in accordance with the amendment of the ROC Income Tax Law. Under the new system, the Company may retain the earnings after December 31, 1997, by paying a 10% surtax on such undistributed earnings, and the surtax is accounted for as income tax expenses in the following year when the shareholders approved a resolution not to distribute the earnings.

(r) Earnings per share (EPS)

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

The convertible bonds issued by the Company belong to potential common stock. When computing diluted EPS, potential common shares are included in the denominator if they are dilutive. Anti-dilutive potential common shares are ignored in calculating diluted EPS.

The calculation of diluted EPS is consistent with the calculation of basic EPS while giving the effects of all dilutive potential common shares that were outstanding during the reporting period. When calculating diluted EPS, the net income attributable to common stockholders and the weighted-average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

The weighted-average number of common shares outstanding shall be adjusted currently and retroactively for the increase in common shares outstanding from stock issuance through the capitalization of retained earnings, additional paid-in capital, or employees' bonuses.

(s) Convenience translation into U.S. dollars

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

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

3. Reason for and Effect of Accounting Changes

(a) Income effects of changes in accounting principle

The Company adopted SFAS No. 34 “Accounting for Financial Instruments” and SFAS No. 36 “Disclosure and Presentation of Financial Instruments” on January 1, 2006. The effects on net loss and basic earnings per share (EPS) for the six months ended June 30, 2006, were as follows:

Nature of change in accounting principle	Decrease in net loss		Decrease in basic EPS	
	NT dollars	US dollars	NT dollars	US dollars
Accounting for financial instruments	320,238	9,948	0.09	0.003

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

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

The Company adopted SFAS No. 34 “Accounting for Financial Instruments” on January 1, 2006. The financial assets and liabilities at the beginning of the period should be evaluated at fair market value and cost after amortization. After reclassification and re-evaluation, the cumulative effects of changes in accounting principle, the effect of changes in accounting principle on earnings per share, and stockholders’ equity adjustment resulting from the changes in accounting principle were NT\$160,691 (US\$4,992), NT\$0.04 (US\$0.001), and NT\$27,185 (US\$828), respectively, for the six months ended June 30, 2006.

(c) The Company adopted the newly amended SFAS No.1 “Conceptual Framework of Financial Accounting and Preparation of Financial Statements” and SFAS No. 5 “Long-term Investments in Equity Securities” commencing from January 1, 2006.

(d) The Company adopted Statement of Financial Accounting Standards No. 35, “Accounting for Asset Impairment”, in 2005. After performing an impairment test on those assets which had an indication of impairment, the Company determined that no impairment loss need be recognized as of June 30, 2005.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

4. Important Accounts

(a) Cash and cash equivalents

The components as of June 30, 2006 and 2005, were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Cash on hand	\$ 77,227	2,383	81,414	2,575
Cash in bank	<u>3,094,971</u>	<u>95,524</u>	<u>1,009,375</u>	<u>31,924</u>
	<u>\$ 3,172,198</u>	<u>97,907</u>	<u>1,090,789</u>	<u>34,499</u>

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

The components as of June 30, 2006 and 2005, were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets — current:				
Mutual funds	<u>\$ 4,150,523</u>	<u>128,102</u>	<u>4,431,227</u>	<u>140,149</u>

Following the interpretation of the ROC Accounting Research and Development Foundation, the Company reclassified its 2005 financial statements in accordance with SFAS No. 34. As of June 30, 2005, investments originally accounted for under the cost or lower-of-cost-or-market methods amounting to NT\$4,431,227 (US\$140,149) were reclassified as available-for-sale — current amounting to NT\$4,431,227 (US\$140,149).

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale-financial assets available — noncurrent:				
Trade-Van Information Services Co., Ltd.	\$ 119,229	3,680	94,491	2,989
Central Reinsurance Corp.	<u>357,761</u>	<u>11,042</u>	<u>313,367</u>	<u>9,911</u>
	<u>\$ 476,990</u>	<u>14,722</u>	<u>407,858</u>	<u>12,900</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of increases in available-for-sale financial assets—noncurrent of the Company for the six months ended June 30, 2005, were as follows:

Investee	Shares	2005	
		Amounts	
		NT dollars	US dollars
Central Reinsurance Corp.	77	\$ <u>1,017</u>	<u>32</u>

Unit: thousands of shares

Financial assets carried at cost—noncurrent:

Investee	Shareholding percentage (%)	2006		Shareholding percentage (%)	2005	
		NT dollars	US dollars		NT dollars	US dollars
Taiwan High Speed Rail Corp.	1.21	\$ 1,250,000	38,580	1.40	1,250,000	39,533
Evergreen Development Corp.	9.47	870,000	26,852	9.47	870,000	27,516
Taiwan Fixed Network Corporation	1.30	840,000	25,926	1.30	840,000	26,567
Hsin-Tao Power Corp.	9.69	484,612	14,957	9.69	484,612	15,327
Abacus International Holding Ltd.	2.11	115,743	3,572	2.11	115,743	3,661
Sun Shine Corp.	19.50	40,365	1,246	19.50	40,365	1,277
Technology Partner II Venture Capital Corp.	5.88	20,000	617	5.88	20,000	633
Chung Hwa Express Co., Ltd.	10.00	20,000	617	10.00	20,000	633
Pan-Pacific Venture Capital Co., Ltd.	2.30	<u>15,048</u>	<u>465</u>	1.50	<u>19,800</u>	<u>626</u>
Total		\$ <u>3,655,768</u>	<u>112,832</u>		<u>3,660,520</u>	<u>115,773</u>

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

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of June 30, 2006 and 2005, the components of derivative financial instruments were as follows:

	2006				2005			
	Nominal Amount		Book Value		Nominal Amount		Book Value	
			NT dollars	US dollars			NT dollars	US dollars
Derivative financial assets:								
Fuel option agreements		-	\$ 806,814	24,902		-	738,684	23,363
Interest rate swap agreements	NTD	300,000	34,198	1,055	NTD	3,200,000	62,152	1,966
	USD	80,000			USD	120,000		
Forward exchange contracts		-	-	-	USD	40,000	11,070	350
			<u>\$ 841,012</u>	<u>25,957</u>			<u>811,906</u>	<u>25,679</u>

	2006				2005			
	Nominal Amount		Book Value		Nominal Amount		Book Value	
			NT dollars	US dollars			NT dollars	US dollars
Derivative financial liabilities:								
Fuel option agreements		-	\$ 100,746	3,110		-	-	-
Interest rate swap agreements	NTD	3,800,000	99,028	3,056	NTD	1,400,000	19,401	614
	USD	40,000						
			<u>\$ 199,774</u>	<u>6,166</u>			<u>19,401</u>	<u>614</u>

Details of derivative financial assets and liabilities as of June 30, 2006 and 2005, were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Financial assets at fair value through profit or loss – current	\$ <u>806,814</u>	<u>24,902</u>	<u>641,556</u>	<u>20,291</u>
Financial assets at fair value through profit or loss – noncurrent	\$ <u>34,198</u>	<u>1,055</u>	<u>170,350</u>	<u>5,388</u>
Financial liabilities at fair value through profit or loss – noncurrent	\$ <u>199,774</u>	<u>6,166</u>	<u>19,401</u>	<u>614</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(c) Other financial assets—current

The components as of June 30, 2006 and 2005, were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Tax refund receivable	\$ 174,225	5,377	204,899	6,481
Non-operating revenues receivable	2,737	85	12,029	380
Other receivables	<u>696,950</u>	<u>21,511</u>	<u>558,472</u>	<u>17,663</u>
	<u>\$ 873,912</u>	<u>26,973</u>	<u>775,400</u>	<u>24,524</u>

(d) Inventories

The components as of June 30, 2006 and 2005, were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft spare parts	\$ 9,217,511	284,491	8,258,867	261,208
Consumables for use and merchandise for sale during flight	482,927	14,905	418,580	13,239
Fuel for aircraft	107,904	3,330	58,879	1,862
Less: allowance for obsolete inventories	<u>(1,346,662)</u>	<u>(41,563)</u>	<u>(1,345,679)</u>	<u>(42,561)</u>
	<u>\$ 8,461,680</u>	<u>261,163</u>	<u>7,390,647</u>	<u>233,748</u>

The above inventories were fully insured.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(e) Long-term equity investments under equity method

Details as of and for the six months ended June 30, 2006 and 2005, were as follows:

Investee	Shareholding percentage (%)	Book value		2006 Cost		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Evergreen Airline Services Corp.	56.33	\$ 404,947	12,499	111,174	3,431	40,940	1,272
RTW Air Services (S) Pte. Ltd.	49.00	21,368	660	13,217	408	2,779	86
Green Siam Air Services Co., Ltd.	49.00	20,874	644	9,421	291	6,982	217
Evergreen Sky Catering Corp.	49.80	666,145	20,560	498,000	15,370	41,166	1,279
Evergreen Airways Service (Macau) Ltd.	99.00	847,725	26,164	327	10	93,733	2,912
Uni Airways Corp.	17.92	161,814	4,994	1,124,845	34,718	(35,438)	(1,101)
Evergreen Aviation Technologies Corp.	80.00	3,420,458	105,570	2,000,450	61,742	245,668	7,632
Evergreen Security Corp.	31.25	46,240	1,427	25,000	772	5,412	168
Evergreen Air Cargo Services Corp.	60.00	881,009	27,192	726,098	22,411	29,520	917
Hsiang-Li Investment Corp.	100.00	937,108	28,923	1,000,000	30,864	22,605	702
Uni Japan Co., Ltd.	49.50	1,824	56	1,820	56	135	4
PT Perdana Andalan Air Service.	49.00	16,368	505	2,566	79	5,534	172
		\$ <u>7,425,880</u>	<u>229,194</u>	<u>5,512,918</u>	<u>170,152</u>	<u>459,036</u>	<u>14,260</u>

Investee	Shareholding percentage (%)	Book value		2005 Cost		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Evergreen Airline Services Corp.	56.33	\$ 378,109	11,959	111,174	3,516	19,955	634
RTW Air Services (S) Pte. Ltd.	49.00	18,203	576	13,217	418	2,863	91
Green Siam Air Services Co., Ltd.	49.00	20,392	645	9,421	298	11,333	360
Evergreen Sky Catering Corp.	49.80	637,660	20,168	498,000	15,750	18,881	600
Evergreen Airways Service (Macau) Ltd.	99.00	809,835	25,613	148,511	4,697	94,068	2,988
Uni Airways Corp.	17.92	204,366	6,463	1,124,845	35,576	16,171	514
Evergreen Aviation Technologies Corp.	80.00	3,021,707	95,569	2,000,450	63,269	184,526	5,862
Evergreen Security Corp.	31.25	38,423	1,215	25,000	791	4,491	142
Evergreen Air Cargo Services Corp.	60.00	855,169	27,047	726,098	22,965	41,104	1,306
Hsiang-Li Investment Corp.	100.00	920,404	29,110	1,000,000	31,627	(28,736)	(913)
Uni Japan Co., Ltd.	49.50	1,960	62	1,820	58	701	22
		\$ <u>6,906,228</u>	<u>218,427</u>	<u>5,658,536</u>	<u>178,965</u>	<u>365,357</u>	<u>11,606</u>

(f) Property, plant and equipment

For the six months ended June 30, 2006 and 2005, the Company capitalized the interest expenses on purchase of assets amounting to NT\$189,100 (US\$5,874) and NT\$157,283 (US\$4,996), respectively. The monthly interest rates on the above transactions were 0.26% and 0.25%~0.26%, respectively.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of June 30, 2006 and 2005, insurance coverage for property, plant and equipment, and inventories amounted to approximately NT\$61,379,993 (US\$1,894,444) and NT\$50,026,234 (US\$1,582,207), respectively.

(g) Lease assets

The details were as follows:

Lease item	Quantity	Lessor	Lease term	Terms of lease contract	Discount rate of leased assets	Present value of lease assets at the transaction date			
						2006		2005	
						NT dollars	US dollars	NT dollars	US dollars
Boeing 747 aircraft	6	GECAS	2004.4.13~2016.11.12	The rent is payable monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property.	1.18%~6.93%	\$ 10,939,485	337,638	6,365,811	201,335
Engines	6	Taiwan Life Financing Co., Ltd.	2004.6.29~2011.6.28	The rent is payable every three months, and the lease agreement allows the transfer of ownership of the leased property by the end of the lease term.	1.76%	540,296	16,676	540,296	17,088
Computers	1	IBM	2004.7.25~2009.7.24	The rent is payable monthly, and the lease agreement allows the transfer of ownership of the leased property by the end of the lease term.	2.50%	46,638	1,439	41,844	1,324

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

As of June 30, 2006, the details of leased assets were as follows:

	2006	
	NT dollars	US dollars
Aircraft	\$ 10,939,485	337,638
Engines	540,296	16,676
Computers	46,638	1,439
Less: accumulated depreciation	<u>(1,742,197)</u>	<u>(53,771)</u>
	<u>\$ 9,784,222</u>	<u>301,982</u>

As of June 30, 2006, insurance coverage for leased assets amounted to approximately NT\$14,227,011 (US\$439,105).

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of June 30, 2006, the book value and present value of lease liability were as follows:

Year due	NT dollars	US dollars
July 1, 2006~June 30, 2007	\$ 2,393,697	73,880
July 1, 2007~June 30, 2008	1,656,411	51,124
July 1, 2008~June 30, 2009	991,742	30,609
July 1, 2009~June 30, 2010	980,263	30,255
July 1, 2010~June 30, 2011	1,225,608	37,827
And after	<u>4,348,925</u>	<u>134,226</u>
Book value	11,596,646	357,921
Less: unrealized interest expenses	<u>(1,966,204)</u>	<u>(60,685)</u>
Present value	9,630,442	297,236
Less: current portion	<u>(1,973,403)</u>	<u>(60,908)</u>
	\$ <u>7,657,039</u>	<u>236,328</u>

As of June 30, 2005, the details of leased assets were as follows:

	2005 NT dollars	US dollars
Aircraft	\$ 6,365,811	201,335
Engines	540,296	17,088
Computers	41,844	1,324
Less: accumulated depreciation	<u>(690,951)</u>	<u>(21,853)</u>
	\$ <u>6,257,000</u>	<u>197,894</u>

As of June 30, 2005, insurance coverage for leased assets amounted to approximately NT\$7,929,961 (US\$250,805).

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of June 30, 2005, the book value and present value of lease liability were as follows:

Year due	NT dollars	US dollars
July 1, 2005~June 30, 2006	\$ 895,314	28,317
July 1, 2006~June 30, 2007	869,026	27,485
July 1, 2007~June 30, 2008	683,338	21,612
July 1, 2008~June 30, 2009	739,388	23,385
July 1, 2009~June 30, 2010	729,614	23,076
And after	<u>4,332,880</u>	<u>137,038</u>
Book value	8,249,560	260,913
Less: unrealized interest expenses	<u>(1,985,245)</u>	<u>(62,788)</u>
Present value	6,264,315	198,125
Less: current portion	<u>(573,076)</u>	<u>(18,125)</u>
	<u>\$ 5,691,239</u>	<u>180,000</u>

(h) Deferred charges

As of June 30, 2006 and 2005, deferred charges, net of amortization, consisted of the following:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Computer software	\$ 260,233	8,032	303,209	9,590
Leasehold improvements	2,468,013	76,173	1,169,262	36,981
Air flight route development cost	588	18	2,828	89
Navigator training costs	6,856	212	32,182	1,018
Major overhaul for aircraft and engines	2,471,974	76,296	2,476,371	78,322
Other	<u>396,717</u>	<u>12,244</u>	<u>242,094</u>	<u>7,656</u>
	<u>\$ 5,604,381</u>	<u>172,975</u>	<u>4,225,946</u>	<u>133,656</u>

(i) Short-term borrowings

The components as of June 30, 2006 and 2005, were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Unsecured loans	<u>\$ 790,000</u>	<u>24,383</u>	<u>1,550,000</u>	<u>49,023</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

The interest expenses on the aforementioned short-term borrowings are calculated based on floating interest rates. For the six months ended June 30, 2006 and 2005, the interest rates were 1.40%~1.60% and 1.30%, respectively. As of June 30, 2006 and 2005, the unused credit line amounted to approximately NT\$7,973,927 (US\$246,109) and NT\$7,461,027 (US\$235,974), respectively.

(j) Long-term borrowings

As of June 30, 2006 and 2005, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2006		Interest rate (%)	2005	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	2.02~2.33	\$ <u>2,800,000</u>	<u>86,420</u>	2.05~2.43	<u>2,800,000</u>	<u>88,557</u>
Aircraft						
NT\$ loans	2.61~2.78	10,878,300	335,750	1.80~5.05	4,069,594	128,711
US\$ loans	4.90~6.38	<u>689,243</u>	<u>21,273</u>	2.70~4.19	<u>2,608,249</u>	<u>82,493</u>
		<u>11,567,543</u>	<u>357,023</u>		<u>6,677,843</u>	<u>211,204</u>
Simulators						
US\$ loans	4.71~5.66	<u>286,602</u>	<u>8,846</u>	2.58~3.69	<u>279,693</u>	<u>8,846</u>
		<u>286,602</u>	<u>8,846</u>		<u>279,693</u>	<u>8,846</u>
Subtotal		<u>14,654,145</u>	<u>452,289</u>		<u>9,757,536</u>	<u>308,607</u>
Unsecured loans:	1.63~2.65	<u>14,130,513</u>	<u>436,127</u>	1.64~6.50	<u>11,646,362</u>	<u>368,346</u>
Total		28,784,658	888,416		21,403,898	676,953
Less: current portion		<u>(5,313,044)</u>	<u>(163,983)</u>		<u>(6,819,845)</u>	<u>(215,695)</u>
		\$ <u>23,471,614</u>	<u>724,433</u>		<u>14,584,053</u>	<u>461,258</u>

As of June 30, 2006, the remaining balances of the borrowings were due as follows:

Year due	NT dollars	US dollars
July 1, 2006~June 30, 2007	\$ 5,313,044	163,983
July 1, 2007~June 30, 2008	7,229,263	223,126
July 1, 2008~June 30, 2009	5,917,384	182,635
July 1, 2009~June 30, 2010	4,401,067	135,836
July 1, 2010~June 30, 2011	3,776,033	116,544
And after	<u>2,147,867</u>	<u>66,292</u>
	\$ <u>28,784,658</u>	<u>888,416</u>

Pursuant to the syndication loan agreement signed with Chiao-Tung Bank and fourteen other banks, the Company's liabilities-to-equity ratio and current ratio must be maintained at 300% and 75%, respectively, at the end of each year. If any aircraft whose purchase is financed by such loans is disposed of or sold, the Company must repay the loan immediately.

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EVA AIRWAYS CORP.

Notes to Financial Statements

As of June 30, 2006 and 2005, the unused credit lines for long-term borrowings amounted to NT\$900,000 (US\$27,778) and NT\$1,500,000 (US\$47,441), respectively. The pledge for these long-term borrowings is disclosed in note 6.

(k) Bonds payable

Details of bonds payable as of June 30, 2006 and 2005, were as follows:

	Description	Annual interest rate	Issue date	2006		2005	
				NT dollars	US dollars	NT dollars	US dollars
Bonds payable	Shanghai Commercial & Savings Bank	5.47%	2000.07	-	-	\$ 300,000	9,488
	Chinatrust Commercial Bank	5.48%~5.53%	2000.07	-	-	1,000,000	31,627
	Bank of Panhsin	5.64%	2000.07	-	-	300,000	9,488
Bonds payable	International Commercial Bank of China	5.25%	2000.12	-	-	500,000	15,814
	Cathay United Bank	5.25%	2000.12	-	-	500,000	15,814
	Bank of Taiwan	5.25%	2000.12	-	-	400,000	12,651
	Farmers Bank	5.25%	2000.12	-	-	400,000	12,651
Bonds payable	Taipei Fubon Bank	3.7%	2001.07	500,000	15,432	500,000	15,814
Bonds payable	Taiwan Cooperative Bank	Floating	2004.02	500,000	15,432	500,000	15,814
Bonds payable	Land Bank	2.25%	2004.07	500,000	15,432	500,000	15,814
	Chang Hwa Bank	2.25%	2004.07	500,000	15,432	500,000	15,814
	Taipei Fubon Bank	2.25%	2004.07	500,000	15,432	500,000	15,814
Bonds payable	Bank of Taiwan	2.11%	2005.01	500,000	15,432	500,000	15,814
	Taiwan Cooperative Bank	2.11%	2005.01	500,000	15,432	500,000	15,814
Bonds payable	Far-Eastern International Bank	1.85%	2005.08	500,000	15,432	-	-
	Shanghai Commercial & Savings Bank	1.85%	2005.08	500,000	15,432	-	-
	Chinatrust Commercial Bank	1.85%	2005.08	600,000	18,519	-	-
	Hua Nan Bank	1.85%	2005.08	500,000	15,432	-	-
Bonds payable	Cathay United Bank	2.08%	2006.01	2,000,000	61,728	-	-
Convertible bonds payable		-	2004.08	<u>3,279,254</u>	<u>101,212</u>	<u>3,291,254</u>	<u>104,094</u>
Subtotal				<u>10,879,254</u>	<u>335,779</u>	<u>10,191,254</u>	<u>322,325</u>
Less: current portion				<u>(500,000)</u>	<u>(15,432)</u>	<u>(3,400,000)</u>	<u>(107,534)</u>
				<u>10,379,254</u>	<u>320,347</u>	<u>\$ 6,791,254</u>	<u>214,791</u>

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(1) Second convertible bonds payable**

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

- (i) Coupon rate: 0%
- (ii) Issue period: From August 9, 2004, to August 8, 2009
- (iii) Redemption: Except for the bonds that have already been redeemed, converted, or purchased and cancelled, the bonds can be redeemed on the fifth anniversary of the issue date at par value.
- (iv) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 150% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the issue amount.
- (v) Redemption at the option of the bondholders: The Company will, at the option of the bondholders, redeem such bond on the third anniversary of the issue date at par value.
- (vi) Conversion
 - A) The bondholders can ask the Company to convert the convertible bonds into common stock during the period from one month after the issue date to ten days before the maturity date.
 - B) Conversion price:

The conversion price is set at NT\$14.50, which is a premium of 111% over the base price. The base price is defined as the average of the closing prices of the issuer's common shares traded on the Taiwan Stock Exchange for a period of 1, 3 or 5 trading days, whichever is adopted, immediately preceding but excluding the pricing date, which is July 26, 2004. The conversion price is subject to adjustments in the event that any change occurs to the capital structure. As of June 30, 2006, the conversion price was NT\$13.51.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(l) Other installments payable

The Company purchased aircraft spare parts which is payable on installments. As of June 30, 2006 and 2005, the details were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Installment amount payable \$	214,204	6,611	638,719	20,201
Less: current portion	<u>(214,204)</u>	<u>(6,611)</u>	<u>(424,515)</u>	<u>(13,426)</u>
\$	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>214,204</u></u>	<u><u>6,775</u></u>

The current portion of other installments payable was recorded as other payables. As of June 30, 2006, the remaining balances of other installments payable were due as follows:

Year due	NT dollars	US dollars
July 1, 2006~June 30, 2007	\$ <u><u>214,204</u></u>	<u><u>6,611</u></u>

The interest expenses of the aforementioned installments are calculated based on floating interest rates. For the six months ended June 30, 2006 and 2005, the average interest rates were 2.55%~2.72% and 2.33%~2.55%, respectively.

(m) Aircraft payable

The Company purchased aircraft, payable in installments. As of June 30, 2006 and 2005, the details were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft payable \$	18,000,624	555,575	13,284,948	420,170
Less: current portion	<u>(2,406,095)</u>	<u>(74,262)</u>	<u>(1,821,357)</u>	<u>(57,605)</u>
\$	<u><u>15,594,529</u></u>	<u><u>481,313</u></u>	<u><u>11,463,591</u></u>	<u><u>362,565</u></u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

The current portion of aircraft payable was recorded as other payables. As of June 30, 2006, the remaining balances of the aircraft payable were due as follows:

Year due	NT dollars	US dollars
July 1, 2006~June 30, 2007	\$ 2,406,095	74,262
July 1, 2007~June 30, 2008	2,347,106	72,442
July 1, 2008~June 30, 2009	2,365,151	72,999
July 1, 2009~June 30, 2010	2,422,168	74,758
July 1, 2010~June 30, 2011	2,229,096	68,799
And after	<u>6,231,008</u>	<u>192,315</u>
	\$ <u>18,000,624</u>	<u>555,575</u>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the six months ended June 30, 2006 and 2005, the average interest rates were 4.14%~6.77% and 2.06%~6.77%, respectively. The pledges for the aircraft payable are disclosed in note 6.

(n) Retirement plans

As of and for the six months ended June 30, 2006 and 2005, the details of the retirement plans were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Balance of the retirement fund:				
The Bureau of Labor Insurance	\$ 59,531	1,837	-	-
The Central Trust of China	1,386,378	42,789	1,060,134	33,529
Periodic pension cost:				
Defined benefit pension plan cost	113,472	3,525	127,841	4,061
Defined contribution pension plan cost	44,371	1,378	-	-
Accrued employee retirement liabilities	599,735	18,511	779,452	24,652

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(o) Income tax

- (1) For the six months ended June 30, 2006 and 2005, the components of estimated income tax benefits (expenses) were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expense—current	\$ (30,467)	(946)	(227,732)	(7,234)
Income tax benefit—deferred	<u>429,390</u>	<u>13,339</u>	<u>12,980</u>	<u>412</u>
	<u>\$ 398,923</u>	<u>12,393</u>	<u>(214,752)</u>	<u>(6,822)</u>

The deferred income tax benefits were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ 758,616	23,567	-	-
Investment tax credits	264,869	8,228	-	-
Unrealized exchange losses	(27,912)	(867)	(66,777)	(2,121)
Purchase of fixed assets on installments, adjusted for tax purposes	29,777	925	41,540	1,320
Provision for loss on inventory market price decline	1,053	33	(39,331)	(1,250)
Deferred gains on disposal of fixed assets, adjusted for tax purposes	(5,429)	(169)	(117,315)	(3,727)
Accrued employee retirement liabilities	(18,674)	(580)	194,863	6,190
Valuation allowance for deferred income tax assets	(412,600)	(12,818)	-	-
Gain on valuation of financial assets	<u>(160,310)</u>	<u>(4,980)</u>	<u>-</u>	<u>-</u>
	<u>\$ 429,390</u>	<u>13,339</u>	<u>12,980</u>	<u>412</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

- (2) The Company is subject to ROC income tax at a maximum rate of 25%. The Company was subject to the “minimum tax statutes” commencing from January 1, 2006. The differences between expected income tax benefit (expense) at statutory rates and income tax benefit (expense) as reported in the accompanying financial statements for the six months ended June 30, 2006 and 2005, were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Income tax benefits (expenses) calculated on pre-tax financial income (loss) at statutory income tax rate of 25%	\$ 364,548	11,325	(201,047)	(6,386)
Surtax on undistributed earnings	-	-	(134,147)	(4,261)
Gain on disposal of investments	4,633	144	17,573	558
Investment income recognized under equity method—unrealized	114,759	3,565	91,339	2,901
Dividend income	32,199	1,000	(4,432)	(141)
Permanent difference in depreciation expenses	(15,700)	(488)	(15,939)	(506)
Exchange losses recorded as translation adjustments	132,540	4,118	19,207	610
Increase in investment tax credits	264,869	8,228	261	8
Valuation allowance for deferred income tax assets	(412,600)	(12,817)	-	-
Others	<u>(32,761)</u>	<u>(1,018)</u>	<u>12,433</u>	<u>395</u>
Income tax benefit (expense)	\$ <u>452,487</u>	<u>14,057</u>	<u>(214,752)</u>	<u>(6,822)</u>

- (3) The components of the deferred income tax assets (liabilities) as of June 30, 2006 and 2005, were as follows:

	2006				2005			
	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—current								
Allowance for obsolete inventories	\$ 1,346,664	41,564	336,666	10,391	1,345,680	42,560	336,420	10,640
Unrealized exchange losses	-	-	-	-	49,020	1,552	12,255	388
Others	-	-	-	-	779,452	24,652	<u>194,863</u>	<u>6,163</u>
			<u>336,666</u>	<u>10,391</u>			<u>543,538</u>	<u>17,191</u>
Deferred income tax liabilities—current								
Unrealized gain on financial assets	(806,816)	(24,902)	(201,704)	(6,226)	-	-	-	-
Unrealized exchange gain	(672)	(21)	(168)	(5)	-	-	-	-
			<u>(201,872)</u>	<u>(6,231)</u>				
Deferred income tax assets, net—current			<u>134,794</u>	<u>4,160</u>			<u>543,538</u>	<u>17,191</u>
Deferred income tax assets—noncurrent								
Unrealized losses on financial assets	\$ 165,576	5,110	41,394	1,278	-	-	-	-
Unused investment tax credits	-	-	614,967	18,980	-	-	-	-
Accrued employee retirement liabilities	240,060	7,409	60,015	1,852	-	-	-	-
Purchase of fixed assets on installments, adjusted for tax purposes	2,988,960	92,252	747,240	23,063	2,692,204	85,148	673,051	21,287
Deferred gains on disposal of fixed assets, adjusted for tax purposes	889,924	27,647	222,481	6,867	827,940	26,186	206,985	6,546
Unused loss carryforwards	3,034,464	93,656	<u>758,616</u>	<u>23,414</u>	-	-	-	-
			<u>2,444,713</u>	<u>75,454</u>			<u>880,036</u>	<u>27,833</u>
Less: Valuation allowance for deferred income tax assets	(1,650,400)	(50,938)	<u>(412,600)</u>	<u>(12,735)</u>	-	-	-	-
Deferred income tax assets, net—noncurrent			<u>2,032,113</u>	<u>62,719</u>			<u>880,036</u>	<u>27,833</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

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

As of June 30, 2006, unused investment tax credits available to the Company were as follows:

Year granted	Unused investment tax credits		Expiry year
	NT dollars	US dollars	
2005	\$ 375,313	11,584	2009
2006	<u>239,654</u>	<u>7,396</u>	2010
	\$ <u>614,967</u>	<u>18,980</u>	

- (5) The Company's income tax returns have been examined through 2003 by the ROC income tax authority. As of June 30, 2006, unused loss carryforward tax credits available to the Company were as follows:

Year	Unused loss carryforward		Expiry year
	NT dollars	US dollars	
2006	\$ <u>3,034,464</u>	<u>93,656</u>	2011

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

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Unappropriated earnings before 1997	\$ -	-	-	-
Unappropriated earnings after 1998	<u>1,872,080</u>	<u>53,921</u>	<u>2,926,276</u>	<u>87,076</u>
	\$ <u>1,872,080</u>	<u>53,921</u>	<u>2,926,276</u>	<u>87,076</u>
ICA	\$ <u>567,464</u>	<u>17,514</u>	<u>660,803</u>	<u>20,900</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

	2006	2005
Creditable ratio for earnings distribution to domestic shareholders	<u>16.25%</u> <u>(estimated)</u>	<u>15.09%</u> <u>(actual)</u>

(7) The Company was assessed additional 2001, 2002 and 2003 Corporate Income Tax of NT\$51,496 (US\$1,600). This amount was due to the tax authority's rejection of the Company's meal allowance. The Company did not agree with this decision and filed an application for a second review. In addition, the Company did not recognize income tax because of investment tax credits.

(p) Stockholders' equity

(1) Common stock

As of June 30, 2006, the Company's authorized share capital consisted of 4,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 3,749,887 thousand shares were issued and outstanding.

As of June 30, 2005, the Company's authorized share capital consisted of 4,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 3,356,745 thousand shares were issued and outstanding.

On June 16, 2005, the Company's stockholders approved a resolution to capitalize the unappropriated earnings of NT\$329,229 by issuing 32,923 thousand shares of common stock at NT\$10 par value per share. The stock issuance was authorized by and registered with the government authorities on August 22, 2005.

On November 21, 2005, the Company's board of directors approved a resolution for cash subscription by issuing 360,000 thousand shares of common stock at issuance price of NT\$12 per share. The stock issuance was authorized by and registered with the government authorities. The date of record for subscription is March 21, 2006.

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EVA AIRWAYS CORP.

Notes to Financial Statements

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

The details of capital surplus as of June 30, 2006 and 2005, were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Cash subscription in excess of par value of shares	\$ 2,514,333	83,975	1,794,333	61,794
Additional paid-in capital from bond conversion	745,546	22,711	744,741	22,687
Gain on disposal of property, plant and equipment of investee company	1,668	53	1,668	53
Increase in net equity due to change in percentage of ownership by long-term equity method	234,600	6,816	234,599	6,816
Donated assets	648,841	21,229	648,808	21,228
	<u>\$ 4,144,988</u>	<u>134,784</u>	<u>3,424,149</u>	<u>112,578</u>

The ROC Company Law stipulates that realized capital surplus should not be credited to capital except for making up deficiencies of the Company. The realized capital surplus includes the premiums from issuance of shares in excess of par value. In addition, the capitalization of capital surplus or other events in accordance with Article 8 of the ROC Securities and Exchange Law and the ROC Company Law can be credited to capital on the condition that the aforementioned capital surplus has been approved by and registered with the competent authority in the previous year.

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

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

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EVA AIRWAYS CORP.

Notes to Financial Statements

The Company's articles of incorporation stipulate that the Company must appropriate employees' bonuses of not less than 1% of estimated earnings of each year, and not more than 5% of estimated earnings of each year for remuneration of directors and supervisors. Such appropriations can only be made after offsetting accumulated deficit and appropriation of legal reserve, and must be accounted for as a reduction of retained earnings.

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

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

	NT dollars	US dollars
Employees' bonuses—cash	\$ 52,320	1,626
Directors' and supervisors' remuneration	<u>10,900</u>	<u>339</u>
	<u>\$ 63,220</u>	<u>1,965</u>

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

(q) Earnings per share

For the six months ended June 30, 2006 and 2005, earnings per share were calculated as follows:

	Dollars		NT dollars 2006 Shares	Earnings per Share		Dollars		US dollars 2006 Shares	Earnings per Share	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share:										
Income (loss) before										
cumulative effect of changes										
in accounting principle	\$ (1,458,193)	(1,005,706)		(0.41)	(0.28)	(45,300)	(31,243)		(0.01)	(0.01)
Cumulative effect of changes in										
accounting principle	<u>214,255</u>	<u>160,691</u>		<u>0.06</u>	<u>0.04</u>	<u>6,656</u>	<u>4,992</u>		<u>-</u>	<u>-</u>
Net loss	<u>\$ (1,243,938)</u>	<u>(845,015)</u>	<u>3,590,771</u>	<u>\$ (0.35)</u>	<u>(0.24)</u>	<u>(38,644)</u>	<u>(26,251)</u>	<u>3,590,771</u>	<u>(0.01)</u>	<u>(0.01)</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

	Dollars		NT dollars	Earnings per Share		Dollars		US dollars	Earnings per Share	
	Before Income Tax	After Income Tax	2005 Shares	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	2005 Shares	Before Income Tax	After Income Tax
Basic earnings per share	\$ <u>804,189</u>	<u>589,437</u>	<u>3,330,117</u>	\$ <u>0.24</u>	<u>0.18</u>	<u>25,546</u>	<u>18,724</u>	<u>3,330,117</u>	<u>0.01</u>	<u>0.01</u>
Diluted earnings per share	\$ <u>804,189</u>	<u>589,437</u>	<u>3,565,936</u> (note)	\$ <u>0.23</u>	<u>0.17</u>	<u>25,546</u>	<u>18,724</u>	<u>3,565,936</u>	<u>0.01</u>	<u>0.01</u>

(note): Effect in the period of 235,819 thousand dilutive potential common shares arising from convertible bonds.

(r) Derivative financial instruments and hedging

(1) Cash flow hedging

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

As of June 30, 2006, the cash flow hedging items and derivative financial hedging instruments were as follows:

Hedging item	Hedging instrument	Fair value of assigned hedging instrument		Period of generating cash flow	Period of related gain or loss recognized in income statement
		NT dollars	US dollars		
Floating interest rate of bonds payable	Interest rate swap agreements	(24,266)	(749)	2004~2009	2004~2009

As of June 30, 2006, the unrealized valuation loss on financial instruments due to hedging of cash flow amounted to NT\$24,266(US\$749), recognized as adjustments to stockholders' equity.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(s) Disclosure of financial instruments

(1) Fair value of financial instruments

The details of financial instruments as of June 30, 2006 and 2005, were as follows:

	2006			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and cash equivalent	\$ 3,172,198	3,172,198	97,907	97,907
Available-for-sale financial assets— current	4,150,523	4,150,523	128,102	128,102
Notes and accounts receivable (including receivables from related parties)	8,467,334	8,467,334	261,338	261,338
Other financial assets—current	873,912	873,912	26,973	26,973
Available-for-sale financial assets — noncurrent	476,990	476,990	14,722	14,722
Financial assets carried at cost— noncurrent	3,655,768	-	112,832	-
Interest rate swap agreements	34,198	34,198	1,055	1,055
Fuel option agreements	806,814	806,814	24,902	24,902
Financial liabilities:				
Short-term borrowings	790,000	790,000	24,383	24,383
Notes and accounts payable (including payables to related parties)	2,597,167	2,597,167	80,159	80,159
Accrued expenses	8,019,641	8,019,641	247,520	247,520
Other payables	2,656,137	2,656,137	81,979	81,979
Current portion of long-term liabilities	5,813,044	5,813,044	179,415	179,415
Bonds payable	10,379,254	10,042,701	320,347	309,960
Long-term borrowings	23,471,614	23,471,614	724,433	724,433
Aircraft payable	15,594,529	15,594,529	481,313	481,313
Lease liability	7,657,039	7,657,039	236,328	236,328
Interest rate swap agreements	99,028	99,028	3,056	3,056
Fuel option agreements	100,746	100,746	3,110	3,110
Off-balance-sheet financial instruments:				
Letters of credit	-	352,751	-	10,887

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

	2005			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and cash equivalent	\$ 1,090,789	1,090,789	34,499	34,499
Available-for-sale financial assets – current	4,431,227	4,440,142	140,149	140,431
Notes and accounts receivable (including receivables from related parties)	8,522,815	8,522,815	269,556	269,556
Other financial assets – current	775,400	775,400	24,524	24,524
Available-for-sale financial assets – noncurrent	407,858	452,341	12,900	14,306
Financial assets carried at cost – noncurrent	3,660,520	-	115,773	-
Forward exchange contracts	11,070	11,070	350	350
Interest rate swap agreements	62,152	62,152	1,966	1,966
Fuel option agreements	738,684	738,684	23,363	23,363
Financial liabilities:				
Short-term borrowing	\$ 1,550,000	1,550,000	49,023	49,023
Note and accounts payable (including payables to related parties)	2,415,131	2,415,131	76,384	76,384
Accrued expenses	7,979,155	7,979,155	252,361	252,361
Other payables	2,790,831	2,790,831	88,267	88,267
Current portion of long-term liabilities	10,219,845	10,219,845	323,229	323,229
Bonds payable	6,791,254	6,865,165	214,791	217,128
Long-term borrowings	14,584,053	14,584,053	461,258	461,258
Other installments payable	214,204	214,204	6,775	6,775
Aircraft payable	11,463,591	11,463,591	362,565	362,565
Lease liability	5,691,239	5,691,239	180,000	180,000
Interest rate swap agreements	19,401	19,401	614	614
Fuel option agreements	-	-	-	-
Off-balance-sheet financial instruments:				
Letters of credit	-	305,456	-	9,661

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

- i) Because the maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable/payable (including related parties), other financial assets – current, short-term borrowings, current portion of long-term liabilities, accrued expenses, and other payables, are within one year of the balance sheet date, their book value is equal to their fair value.

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EVA AIRWAYS CORP.

Notes to Financial Statements

- ii) If public quoting of financial assets and liabilities is available, then the quote price will be the fair value. If market value is not available, an assessment method will be used. The assumptions used should be the same as those used by the financial market traders when quoting their prices.
- iii) The fair value of bonds payable, long-term borrowings, other installments payable, aircraft payable, and lease liability is the discounted future cash flows, and the discount rates during the six months ended June 30, 2006 and 2005, were 1.18%~7.56% p.a. and 1.64%~7.56% p.a., respectively.
- iv) The fair value of letters of credit and financing guaranty is based on the contract.
- (3) The fair values of financial assets and liabilities evaluated by public quoting and the assessment method by the Company were as follows:

	2006			
	Public quote value		Assessment value	
	NT dollars	US dollars	NT dollars	US dollars
Financial assets:				
Cash and cash equivalents	-	-	3,172,198	97,907
Available-for-sale financial assets— current	4,150,523	128,102	-	-
Notes and accounts receivable				
(including receivables from related parties)	-	-	8,467,334	261,338
Other financial assets— current	-	-	873,912	26,973
Available-for-sale financial assets— noncurrent	476,990	14,722	-	-
Interest rate swap agreements	-	-	34,198	1,055
Fuel option agreements	-	-	806,814	24,902
Financial liabilities:				
Short-term borrowings	-	-	790,000	24,383
Notes and accounts payable				
(including payables to related parties)	-	-	2,597,167	80,159
Accrued expenses	-	-	8,019,641	247,520
Other payables	-	-	2,656,137	81,979
Current portion of long-term liabilities:	-	-	5,813,044	179,415
Bonds payable	-	-	10,379,254	320,347
Long-term borrowings	-	-	23,471,614	724,433
Aircraft payable	-	-	15,594,529	481,313
Lease liability	-	-	7,657,039	236,328
Interest rate swap agreements	-	-	99,028	3,056
Fuel option agreements	-	-	100,746	3,110
Off-balance-sheet financial instruments :				
Letters of credit	-	-	352,751	10,887

(Continued)

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

- (4) For the six months ended June 30, 2006, the evaluation gain on financial assets at fair value through profit or loss amounted to NT\$1,140,771 (US\$35,439).
- (5) As of June 30, 2006, the bonds payable with the risk arising from floating interest rates amounted to NT\$7,100,000 (US\$219,135).
- (6) For the six months ended June 30, 2006, the interest income and interest expenses arising from financial assets/liabilities at fair value through profit or loss without valuation by fair value amounted to NT\$71,962 (US\$2,235) and NT\$937,448 (US\$29,122), respectively.
- (7) Disclosure of financial risks

(i) Market risk

The Company's bonds payable carried a fixed interest rate. If the market interest rate increases by 1%, the fair value of bonds payable would decrease by approximately NT\$202,236 (US\$6,283).

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

(ii) Credit risk

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

(iii) Risk of liquidity

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

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

The Company's short-term and long-term borrowings carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Company's future cash flow. If the market interest rate increases by 1%, the Company's future cash outflow would increase by approximately NT\$147,873 (US\$4,594).

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EVA AIRWAYS CORP.

Notes to Financial Statements

5. Transactions with Related Parties

(a) Name and relationship of related parties

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

(b) Significant transactions with related parties

(1) Revenue, cost and expenses

During the six months ended June 30, 2006, and 2005, the Company's transactions with related parties were as follows:

Revenue	2006		2005		Percentage	
	NT dollars	US dollars	NT dollars	US dollars	2006	2005
Evergreen Airline Services Corp.	\$ -	-	897	29	-	-
Uni Airways Corp.	13,326	414	12,984	412	0.03	0.03
Evergreen Aviation Technologies Corp.	53,262	1,654	84,738	2,692	0.12	0.21
Evergreen Air Cargo Services Corp.	8,909	277	7,119	226	0.02	0.02
Evergreen International Corp.	6,252	194	112	4	0.01	-
Green Siam Air Services Co., Ltd.	1,502	47	-	-	0.01	-
Evergreen Sky Catering Corp.	30	1	18	1	-	-
Others	557	17	522	16	-	-
	<u>\$ 83,838</u>	<u>2,604</u>	<u>106,390</u>	<u>3,380</u>	<u>0.19</u>	<u>0.26</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

Cost	2006		2005		Percentage	
	NT dollars	US dollars	NT dollars	US dollars	2006	2005
Evergreen International Corp.	\$ 31,743	986	21,565	685	0.07	0.06
Evergreen International Storage & Transport Corp.	36,373	1,130	38,424	1,220	0.08	0.10
Evergreen Airline Services Corp.	426,521	13,250	412,046	13,089	0.96	1.11
Evergreen Sky Catering Corp.	459,792	14,284	426,929	13,562	1.04	1.15
Uni Airways Corp.	479,073	14,883	494,571	15,711	1.08	1.34
Evergreen Aviation Technologies Corp.	2,162,734	67,187	2,407,978	76,492	4.87	6.49
Evergreen Air Cargo Services Corp.	172,133	5,347	160,207	5,089	0.39	0.43
Others	618	19	868	28	-	-
	<u>\$ 3,768,987</u>	<u>117,086</u>	<u>3,962,588</u>	<u>125,876</u>	<u>8.49</u>	<u>10.68</u>

Expenses	2006		2005		Percentage	
	NT dollars	US dollars	NT dollars	US dollars	2006	2005
Evergreen International Corp.	\$ 56,737	1,762	52,778	1,676	1.71	1.60
Evergreen International Storage & Transport Corp.	8,141	253	8,872	282	0.24	0.27
Evergreen Airline Services Corp.	15,497	481	12,739	405	0.47	0.39
Evergreen Sky Catering Corp.	10,911	339	11,057	351	0.33	0.34
Uni Airways Corp.	22,350	694	52,714	1,675	0.67	1.60
Evergreen Aviation Technologies Corp.	10,660	331	11,947	380	0.32	0.36
Evergreen Security Corp.	22,072	686	24,119	766	0.66	0.73
Evergreen Air Cargo Services Corp.	514	16	95	3	0.02	-
RTW Air Services (S) Pte. Ltd.	24,031	747	22,264	707	0.72	0.67
Green Siam Air Services Co., Ltd.	37,724	1,172	35,753	1,136	1.13	1.08
Uni Japan Co., Ltd.	8,820	274	2,296	73	0.27	0.07
PT Perdana Andalan Air Service	14,004	435	-	-	0.42	-
Others	254	8	382	12	0.01	0.01
	<u>\$ 231,715</u>	<u>7,198</u>	<u>235,016</u>	<u>7,466</u>	<u>6.97</u>	<u>7.12</u>

- (2) The abovementioned transactions with related parties were made with no significant difference from those with non-related parties, but sometimes the payments were overdue. Receivables and payables as of June 30, 2006 and 2005, resulting from the aforementioned transactions were as follows:

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Accounts receivable—related parties:				
Uni Airways Corp.	\$ 11,645	359	18,183	575
Evergreen Airline Services Corp.	1,452	45	721	23
Evergreen Sky Catering Corp.	-	-	140	4
Evergreen Air Cargo Services Corp.	1,258	39	1,465	46
Evergreen Aviation Technologies Corp.	12,942	399	28,222	893
Evergreen Marine Corp.	2,802	87	3,171	100
Others	<u>1,552</u>	<u>48</u>	<u>1,822</u>	<u>58</u>
	<u>31,651</u>	<u>977</u>	<u>53,724</u>	<u>1,699</u>

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Notes to Financial Statements

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Other receivables—related parties:				
Uni Airways Corp.	\$ 114,558	3,536	132,917	4,204
Evergreen Airline Services Corp.	68	2	1,947	61
Evergreen Sky Catering Corp.	36	1	114	4
Evergreen Aviation Technologies Corp.	2,836	88	10,244	324
Evergreen Air Cargo Services Corp.	988	30	2,865	91
Evergreen International Corp.	61	2	4,949	156
Evergreen Marine Corp.	564	17	574	18
Green Siam Air Services Co., Ltd.	632	20	-	-
Others	353	11	21	1
	<u>120,096</u>	<u>3,707</u>	<u>153,631</u>	<u>4,859</u>
Total receivables—related parties	\$ <u>151,747</u>	<u>4,684</u>	<u>207,355</u>	<u>6,558</u>

	2006		2005	
	NT dollars	US dollars	NT dollars	US dollars
Accounts payable—related parties:				
Evergreen International Corp.	\$ 13,280	410	5,836	185
Evergreen Airline Services Corp.	144,910	4,472	169,369	5,357
Evergreen Sky Catering Corp.	82,868	2,558	160,952	5,090
Uni Airways Corp.	127,459	3,934	143,980	4,554
Evergreen Aviation Technologies Corp.	335,399	10,352	416,654	13,178
Evergreen Air Cargo Services Corp.	54,040	1,668	54,948	1,738
Green Siam Air Services Co., Ltd.	9,628	297	6,624	209
RTW Air Services (S) Pte. Ltd.	8,577	265	3,322	105
Evergreen International Storage & Transport Corp.	6,896	213	7,943	251
Evergreen Security Corp.	86	2	134	4
PT Perdana Andalan Air Service	6,672	206	-	-
	<u>789,815</u>	<u>24,377</u>	<u>969,762</u>	<u>30,671</u>
Other payables—related parties:				
Evergreen International Corp.	12,746	394	7,442	235
Evergreen International Storage & Transport Corp.	1,067	33	1,384	44
Evergreen Airline Services Corp.	13,228	408	33,265	1,052
Evergreen Sky Catering Corp.	2,236	69	1,280	41
Uni Airways Corp.	7,886	243	9,675	306
Evergreen Aviation Technologies Corp.	2,151	66	2,406	76
Evergreen Security Corp.	3,810	118	4,343	137
Evergreen Air Cargo Services Corp.	2,232	69	2,102	66
Uni Japan Co., Ltd.	-	-	2,296	73
Evergreen Marine Corp.	39	1	92	3
Green Siam Air Services Co., Ltd.	22	1	-	-
	<u>45,417</u>	<u>1,402</u>	<u>64,285</u>	<u>2,033</u>
Total payables—related parties	\$ <u>835,232</u>	<u>25,779</u>	<u>1,034,047</u>	<u>32,704</u>

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Notes to Financial Statements

6. Pledged Assets

The book values of the pledged assets as of June 30, 2006 and 2005, were as follows:

Pledged assets	Object	2006		2005	
		NT dollars	US dollars	NT dollars	US dollars
Land	Long-term borrowings	\$ 1,864,122	57,535	1,864,122	58,958
Buildings	Long-term borrowings	2,527,961	78,024	2,620,444	82,878
Aircraft	Long-term borrowings, Aircraft payable	41,910,093	1,293,521	30,817,662	974,687
Engines – included in machinery and equipment	Long-term borrowings	112,721	3,479	129,382	4,092
Simulators – included in machinery and equipment	Long-term borrowings	298,620	9,217	328,354	10,385
Time deposit – included in other assets	Customs duty and contract performance guaranties	576,277	17,786	508,554	16,085
		<u>\$ 47,289,794</u>	<u>1,459,562</u>	<u>36,268,518</u>	<u>1,147,085</u>

7. Commitments and Contingencies

(a) As of June 30, 2006, the outstanding contracts for purchases of aircraft were as follows:

Entering date	Type of aircraft	Quantity	Total price of contract		Prepayments (Note)
June 2000	Boeing-777	4	US\$	1,260,851	NT\$ 2,892,770 (US\$89,283)
April 2004	Boeing-777	8	US\$	1,491,496	NT\$ 8,434,828 (US\$260,334)

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

(b) As of June 30, 2006, the Company had issued NT\$6,404,210 (US\$197,661) worth of promissory notes to banks to obtain guaranties for credit lines. As of June 30, 2006, the Company had obtained guaranties from ABN-AMRO Bank, Citibank, HSBC Bank, and Bank of America amounting to NT\$347,137 (US\$10,714).

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Notes to Financial Statements

- (c) The Company entered into aircraft, land, and engine lease contracts under operating or capital leases. As of June 30, 2006, the Company had paid NT\$12,202,184 (US\$376,611) as refundable deposits. According to these contracts, future lease commitments in the following five years are as follows:

Year due	NT dollars	US dollars
July 1, 2006 ~ June 30, 2007	\$ 11,090,874	342,311
July 1, 2007 ~ June 30, 2008	8,315,794	256,661
July 1, 2008 ~ June 30, 2009	7,078,181	218,462
July 1, 2009 ~ June 30, 2010	6,025,888	185,984
July 1, 2010 ~ June 30, 2011	5,404,287	166,799
And after	<u>26,613,845</u>	<u>821,415</u>
	\$ <u>64,528,869</u>	<u>1,991,632</u>

8. Important Damage Losses: none**9. Important Subsequent Events: none****10. Others**

- (a) Total personnel, depreciation and amortization expenses for the six months ended June 30, 2006 and 2005, were as follows:

By function By item	Operating cost	NT dollars Operating expenses	2006		US dollars Operating expenses	Total
			Total	Operating cost		
Personnel expenses						
Salaries	\$ 1,564,337	1,304,950	2,869,287	48,597	40,539	89,136
Insurance	71,371	56,602	127,973	2,217	1,759	3,976
Pension	93,281	64,562	157,843	2,898	2,005	4,903
Others (meal allowances, etc.)	615,610	123,739	739,349	19,124	3,844	22,968
Depreciation	2,621,435	104,790	2,726,225	81,437	3,255	84,692
Amortization	467,798	103,944	571,742	14,531	3,230	17,761

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EVA AIRWAYS CORP.

Notes to Financial Statements

By function	2005					
	Operating cost	NT dollars Operating expenses	Total	Operating cost	US dollars Operating expenses	Total
By item						
Personnel expenses						
Salaries	\$ 1,500,498	1,206,127	2,706,625	47,665	38,314	85,979
Insurance	63,700	55,185	118,885	2,024	1,753	3,777
Pension	73,885	53,956	127,841	2,347	1,714	4,061
Others (meal allowances, etc.)	458,284	104,555	562,839	14,558	3,321	17,879
Depreciation	2,010,580	107,536	2,118,116	63,868	3,416	67,284
Amortization	484,204	107,409	591,613	15,381	3,412	18,793

(b) Reclassification

Certain amounts of the financial statements as of and for the six months ended June 30, 2005, have been reclassified to conform with the presentation of the financial statements as of and for the six months ended June 30, 2006, for purposes of comparison due to adoption of ROC SPAS No. 34 "Accounting for Financial Instruments". These reclassifications do not have a significant impact on the financial statements.

11. Segment Financial Information

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