

EVA AIRWAYS CORP.
Financial Statements
December 31, 2010 and 2009
(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Directors
EVA Airways Corp.:

We have audited the balance sheets of EVA Airways Corp. (the "Company") as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholders' equity, and cash flows for the years ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain non-consolidated investee companies. The Company's investments in these companies as of December 31, 2010 and 2009, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$3,295,808 thousand (US\$ 113,141 thousand), constituting 2.23% of total assets, and NT\$2,995,084 thousand (US\$93,509 thousand), constituting 2.00% of total assets, respectively. The cumulative translation adjustments from the aforementioned investments amounted to NT\$5,683 thousand (US\$195 thousand) and NT\$9,495 thousand (US\$296 thousand), respectively. The resulting investment gains amounted to NT\$417,043 thousand (US\$13,231 thousand), constituting 3.46% of income before income tax, and NT\$233,430 thousand (US\$7,065 thousand), constituting (6.27)% of loss before income tax, for the years 2010 and 2009, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to these amounts included for the said investee companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years ended, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in Republic of China.



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

The accompanying financial statements as of and for the years ended December 31, 2010 and 2009, have been translated into United States dollars. We have audited the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(c) of the notes to the accompanying financial statements.

KPMG

Taipei, Taiwan (the Republic of China)
March 10, 2011

Note to Readers

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

December 31, 2010 and 2009
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

Assets	2010		2009		Liabilities and Stockholders' Equity	2010		2009	
	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))	\$ 14,145,427	485,597	4,218,748	131,712	Short-term borrowings (note 4(h))	\$ -	-	979,994	30,596
Financial assets at fair value through profit or loss—current (note 4(b))	-	-	17,247	539	Financial liabilities at fair value through profit or loss—current (note 4(b))	-	-	685,797	21,411
Available-for-sale financial assets—current (note 4(b))	1,943,977	66,735	4,491,553	140,230	Derivative financial liabilities for hedge purposes—current (note 4(p))	-	-	897,196	28,011
Notes receivable	230,608	7,916	289,200	9,029	Accounts payable	1,589,218	54,556	1,168,413	36,479
Accounts receivable, net	7,441,116	255,445	6,805,453	212,471	Accounts payable—related parties (note 5)	2,473,943	84,928	1,078,180	33,661
Accounts receivable—related parties (note 5)	190,539	6,541	162,968	5,088	Accrued expenses	7,234,011	248,335	5,856,614	182,848
Other receivables	75,538	2,593	22,449	701	Other payables—related parties (note 5)	153,394	5,266	148,940	4,650
Other receivables—related parties (note 4(d) and 5)	74,920	2,572	105,923	3,307	Other payables (notes 4(k), 5 and 6)	3,520,070	120,840	3,483,026	108,743
Inventories (notes 4(c), 5 and 6)	8,526,069	292,690	8,690,370	271,320	Unearned revenue	6,620,271	227,266	5,980,215	186,707
Other prepayments	499,163	17,136	564,048	17,610	Current portion of long-term liabilities (notes 4(i), 4(j) and 6)	11,756,574	403,590	14,563,908	454,696
Deferred income tax assets—current (note 4(m))	1,210,647	41,560	199,042	6,214	Other current liabilities (note 4 (f))	<u>3,044,726</u>	<u>104,522</u>	<u>2,890,618</u>	<u>90,247</u>
Other current assets	<u>35,853</u>	<u>1,231</u>	<u>21,373</u>	<u>667</u>	Total current liabilities	<u>36,392,207</u>	<u>1,249,303</u>	<u>37,732,901</u>	<u>1,178,049</u>
Total current assets	<u>34,373,857</u>	<u>1,180,016</u>	<u>25,588,374</u>	<u>798,888</u>	Long-term liabilities:				
Funds and investments:					Bonds payable (note 4(j))	5,000,000	171,644	9,000,000	280,987
Available-for-sale financial assets—noncurrent (note 4(b) and 6)	991,131	34,024	878,472	27,427	Long-term borrowings (notes 4(i) and 6)	38,237,583	1,312,653	47,319,280	1,477,342
Financial assets carried at cost—noncurrent (note 4(b))	2,251,437	77,289	2,252,588	70,327	Installment accounts payable (notes 4(k), 5 and 6)	15,460,630	530,746	9,622,736	300,429
Long-term equity investments under equity method (note 4(d))	<u>8,607,454</u>	<u>295,484</u>	<u>8,079,974</u>	<u>252,263</u>	Lease liability—noncurrent (note 4(f))	<u>10,356,464</u>	<u>355,526</u>	<u>12,201,277</u>	<u>380,932</u>
Total funds and investments	<u>11,850,022</u>	<u>406,797</u>	<u>11,211,034</u>	<u>350,017</u>	Total long-term liabilities	<u>69,054,677</u>	<u>2,370,569</u>	<u>78,143,293</u>	<u>2,439,690</u>
Property, plant and equipment (notes 4(e), 4(f), 5, 6 and 7):					Other liabilities:				
Land	1,869,572	64,180	1,869,572	58,369	Accrued employee retirement liabilities (note 4(l))	398,222	13,670	268,961	8,397
Buildings	4,543,278	155,966	4,543,278	141,845	Other liabilities	<u>1,549,151</u>	<u>53,181</u>	<u>1,764,468</u>	<u>55,088</u>
Machinery and equipment	7,165,744	245,992	6,771,808	211,421	Total other liabilities	<u>1,947,373</u>	<u>66,851</u>	<u>2,033,429</u>	<u>63,485</u>
Aircraft	98,145,977	3,369,241	101,316,455	3,163,174	Total liabilities	<u>107,394,257</u>	<u>3,686,723</u>	<u>117,909,623</u>	<u>3,681,224</u>
Leased assets	<u>14,736,589</u>	<u>505,890</u>	<u>16,198,639</u>	<u>505,733</u>	Stockholders' equity (notes 4(b), 4(d), 4(l), 4(m), 4(n) and 4(p)):				
	126,461,160	4,341,269	130,699,752	4,080,542	Common stock	<u>29,626,772</u>	<u>1,035,332</u>	<u>29,626,772</u>	<u>1,035,332</u>
Less: accumulated depreciation	(46,652,712)	(1,601,535)	(42,209,332)	(1,317,806)	Capital surplus	<u>2,649,436</u>	<u>82,625</u>	<u>5,564,505</u>	<u>178,675</u>
Advances for purchases of equipment	<u>11,297,463</u>	<u>387,829</u>	<u>14,116,235</u>	<u>440,719</u>	Retained earnings (accumulated deficit)	<u>12,016,736</u>	<u>381,242</u>	<u>(2,915,074)</u>	<u>(111,306)</u>
Net property, plant and equipment	<u>91,105,911</u>	<u>3,127,563</u>	<u>102,606,655</u>	<u>3,203,455</u>	Other stockholders' equity adjustments:				
Intangible assets:					Cumulative translation adjustments	(3,554,690)	(105,448)	423,833	(84,439)
Deferred pension cost (note 4(l))	<u>149,633</u>	<u>5,137</u>	<u>238,093</u>	<u>7,433</u>	Net loss not yet recognized as net pension cost	(511,128)	(16,846)	(157,412)	(4,703)
Other assets:					Unrealized gains or losses on financial instruments	<u>408,136</u>	<u>18,058</u>	<u>(515,511)</u>	<u>(13,649)</u>
Refundable deposits (note 7)	1,733,899	59,523	1,696,935	52,979	Total other stockholders' equity adjustments	<u>(3,657,682)</u>	<u>(104,236)</u>	<u>(249,090)</u>	<u>(102,791)</u>
Deferred charges (note 4(g) and 5)	4,765,125	163,581	3,981,534	124,306	Total stockholders' equity	<u>40,635,262</u>	<u>1,394,963</u>	<u>32,027,113</u>	<u>999,910</u>
Deferred income tax assets—noncurrent (note 4(m))	3,332,996	114,418	3,624,677	113,165	Commitments and contingencies (notes 5 and 7)				
Other assets (note 6)	<u>718,076</u>	<u>24,651</u>	<u>989,434</u>	<u>30,891</u>					
Total other assets	<u>10,550,096</u>	<u>362,173</u>	<u>10,292,580</u>	<u>321,341</u>					
Total assets	<u>\$ 148,029,519</u>	<u>5,081,686</u>	<u>149,936,736</u>	<u>4,681,134</u>	Total liabilities and stockholders' equity	<u>\$ 148,029,519</u>	<u>5,081,686</u>	<u>149,936,736</u>	<u>4,681,134</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Operations

For the years ended December 31, 2010 and 2009

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

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Operating revenue (note 5)	\$ 104,410,011	3,312,500	\$ 73,279,511	2,217,903
Operating cost (notes 4(c), 4(l), 5 and 10)	<u>(84,789,200)</u>	<u>(2,690,013)</u>	<u>(70,191,396)</u>	<u>(2,124,437)</u>
Gross profit from operations	19,620,811	622,487	3,088,115	93,466
Operating expenses (notes 4(l), 5 and 10)	<u>(6,972,063)</u>	<u>(221,195)</u>	<u>(5,908,339)</u>	<u>(178,824)</u>
Operating income (loss)	<u>12,648,748</u>	<u>401,292</u>	<u>(2,820,224)</u>	<u>(85,358)</u>
Non-operating income and gains:				
Interest income	83,542	2,650	31,254	946
Investment income (note 4(d))	1,055,194	33,477	278,177	8,420
Gains on disposal of property, plant and equipment	23,794	755	52,672	1,594
Gains on valuation of financial liabilities (note 4(q))	5,151	164	638,026	19,311
Other income (note 4(b))	<u>308,796</u>	<u>9,797</u>	<u>124,545</u>	<u>3,769</u>
	<u>1,476,477</u>	<u>46,843</u>	<u>1,124,674</u>	<u>34,040</u>
Non-operating expenses and losses:				
Interest expenses (notes 4(e) and 5)	(1,767,564)	(56,077)	(1,973,576)	(59,733)
Exchange losses, net	(286,872)	(9,101)	(21,184)	(641)
Other losses	<u>(25,522)</u>	<u>(810)</u>	<u>(35,023)</u>	<u>(1,060)</u>
	<u>(2,079,958)</u>	<u>(65,988)</u>	<u>(2,029,783)</u>	<u>(61,434)</u>
Income (loss) from continuing operations before income tax	12,045,267	382,147	(3,725,333)	(112,752)
Income tax benefit (expenses) (note 4(m))	<u>(28,531)</u>	<u>(905)</u>	<u>881,079</u>	<u>26,667</u>
Net income (loss)	<u>\$ 12,016,736</u>	<u>381,242</u>	<u>\$ (2,844,254)</u>	<u>(86,085)</u>

	<u>Income before</u>		<u>Net income</u>		<u>Loss before</u>		<u>Net loss</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>
	<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 (losses) per share								
(expressed in dollars) (note 4(o)):	<u>\$ 4.07</u>	<u>0.13</u>	<u>4.06</u>	<u>0.13</u>	<u>(1.49)</u>	<u>(0.05)</u>	<u>(1.14)</u>	<u>(0.03)</u>
Diluted earnings per share								
(expressed in dollars) (note 4(o)):	<u>\$ 4.06</u>	<u>0.13</u>	<u>4.05</u>	<u>0.13</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2010 and 2009
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

	NT Dollars							US Dollars							Total	
	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Unrealized Gains or losses on Financial Instruments	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Unrealized Gains or losses on Financial Instruments		
Balance on January 1, 2009	\$ 39,426,772	4,866,753	18,864	(16,889,684)	1,491,895	(162,517)	(3,009,945)	25,742,138	1,332,170	157,445	586	(535,670)	(74,754)	(4,862)	(91,527)	783,388
Make-up of accumulated deficit by capital reduction	(16,800,000)	-	-	16,800,000	-	-	-	-	(509,863)	-	-	509,863	-	-	-	-
Make-up of accumulated deficit	-	-	(18,864)	18,864	-	-	-	-	-	-	(586)	586	-	-	-	-
Cash subscription	7,000,000	420,000	-	-	-	-	-	7,420,000	213,025	12,781	-	-	-	-	-	225,806
Share options granted to employees	-	282,100	-	-	-	-	-	282,100	-	8,585	-	-	-	-	-	8,585
Increase in net equity due to change in percentage of capital surplus in long-term equity investments under equity method	-	(4,348)	-	-	-	-	-	(4,348)	-	(136)	-	-	-	-	-	(136)
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	18,744	-	18,744	-	-	-	-	-	585	-	585
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	(13,639)	-	(13,639)	-	-	-	-	-	(426)	-	(426)
Increase in net equity due to change in percentage of unrealized gains or losses on financial instruments in long-term equity investments under equity method	-	-	-	-	-	-	18,034	18,034	-	-	-	-	-	-	563	563
Change in unrealized gains on financial instruments	-	-	-	-	-	-	2,476,400	2,476,400	-	-	-	-	-	-	77,315	77,315
Net loss for the year ended December 31, 2009	-	-	-	(2,844,254)	-	-	-	(2,844,254)	-	-	-	(86,085)	-	-	-	(86,085)
Translation adjustments for the year ended December 31, 2009	-	-	-	-	(1,068,062)	-	-	(1,068,062)	-	-	-	-	(9,685)	-	-	(9,685)
Balance on December 31, 2009	<u>29,626,772</u>	<u>5,564,505</u>	<u>-</u>	<u>(2,915,074)</u>	<u>423,833</u>	<u>(157,412)</u>	<u>(515,511)</u>	<u>32,027,113</u>	<u>1,035,332</u>	<u>178,675</u>	<u>-</u>	<u>(111,306)</u>	<u>(84,439)</u>	<u>(4,703)</u>	<u>(13,649)</u>	<u>999,910</u>
Make-up of accumulated deficit	-	(2,915,074)	-	2,915,074	-	-	-	-	-	(111,306)	-	111,306	-	-	-	-
Increase in net equity due to change in percentage of capital surplus in long-term equity investments under equity method	-	5	-	-	-	-	-	5	-	-	-	-	-	-	-	-
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	(44,828)	-	(44,828)	-	-	-	-	-	(1,539)	-	(1,539)
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	(308,888)	-	(308,888)	-	-	-	-	-	(10,604)	-	(10,604)
Increase in net equity due to change in percentage of unrealized gains or losses on financial instruments in long-term equity investments under equity method	-	-	-	-	-	-	18,217	18,217	-	-	-	-	-	-	625	625
Change in unrealized gains on financial instruments	-	-	-	-	-	-	905,430	905,430	-	-	-	-	-	-	31,082	31,082
Net gain for the year ended December 31, 2010	-	-	-	12,016,736	-	-	-	12,016,736	-	-	-	381,242	-	-	-	381,242
Translation adjustments for the year ended December 31, 2010	-	-	-	-	(3,978,523)	-	-	(3,978,523)	-	15,256	-	-	(21,009)	-	-	(5,753)
Balance on December 31, 2010	<u>\$ 29,626,772</u>	<u>2,649,436</u>	<u>-</u>	<u>12,016,736</u>	<u>(3,554,690)</u>	<u>(511,128)</u>	<u>408,136</u>	<u>40,635,262</u>	<u>1,035,332</u>	<u>82,625</u>	<u>-</u>	<u>381,242</u>	<u>(105,448)</u>	<u>(16,846)</u>	<u>18,058</u>	<u>1,394,963</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the years ended December 31, 2010 and 2009
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Cash flows from operating activities:				
Net income (loss)	\$ 12,016,736	381,242	(2,844,254)	(86,085)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	8,159,478	258,867	8,144,425	246,502
Amortization and maintenance expense	1,142,167	36,236	1,239,578	37,517
Investment income	(1,055,194)	(33,477)	(278,177)	(8,420)
Proceeds from cash dividends on long-term equity investments	367,650	11,664	113,916	3,448
Losses on disposal and obsolescence of property, plant and equipment	6,127	194	6,645	201
Deferred income tax benefit	-	-	(901,698)	(27,291)
Amortization expense recorded as interest expenses	83,158	2,638	33,728	1,021
Amortization of other deferred gain	(53,636)	(1,702)	(129,598)	(3,922)
Gains on sale of investments	(3,376)	(107)	(6,419)	(194)
Salary expenses — share options granted to employees	-	-	282,100	8,538
Changes in operating assets and liabilities, net:				
Changes in operating assets, net:				
Financial assets at fair value through profit or loss	17,247	547	407,773	12,342
Notes receivable	58,592	1,859	(90,516)	(2,739)
Accounts receivable	(635,663)	(20,167)	(996,228)	(30,152)
Accounts receivable — related parties	(27,571)	(875)	2,165	65
Other — receivable	(53,089)	(1,684)	159,500	4,827
Other receivables — related parties	111,059	3,523	(111,474)	(3,374)
Inventories	164,314	5,213	(59,548)	(1,802)
Other prepayments	64,885	2,059	48,365	1,464
Other current assets	(14,480)	(459)	1,837	56
Changes in operating liabilities, net:				
Financial liabilities at fair value through profit or loss	(685,797)	(21,757)	(5,100,887)	(154,385)
Accounts payable	420,805	13,350	229,858	6,957
Accounts payable — related parties	315,284	10,003	349,437	10,576
Accrued expenses	1,377,397	43,699	76,654	2,320
Other payables — related parties	4,454	141	(98,752)	(2,989)
Other payables	(3,138,768)	(99,580)	41,587	1,259
Unearned revenue	640,056	20,306	(532,017)	(16,102)
Other current liabilities	163,804	5,197	(467,178)	(14,140)
Accrued employee retirement liabilities	(147,321)	(4,674)	(135,498)	(4,101)
Other liabilities	(26,266)	(833)	24,962	755
Net cash provided by (used in) operating activities	19,272,052	611,423	(589,714)	(17,848)
Cash flows from investing activities:				
Decrease (increase) in available-for-sale financial assets — current	2,625,966	83,311	(3,614,340)	(109,393)
Payments for purchase of long-term equity investments under equity method	-	-	(253,559)	(7,674)
Withdrawal of financial assets carried at cost	12,871	408	27,052	819
Payments for purchase of property, plant and equipment	(3,215,793)	(102,024)	(14,167,167)	(428,788)
Proceeds from disposal of property, plant and equipment	1,151	37	3,975	120
Decrease (increase) in refundable deposits	(144,692)	(4,591)	3,148,396	95,290
Increase in deferred charges	(928,437)	(29,455)	(477,787)	(14,461)
Decrease (increase) in other assets	271,358	8,609	(187,637)	(5,679)
Net cash used in investing activities	(1,377,576)	(43,705)	(15,521,067)	(469,766)
Cash flows from financing activities:				
Decrease in short-term borrowings	(979,994)	(31,091)	(1,319,052)	(39,923)
Issuance of bonds payable	-	-	5,000,000	151,332
Redemption of bonds payable	(3,100,000)	(98,350)	(2,646,700)	(80,106)
Increase in long-term borrowings (including installment accounts payable)	20,791,400	659,626	21,604,046	653,876
Redemption of long-term borrowings (including installment accounts payable)	(23,222,197)	(736,745)	(11,545,521)	(349,441)
Redemption of lease liability	(1,457,006)	(46,225)	(1,411,331)	(42,716)
Cash subscription	-	-	7,420,000	224,576
Net cash provided by (used in) financing activities	(7,967,797)	(252,785)	17,101,442	517,598
Effect of exchange rate changes on cash	-	38,952	-	3,490
Net increase in cash and cash equivalents	9,926,679	353,885	990,661	33,474
Cash and cash equivalents at beginning of year	4,218,748	131,712	3,228,087	98,238
Cash and cash equivalents at end of year	\$ 14,145,427	485,597	4,218,748	131,712
Additional disclosure of cash flow information:				
Interest paid	\$ 1,894,742	60,112	2,153,844	65,189
Less: capitalized interest	214,189	6,795	145,600	4,389
Interest paid (excluding capitalized interest)	\$ 1,680,553	53,317	2,008,838	60,800
Income tax paid	\$ 32,676	1,037	23,336	706
Supplemental schedule of noncash investing and financing activities:				
Current portion of long-term liabilities and bonds payable	\$ 11,756,574	403,590	14,563,908	454,696
Inventory transferred from fixed assets	\$ 13	-	18	-
Translation adjustments	\$ (3,978,523)	(21,009)	(1,068,062)	(9,685)
Unrealized gains or losses on financial instruments (including investee)	\$ 923,647	31,707	2,494,434	77,878
Increase in deferred charges	\$ 2,008,916	63,734	477,787	14,461
Less: Accounts payable — related parties	(1,080,479)	(34,279)	-	-
Cash paid for deferred charges	\$ 928,437	29,455	477,787	14,461

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Notes to Financial Statements

December 31, 2010 and 2009

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

1. Organization and Business Scope

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

The Company's business activities are

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

(Continued)

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

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

As of December 31, 2010 and 2009, the Company had 5,121 and 4,486 employees, respectively.

2. Summary of Significant Accounting Policies

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

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

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

(a) Use of estimates

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

(b) Foreign currency transactions and translations

The Company maintains its books in New Taiwan dollars. Foreign currency transactions during the year are translated at the exchange rates on the transaction dates. Foreign currency-denominated assets and liabilities are translated into New Taiwan dollars at the exchange rate prevailing on the balance sheet date, and the resulting translation gains or losses are recognized as non-operating income or expenses. In accordance with amended Statement of Financial Accounting Standards (SFAS) No. 14 “The Effects of Changes in Foreign Exchange Rates”, non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the

(Continued)

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

exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into NT dollars at foreign exchange rates ruling at the dates the fair value was determined. If the financial assets or liabilities are evaluated at fair value through profit or loss, the resulting unrealized exchange income (loss) from such translations is reflected in the accompanying statements of operations. If the adjustments of financial assets or liabilities are evaluated at fair value through stockholders' equity, the resulting unrealized exchange income (loss) from such translations is recorded as a separate component of stockholders' equity.

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

(c) Convenience translation into 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. Statement of operations accounts are translated at the average rates during the year. The related translation adjustments are reported as a component of shareholders' equity.

(d) Translation of foreign currency for foreign operating units

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

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

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

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

(Continued)

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

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

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

(f) Asset impairment

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

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

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

(g) Cash and cash equivalents

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

(h) Financial instruments

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

(Continued)

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

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

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

(i) Hedge accounting

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

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

1. Fair value hedges

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

(Continued)

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

2. Cash flow hedges

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

3. Hedge of net investment in foreign operation

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

(j) Inventories

Inventories represent parts and supplies for maintenance of aircraft, and merchandise to sell during flights. Except for merchandise, which is stated at the lower of cost or market value, parts and supplies are stated at cost less allowance for slow-moving and obsolete items. Cost is calculated by the weighted-average method, and market value represents net realizable value.

(k) Long-term equity investments

Long-term equity investments in which the Company owns more than 20% or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies are accounted for by the equity method. In accordance with ROC SFAS No.23 "Interim Financial Reporting", the Company recognizes investment gains/ losses under the equity method quarterly.

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

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

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

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

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

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

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

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

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

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

The Company accrues for the removal and recovery costs for fixed assets during the non-production period in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation (ARDF). When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The Company evaluates the useful lives and depreciation method at the end of every year. Any changes in the useful lives and depreciation method are accounted for as changes in accounting estimates.

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

Buildings: 55 years

Machinery and equipment: 3~18 years

Aircraft: 7~18 years

Other equipment: 5~18 years

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

(m) Lease

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

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

(Continued)

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

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

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

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

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

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

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

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

(Continued)

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

(n) Deferred charges

Deferred charges principally include the capitalized costs for computer software, leasehold improvements, "D" check maintenance for aircraft and engines and others. These costs are amortized using the straight-line method over the shorter of the estimated years in which such assets are economically beneficial to the Company's operation or the lease terms. In accordance with SFAS No. 37, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost less any accumulated amortization and any accumulated impairment losses.

(o) Employee retirement plan

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

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

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

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

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

(Continued)

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

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

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

(q) Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and directors' and supervisors' remuneration appropriated after January 1, 2008, are accounted for by Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss. In addition, the number of shares distributed to employees as employees' bonuses is calculated based on the closing price on the day before the shareholders' resolution date, and the closing price is adjusted retroactively for dividends that had been distributed.

(r) Income tax

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

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

Deferred income tax assets or liabilities are classified as current or 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.

(Continued)

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

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

(s) Earnings per share (EPS)

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

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

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

The weighted-average number of common shares outstanding shall be adjusted currently and retroactively for the increase in common shares outstanding from stock issuance through the capitalization of retained earnings, additional paid-in capital, or employees’ bonuses. For calculation of diluted EPS, all employees’ bonus accrued at the end of reporting period are deemed to be distributable in the form of shares, and bonuses are included in the calculation of the weighted-average number of shares at market price on the balance sheet date.

3. Reason for and Effect of Accounting Changes

The Company adopted the amended ROC SFAS No. 10 “Inventories” issued by the Accounting Research and Development Foundation commencing from January 1, 2009. There were no impacts on the financial statements for the year ended December 31, 2009.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

4. Important Accounts

(a) Cash and cash equivalents

The components as of December 31, 2010 and 2009, were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Cash on hand	\$ 101,216	3,475	99,811	3,116
Cash in bank	<u>14,044,211</u>	<u>482,122</u>	<u>4,118,937</u>	<u>128,596</u>
	<u>\$ 14,145,427</u>	<u>485,597</u>	<u>4,218,748</u>	<u>131,712</u>

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

The components as of December 31, 2010 and 2009, were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets – current:				
Mutual funds	\$ <u>1,943,977</u>	<u>66,735</u>	<u>4,491,553</u>	<u>140,230</u>

For the years ended December 31, 2010 and 2009, gains on disposal of available-for-sale financial assets – current amounted to NT\$7,597 (US\$241) and NT\$6,419 (US\$194), respectively, which were recorded under other income.

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Available-for-sale financial assets – noncurrent:				
Trade-Van Information Services Co., Ltd.	\$ 171,749	5,896	170,049	5,309
Central Reinsurance Corp.	631,090	21,664	447,022	13,957
U.S. Treasury notes	<u>188,292</u>	<u>6,464</u>	<u>261,401</u>	<u>8,161</u>
	<u>\$ 991,131</u>	<u>34,024</u>	<u>878,472</u>	<u>27,427</u>

For the years ended December 31, 2010, loss on disposal of U.S. Treasury notes which were recorded as available-for-sale financial assets-noncurrent was NT\$4,221 (US\$134), and was recorded as a reduction of other income.

On September 18, 2009, Trade-Van Information Services Co., Ltd. decreased issued stock by 24%, and the Company withdrew NT\$27,052 (US\$819) in cash in proportion to the Company's ownership percentage.

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EVA AIRWAYS CORP.

Notes to Financial Statements

As of December 31, 2010 and 2009, the changes in fair value of available-for-sale financial assets from subsequent remeasurement were NT\$380,897 (US\$13,076) and NT\$193,224 (US\$6,033), respectively, and were recorded as other stockholders' equity adjustment.

The Company's investment in U.S. Treasury notes is for contract performance guaranties. The pledge for the investment is disclosed in note 6.

Financial assets carried at cost — noncurrent:

Investee	Shareholding percentage (%)	2010		Shareholding percentage (%)	2009	
		Book value			Book value	
		NT dollars	US dollars		NT dollars	US dollars
Taiwan High Speed Rail Corp.	1.20	\$ 1,246,549	42,793	1.20	1,246,549	38,918
Evergreen Development Corp.	9.35	870,000	29,866	9.35	870,000	27,162
Abacus International Holding Ltd.	2.11	115,743	3,973	2.11	115,743	3,614
Technology Partner II Venture Capital Corp.	5.88	6,294	216	5.88	6,294	196
Chung Hwa Express Co., Ltd.	10.00	10,000	343	10.00	10,000	312
Pan-Pacific Venture Capital Co., Ltd.	2.30	<u>2,851</u>	<u>98</u>	2.30	<u>4,002</u>	<u>125</u>
Total		\$ <u>2,251,437</u>	<u>77,289</u>		<u>2,252,588</u>	<u>70,327</u>

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

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

On September 30, 2009, Evergreen Development Corp. merged with Green Steel Structure Corp. and increased issued shares from 403,409 thousand to 408,402 thousand, which caused the Company's ownership percentage to decrease to 9.35%.

As of December 31, 2010 and 2009, the components of derivative financial instruments were as follows:

	Nominal Amount	2010		Nominal Amount	2009	
		Book Value			Book Value	
		NT dollars	US dollars		NT dollars	US dollars
Derivative financial assets:						
FX swap agreements	USD -	\$ <u>-</u>	<u>-</u>	USD 60,000	<u>17,247</u>	<u>539</u>
Derivative financial liabilities:						
Fuel option agreements		\$ <u>-</u>	<u>-</u>		<u>685,797</u>	<u>21,411</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of derivative financial assets and liabilities as of December 31, 2010 and 2009, were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Financial assets at fair value through profit or loss – current	\$ <u>-</u>	<u>-</u>	<u>17,247</u>	<u>539</u>
Financial liabilities at fair value through profit or loss – current	\$ <u>-</u>	<u>-</u>	<u>685,797</u>	<u>21,411</u>

(c) Inventories

The components as of December 31, 2010 and 2009, were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft spare parts	\$ 7,764,552	266,548	8,123,407	253,619
Consumables for use and merchandise for sale during flight	537,651	18,457	351,388	10,971
Fuel for aircraft	<u>223,866</u>	<u>7,685</u>	<u>215,575</u>	<u>6,730</u>
	\$ <u>8,526,069</u>	<u>292,690</u>	<u>8,690,370</u>	<u>271,320</u>

For the years ended December 31, 2010 and 2009, the movement of allowance for obsolete inventories was as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Beginning balance	\$ 951,909	29,719	750,221	22,831
Addition	1,188,484	37,706	590,059	17,859
Write-off	(901,563)	(28,603)	(388,371)	(11,755)
Effect of exchange rate	-	3,706	-	784
Ending balance	\$ <u>1,238,830</u>	<u>42,528</u>	<u>951,909</u>	<u>29,719</u>

For the years ended December 31, 2010 and 2009, the Company recognized related losses on inventories as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Losses on inventory obsolescence	\$ <u>1,188,484</u>	<u>37,706</u>	<u>590,059</u>	<u>17,859</u>

The pledge for these inventories is disclosed in note 6.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(d) Long-term equity investments under equity method

Details as of and for the years ended December 31, 2010 and 2009, were as follows:

Investee	Shareholding percentage (%)	2010 Book value		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars
Evergreen Airline Services Corp.	56.33	\$ 638,909	21,933	81,997	2,601
RTW Air Services (S) Pte. Ltd.	49.00	27,572	946	6,251	198
Green Siam Air Services Co., Ltd.	49.00	24,604	845	8,344	265
Evergreen Sky Catering Corp.	49.80	912,536	31,326	138,706	4,401
Evergreen Airways Service (Macau) Ltd.	99.00	111,363	3,823	41,967	1,331
Uni Airways Corp.	15.67	496,642	17,049	73,401	2,329
Evergreen Aviation Technologies Corp.	80.00	4,830,096	165,812	433,220	13,744
Evergreen Security Corp.	31.25	77,345	2,655	3,425	109
Evergreen Air Cargo Services Corp.	60.00	1,046,689	35,932	98,669	3,130
Hsiang-Li Investment Corp.	100.00	50,453	1,732	3,177	101
PT Perdana Andalan Air Service	51.00	71,511	2,455	6,250	198
Concord Pacific Ltd.	100.00	43,795	1,503	126,155	4,003
Sky Castle Investment Ltd.	100.00	275,190	9,447	33,515	1,063
SINO GAIN LIMITED	100.00	749	26	117	4
		<u>\$ 8,607,454</u>	<u>295,484</u>	<u>1,055,194</u>	<u>33,477</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Investee	Shareholding percentage (%)	2009		Investment income (loss)	
		Book value			
		NT dollars	US dollars	NT dollars	US dollars
Evergreen Airline Services Corp.	56.33	\$ 586,165	18,300	85,622	2,591
RTW Air Services (S) Pte. Ltd.	49.00	20,825	650	(1,342)	(41)
Green Siam Air Services Co., Ltd.	49.00	21,946	685	6,165	186
Evergreen Sky Catering Corp.	49.80	848,530	26,492	90,121	2,728
Evergreen Airways Service (Macau) Ltd.	99.00	174,933	5,462	8,681	263
Uni Airways Corp.	15.67	426,602	13,319	28,932	876
Evergreen Aviation Technologies Corp.	80.00	4,603,406	143,722	328,715	9,949
Evergreen Security Corp.	31.25	73,920	2,308	9,938	301
Evergreen Air Cargo Services Corp.	60.00	949,482	29,644	19,311	585
Hsiang-Li Investment Corp.	100.00	44,666	1,394	(589)	(18)
PT Perdana Andalan Air Service	51.00	67,614	2,111	(5,317)	(161)
Concord Pacific Ltd.	100.00	(80,056)	(2,499)	(324,998)	(9,836)
Sky Castle Investment Ltd.	100.00	261,180	8,154	33,037	1,000
SINO GAIN LIMITED	100.00	<u>705</u>	<u>22</u>	<u>(99)</u>	<u>(3)</u>
Add: recorded as reduction of account receivables—related parties		7,999,918	249,764	<u>278,177</u>	<u>8,420</u>
		<u>80,056</u>	<u>2,499</u>		
		\$ <u>8,079,974</u>	<u>252,263</u>		

As of December 31, 2010 and 2009, the cumulative translation adjustment were NT\$4,508 (US\$155) and NT\$30,347 (US\$947), respectively.

Details of increases in long-term equity investments under the equity method of the Company in 2010 and 2009 were as follows:

Investee	Shares	2009	
		NT dollars	US dollars
		Unit: thousands of shares	
Concord Pacific Ltd.	7,500	\$ 252,750	7,650
SINO GAIN LIMITED	25	<u>809</u>	<u>24</u>
		\$ <u>253,559</u>	<u>7,674</u>

There was no such transaction in 2010.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

On June 30, 2010, Hsiang-Li Investment Corp.'s stockholders resolved to make up deficiencies from the decrease issued stock and cash subscription. Hsiang-Li Investment Corp. decreased issued stock by 94.57% on July 5, 2010, and the Company withdrew NT\$11,720 (US\$372) in cash in proportion to the Company's ownership percentage.

(e) Property, plant and equipment

For the years ended December 31, 2010 and 2009, the Company capitalized the interest expenses on purchase of assets amounting to NT\$214,189 (US\$6,795) and NT\$145,006 (US\$4,389), respectively. The monthly interest rates on the above transactions were 0.13%~0.14% and 0.13%~0.20%, respectively. The pledge for this property, plant and equipment is disclosed in note 6.

(f) Leased assets

The details were as follows:

Lease item	Leaser	Lease term	Terms of lease contract	Present value of leased assets at the transaction date			
				2010		2009	
				NT dollars	US dollars	NT dollars	US dollars
Aircraft	GECAS	2004.4.13~ 2017.6.21	The rent is payable monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property	\$ 5,516,972	189,391	6,066,207	189,391
Aircraft	C&L Leasing Co., Ltd.	2007.5.31~ 2019.12.27	The rent is payable every three months, and the present value of payment for future rental is higher than 90% of the fair value of the leased asset	9,169,062	314,764	10,081,877	314,764
Computer equipment	IBM	2009.5.25~ 2014.6.24	The rent is payable monthly, and the lease transfers ownership of the leased property by the end of the lease term	50,555	1,735	50,555	1,578
				14,736,589	505,890	16,198,639	505,733
Less: accumulated depreciation				(3,495,270)	(119,988)	(2,628,835)	(82,074)
				\$ <u>11,241,319</u>	<u>385,902</u>	<u>13,569,804</u>	<u>423,659</u>

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

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

As of December 31, 2010 and 2009, the book value and present value of lease liability were as follows:

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Year due	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
January 1, 2010~December 31, 2010	\$ -	-	2,083,324	65,043
January 1, 2011~December 31, 2011	1,976,611	67,855	2,060,131	64,319
January 1, 2012~December 31, 2012	1,953,912	67,076	2,037,432	63,610
January 1, 2013~December 31, 2013	1,930,224	66,262	2,013,744	62,870
January 1, 2014~December 31, 2014	1,902,231	65,301	1,985,751	61,996
January 1, 2015~December 31, 2015	1,874,238	64,340	1,957,758	61,123
And after	<u>4,412,117</u>	<u>151,463</u>	<u>4,485,070</u>	<u>140,027</u>
Book value	14,049,333	482,297	16,623,210	518,988
Less: unrealized interest expenses	<u>(2,255,929)</u>	<u>(77,443)</u>	<u>(2,975,297)</u>	<u>(92,891)</u>
Present value	11,793,404	404,854	13,647,913	426,097
Less: current portion	<u>(1,436,940)</u>	<u>(49,328)</u>	<u>(1,446,636)</u>	<u>(45,165)</u>
	\$ <u>10,356,464</u>	<u>355,526</u>	<u>12,201,277</u>	<u>380,932</u>

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

(g) Deferred charges

As of December 31, 2010 and 2009, deferred charges, net of amortization, consisted of the following:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Leasehold improvements	\$ 1,950,981	66,975	2,273,097	70,968
Major overhaul for aircraft and engines	2,707,252	92,937	1,629,231	50,866
Others	<u>106,892</u>	<u>3,669</u>	<u>79,206</u>	<u>2,472</u>
	\$ <u>4,765,125</u>	<u>163,581</u>	<u>3,981,534</u>	<u>124,306</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(h) Short-term borrowings

The components as of December 31, 2010 and 2009, were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Unsecured loans	\$ -	-	730,000	22,791
Commercial paper issued (net of prepaid interest of NT\$6 (US\$-))	-	-	249,994	7,805
	\$ <u>-</u>	<u>-</u>	<u>979,994</u>	<u>30,596</u>

The interest expense on the aforementioned short-term borrowings and commercial paper payable is calculated based on floating interest rates. For the year ended December 31, 2009, the interest rates were 0.80%~2.95%. As of December 31, 2010 and 2009, the unused credit line amounted to approximately NT\$8,361,864 (US\$287,053) and NT\$5,067,683 (US\$158,217), respectively.

(i) Long-term borrowings

As of December 31, 2010 and 2009, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2010		Interest rate (%)	2009	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	0.89~1.35	\$ 2,514,286	86,313	0.89~2.96	1,628,571	50,845
Aircraft	0.94~1.50	38,463,071	1,320,394	0.93~2.73	45,251,471	1,412,784
Engines	1.31~2.30	<u>1,997,000</u>	<u>68,555</u>	1.26~2.75	<u>3,184,609</u>	<u>99,426</u>
Subtotal		42,974,357	1,475,262		50,064,651	1,563,055
Unsecured loans:	1.19~2.26	<u>3,019,800</u>	<u>103,666</u>	1.03~2.86	<u>8,718,537</u>	<u>272,199</u>
Total		45,994,157	1,578,928		58,783,188	1,835,254
Less: current portion		<u>(7,756,574)</u>	<u>(266,275)</u>		<u>(11,463,908)</u>	<u>(357,912)</u>
		\$ <u>38,237,583</u>	<u>1,312,653</u>		<u>47,319,280</u>	<u>1,477,342</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of December 31, 2010, the remaining balances of the borrowings were due as follows:

Year due	NT dollars	US dollars
January 1, 2011~December 31, 2011	\$ 7,756,574	266,275
January 1, 2012~December 31, 2012	6,562,719	225,291
January 1, 2013~December 31, 2013	6,632,499	227,686
January 1, 2014~December 31, 2014	4,900,280	168,221
January 1, 2015~December 31, 2015	4,786,973	164,331
And after	<u>15,355,112</u>	<u>527,124</u>
	\$ <u>45,994,157</u>	<u>1,578,928</u>

As of December 31, 2010 and 2009, the unused credit lines for long-term borrowings both amounted to NT\$0 (US\$0). The pledge for these long-term borrowings is disclosed in note 6.

(j) Bonds payable

Details of bonds payable as of December 31, 2010 and 2009, were as follows:

	Description	Annual interest rate	Issue date	2010		2009	
				NT dollars	US dollars	NT dollars	US dollars
Bonds payable	Bank of Taiwan	2.11%	2005.01	\$ -	-	\$ 500,000	15,610
	Taiwan Cooperative Bank	2.11%	2005.01	-	-	500,000	15,610
Bonds payable	Far-Eastern International Bank	1.85%	2005.08	-	-	500,000	15,610
	Shanghai Commercial & Savings Bank	1.85%	2005.08	-	-	500,000	15,610
	Chinatrust Commercial Bank	1.85%	2005.08	-	-	600,000	18,733
	Hua Nan Bank	1.85%	2005.08	-	-	500,000	15,610
Bonds payable	Cathay United Bank	2.08%	2006.01	2,000,000	68,658	2,000,000	62,442
Bonds payable	Hua Nan Bank	2.29%	2006.07	500,000	17,164	500,000	15,610
	Taipei Fubon Bank	2.29%	2006.07	500,000	17,164	500,000	15,610
	Bank of Taiwan	2.29%	2006.07	500,000	17,164	500,000	15,610
	Taiwan Cooperative Bank	2.29%	2006.07	500,000	17,164	500,000	15,610
Ordinary corporate bonds payable issued in private placement		2.00%	2009.10	<u>5,000,000</u>	<u>171,645</u>	<u>5,000,000</u>	<u>156,106</u>
Subtotal				9,000,000	308,959	12,100,000	377,771
Less: current portion				<u>(4,000,000)</u>	<u>(137,315)</u>	<u>(3,100,000)</u>	<u>(96,784)</u>
				\$ <u>5,000,000</u>	<u>171,644</u>	\$ <u>9,000,000</u>	<u>280,987</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(k) Installment accounts payable

The Company purchased aircraft, engines and inventories by installments. As of December 31, 2010 and 2009, the details were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft payable	\$ 17,996,868	617,812	11,496,051	358,915
Others	<u>932,333</u>	<u>32,006</u>	<u>1,595,500</u>	<u>49,813</u>
	18,929,201	649,818	13,091,551	408,728
Less: current portion	<u>(3,468,571)</u>	<u>(119,072)</u>	<u>(3,468,815)</u>	<u>(108,299)</u>
	\$ <u>15,460,630</u>	<u>530,746</u>	<u>9,622,736</u>	<u>300,429</u>

The current portion of aircraft payable was recorded as other payables. As of December 31, 2010, the remaining balances of installment accounts payable were due as follows:

Year due	NT dollars	US dollars
January 1, 2011~December 31, 2011	\$ 3,468,571	119,072
January 1, 2012~December 31, 2012	3,130,751	107,475
January 1, 2013~December 31, 2013	2,621,226	89,984
January 1, 2014~December 31, 2014	1,599,864	54,922
January 1, 2015~December 31, 2015	1,347,092	46,244
And after	<u>6,761,697</u>	<u>232,121</u>
	\$ <u>18,929,201</u>	<u>649,818</u>

The interest expenses of the aforementioned installment payable are calculated based on floating interest rates. For the years ended December 31, 2010 and 2009, the average interest rates were 0.25%~6.77% and 0.28%~6.77%, respectively. The pledges for the aircraft payable are disclosed in note 6.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(l) Retirement plans

Net retirement plan liabilities based on the actuarial computation on December 31, 2010 and 2009, were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Benefit obligation:				
Vested benefit obligation	\$ 302,470	10,383	201,502	6,291
Nonvested benefit obligation	<u>2,572,508</u>	<u>88,311</u>	<u>2,322,531</u>	<u>72,511</u>
Accumulated benefit obligation	2,874,978	98,694	2,524,033	78,802
Projected effects of salary adjustments	<u>1,062,009</u>	<u>36,458</u>	<u>313,214</u>	<u>9,779</u>
Projected benefit obligation	3,936,987	135,152	2,837,247	88,581
Plan assets at fair value	<u>(2,476,756)</u>	<u>(85,024)</u>	<u>(2,255,072)</u>	<u>(70,405)</u>
Projected benefit obligation in excess of plan assets	1,460,231	50,128	582,175	18,176
Unrecognized net transition obligation	(27,300)	(937)	(54,594)	(1,704)
Unrecognized pension loss	(1,565,704)	(53,749)	(451,865)	(14,108)
Unrecognized prior service cost	(122,333)	(4,200)	(183,499)	(5,729)
Pension liabilities that need to be accrued	<u>653,328</u>	<u>22,428</u>	<u>376,744</u>	<u>11,762</u>
Accrued employee retirement liabilities	\$ <u><u>398,222</u></u>	<u><u>13,670</u></u>	<u><u>268,961</u></u>	<u><u>8,397</u></u>

Actuarial assumptions at December 31, 2010 and 2009, were as follows:

	2010	2009
Discount rate	1.75%	2.25%
Rate of increase in future compensation levels	1.50%~3.00%	0.59%~3.275%
Expected long-term rate of return on plan assets	1.75%	2.25%

As of and for the years ended December 31, 2010 and 2009, the details of the retirement plans were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Balance of the retirement fund:				
Bank of Taiwan	\$ <u>2,476,756</u>	<u>85,024</u>	<u>2,255,072</u>	<u>70,405</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

The components of pension cost under defined benefit pension plan were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Service cost	\$ 115,250	3,656	119,346	3,612
Interest cost	63,691	2,021	72,313	2,189
Actual return on plan assets	(36,616)	(1,162)	(14,139)	(428)
Unrecognized net transition obligation	<u>78,741</u>	<u>2,498</u>	<u>1,322</u>	<u>40</u>
Net pension cost	\$ <u><u>221,066</u></u>	<u><u>7,013</u></u>	<u><u>178,842</u></u>	<u><u>5,413</u></u>
The pension cost under defined contribution plan	\$ <u><u>135,468</u></u>	<u><u>4,298</u></u>	<u><u>110,024</u></u>	<u><u>3,330</u></u>

(m) Income tax

(1) For the years ended December 31, 2010 and 2009, the components of estimated income tax benefits (expenses) were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expenses — current	\$ (28,531)	(905)	(20,619)	(624)
Income tax benefits — deferred	<u>-</u>	<u>-</u>	<u>901,698</u>	<u>27,291</u>
	\$ <u><u>(28,531)</u></u>	<u><u>(905)</u></u>	<u><u>881,079</u></u>	<u><u>26,667</u></u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

The deferred income tax benefits were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ (1,960,521)	(62,199)	1,795,822	54,353
Investment tax credits	177,853	5,642	74,015	2,240
Unrealized exchange losses (gains)	4,084	129	(1,482)	(45)
Provision for loss on inventory market price decline	166,155	5,271	20,055	607
Purchase of fixed assets in installments, adjusted for tax purposes	(31,241)	(991)	(22,879)	(692)
Accrued employee retirement liabilities	(27,642)	(877)	(29,157)	(883)
Unrealized losses (gains) on financial instruments	(113,654)	(3,605)	(1,014,797)	(30,714)
Effect of change in income tax rate on valuation allowance for deferred income tax assets	(914,212)	(29,004)	(1,371,765)	(41,518)
Others	170,405	5,406	(4,892)	(148)
Valuation allowance for deferred income tax assets	<u>2,528,773</u>	<u>80,228</u>	<u>1,456,778</u>	<u>44,091</u>
	\$ <u>-</u>	<u>-</u>	<u>901,698</u>	<u>27,291</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

- (2) According to the announcement of the revised ROC Income Tax Act on May 27, 2009, the Company is subject to an income tax rate of 20% commencing in 2010. Also, according to the announcement of the latest revised ROC Income Tax Act on June 15, 2010, the income tax rate will be decreased from 20% to 17% commencing in 2010. Therefore, for the year ended December 31, 2010 and 2009, the Company was subject to ROC income tax at a maximum rate of 17% and 25%, respectively, and calculated the amounts of the basic tax in accordance with the "Income Basic Tax Act." The differences between expected income tax benefit at statutory rates and income tax benefit (expense) as reported in the accompanying financial statements for the year ended December 31, 2010 and 2009, were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Income tax benefits calculated on pre-tax financial loss at statutory income tax rate	\$ (2,047,695)	(64,965)	931,333	28,188
Gain on disposal of investments	1,291	41	1,605	48
Investment income recognized under equity method—unrealized	179,383	5,691	69,544	2,105
Dividend income	5,586	177	(28,481)	(862)
Increase in investment tax credits	210,580	6,681	47,168	1,428
Exchange losses recorded as translation adjustments	(19,330)	(613)	4,501	136
Effect of change in statutory income tax rate	(914,212)	(29,004)	(1,523,687)	(46,116)
Others	27,093	859	(77,682)	(2,351)
Valuation allowance for deferred income tax assets	<u>2,528,773</u>	<u>80,228</u>	<u>1,456,778</u>	<u>44,091</u>
	\$ <u>(28,531)</u>	<u>(905)</u>	<u>881,079</u>	<u>26,667</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(3) The components of the deferred income tax assets (liabilities) as of December 31, 2010 and 2009, were as follows:

	2010				2009			
	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	\$ 3,605,418	123,770	612,921	21,041	2,628,035	82,049	525,607	16,410
Unused investment tax credits	1,253,630	43,036	1,253,630	43,036	259,139	8,091	259,139	8,091
Unused loss carryforwards	3,367,000	115,585	572,390	19,649	-	-	-	-
Unrealized exchange losses	64,265	2,206	10,925	375	40,240	1,256	8,048	251
Unrealized losses on financial instruments	-	-	-	-	668,550	20,873	133,710	4,174
Others	3,041	104	<u>517</u>	<u>18</u>	286,420	8,942	<u>57,284</u>	<u>1,788</u>
			2,450,383	84,119			983,788	30,714
Less: Valuation allowance for deferred income tax assets			<u>(1,239,736)</u>	<u>(42,559)</u>			<u>(784,746)</u>	<u>(24,500)</u>
Deferred income tax assets, net – current			\$ <u>1,210,647</u>	<u>41,560</u>			<u>199,042</u>	<u>6,214</u>
Deferred income tax assets (liabilities) – noncurrent:								
Unused investment tax credits	\$ 1,773,258	60,874	1,773,258	60,874	\$ 2,589,896	80,858	2,589,896	80,858
Accrued employee retirement liabilities	(255,106)	(8,756)	(43,368)	(1,489)	(92,505)	(2,888)	(18,501)	(578)
Purchase of fixed assets in installments, adjusted for tax purposes	2,878,906	98,830	489,414	16,801	3,062,675	95,619	612,535	19,124
Unused loss carryforwards	8,377,127	287,577	1,424,112	48,888	23,276,609	726,713	4,655,321	145,342
Cumulative translation adjustments	4,282,759	147,022	728,069	24,994	529,790	16,541	105,958	3,308
Others	2,505,341	86,006	<u>425,908</u>	<u>14,621</u>	638,140	19,923	<u>127,628</u>	<u>3,985</u>
			4,797,393	164,689			8,072,837	252,039
Less: Valuation allowance for deferred income tax assets			<u>(1,464,397)</u>	<u>(50,271)</u>			<u>(4,448,160)</u>	<u>(138,874)</u>
Deferred income tax assets, net – noncurrent			\$ <u>3,332,996</u>	<u>114,418</u>			<u>3,624,677</u>	<u>113,165</u>

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

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of December 31, 2010, unused investment tax credits available to the Company were as follows:

Year granted	Unused investment tax credits		Expiry year
	NT dollars	US dollars	
2007	\$ 1,253,630	43,036	2011
2008	621,622	21,340	2012
2009	<u>1,151,636</u>	<u>39,534</u>	2013
	\$ <u>3,026,888</u>	<u>103,910</u>	

- (5) The Company's income tax returns have been examined by the local tax authorities through 2008. According to a new amendment to the Income Tax Act, the loss carryforward tax credit period is extended from 5 years to 10 years. As of December 31, 2010, unused loss carryforward tax credits available to the Company were as follows:

Year	Unused loss carryforward		Expiry year
	NT dollars	US dollars	
2008	\$ 3,367,000	115,585	2018
2009	<u>8,377,127</u>	<u>287,577</u>	2019
	\$ <u>11,744,127</u>	<u>403,162</u>	

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

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Unappropriated earnings before 1997	\$ -	-	-	-
Unappropriated earnings after 1998	<u>12,016,736</u>	<u>381,242</u>	<u>(2,915,074)</u>	<u>(111,306)</u>
	\$ <u>12,016,736</u>	<u>381,242</u>	<u>(2,915,074)</u>	<u>(111,306)</u>
ICA	\$ <u>1,035,572</u>	<u>35,550</u>	<u>900,664</u>	<u>28,119</u>

Creditable ratio for earnings distribution to domestic shareholders	2010	2009
	<u>8.62%</u> (estimated)	<u>-</u> (actual)

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(n) Stockholders' equity

(1) Common stock

As of December 31, 2010 and 2009, the Company's authorized share capital consisted of 4,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 2,962,677 thousand shares, were issued and outstanding.

On June 16, 2009, the Company's stockholders approved a resolution to make up the accumulated deficit by capital reduction amounting to NT\$16,800,000 (US\$509,863). On August 14, 2009, the board of directors approved a cash subscription amounting to NT\$7,000,000 (US\$213,025) by issuing 700,000 thousand shares at NT\$10.6 per share. The aforementioned capital reduction and cash subscription were approved by and registered with the government authorities.

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

The details of capital surplus as of December 31, 2010 and 2009, were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Cash subscription in excess of par value of shares	\$ 29,672	1,008	2,934,333	96,756
Share options granted to employees	282,100	8,585	282,100	8,585
Additional paid-in capital from bond conversion	1,411,829	43,699	1,422,243	44,001
Gain on disposal of property, plant and equipment of investee company	1,668	53	1,668	53
Increase in net equity due to investee company issuing new shares and the Company not purchasing proportionately	50,318	1,531	50,318	1,531
Increase in net equity due to change in percentage of ownership in long-term investments under equity method	225,369	7,161	225,363	7,161
Donated assets	<u>648,480</u>	<u>20,588</u>	<u>648,480</u>	<u>20,588</u>
	\$ <u>2,649,436</u>	<u>82,625</u>	<u>5,564,505</u>	<u>178,675</u>

The ROC Company Act stipulates that realized capital surplus should not be credited to capital except for making up deficiencies of the Company. The realized capital surplus includes the premiums from issuance of shares in excess of par value and gifts received. In addition, the capital surplus which is credited to capital should not exceed 10 percent of the amount of paid-in capital in one year in accordance with the "Criteria Governing the Offering and Issuance of Securities by Securities Issuers".

The ROC Company Act stipulates that the Company must retain 10% of its annual earnings, as defined in the Act, until such retention equals the amount of authorized share capital. This

(Continued)

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

retention is accounted for by transfers to legal reserve, upon approval at the stockholders' meeting. Legal reserve may be used to offset an accumulated deficit and cannot be distributed as cash dividends to stockholders. However, one-half of legal reserve may be converted to share capital when it reaches an amount equal to one-half of issued share capital, upon approval by the Company's stockholders.

The Company's articles of incorporation stipulate that the Company must appropriate employees' bonuses of not less than 1% of estimated earnings of each year, and less than 5% of estimated earnings of each year for remuneration of directors and supervisors. Such appropriations can only be made after offsetting accumulated deficit, and appropriation of legal reserve, and appropriation of special reserve from unappropriated earnings at an amount equal to the net debit balance of those accounts in stockholders' equity.

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.

For the year ended December 31, 2010, the Company recognize the amount of employee bonus and directors' and supervisors' remuneration, NT\$100,000 (US\$3,173) and NT\$53,000 (US\$1,681), respectively. According to the Interpretation (96) 052 issued by meeting and these amounts recognized in the financial statements, if any, will be accounted for as changes in accounting estimates and recognized in profit or loss in the following year. The appropriation for the 2010 employee bonuses and directors' and supervisors' remuneration is subject to the resolutions of the Company's directors and stockholders. Moreover, the Company did not estimate stockholders' bonuses, employees' bonuses, and directors' and supervisors' remuneration for the year ended December 31, 2009 because of the accumulated deficit.

Information related to the appropriation of employee bonuses and remuneration for directors and supervisors can be found on web sites such as the Market Observation Post System after the stockholders' meeting.

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

On June 16, 2009, the Company's stockholders resolved to make up deficiencies from legal reserve of NT\$18,864 (US\$586) and from a decrease in capital of NT\$16,800,000 (US\$509,863). Therefore, the Company did not appropriate dividends, employees' bonuses, and directors and supervisors' remuneration.

(3) Cumulative translation adjustments

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

According to the accounting treatment of note 2(d), the cumulative translation adjustments had a debit balance of NT\$3,559,198 (US\$122,183) and a credit balance of NT\$393,486 (US\$12,285) as of December 31, 2010 and 2009, respectively.

(o) Earnings (Loss) per share

For the years ended December 31, 2010 and 2009, earnings (losses) per share were calculated as follows:

	NT dollars 2010		US dollars 2010		NT dollars 2009		US dollars 2009	
	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 (losses) earnings per share:								
Net income (loss)	\$ <u>12,045,267</u>	<u>12,016,736</u>	<u>382,147</u>	<u>381,242</u>	<u>(3,725,333)</u>	<u>(2,844,254)</u>	<u>(112,752)</u>	<u>(86,085)</u>
Weighted-average number of shares outstanding during the year (thousand shares)	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,496,011</u>	<u>2,496,011</u>	<u>2,496,011</u>	<u>2,496,011</u>
Basic EPS (dollars)	\$ <u>4.07</u>	<u>4.06</u>	<u>0.13</u>	<u>0.13</u>	<u>(1.49)</u>	<u>(1.14)</u>	<u>(0.05)</u>	<u>(0.03)</u>
Diluted (losses) earnings per share:								
Net income (loss) for calculating diluted EPS	\$ <u>12,045,267</u>	<u>12,016,736</u>	<u>382,147</u>	<u>381,242</u>				
Weighted-average number of shares outstanding during the year (thousand shares)	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>	<u>2,962,677</u>				
Employees' bonus that may be settled in shares (thousand shares)	<u>2,717</u>	<u>2,717</u>	<u>2,717</u>	<u>2,717</u>		(note)		
Weighted-average number of shares outstanding for calculating diluted EPS (thousand shares)	<u>2,965,394</u>	<u>2,965,394</u>	<u>2,965,394</u>	<u>2,965,394</u>				
Diluted EPS (dollars)	\$ <u>4.06</u>	<u>4.05</u>	<u>0.13</u>	<u>0.13</u>				

(note) The Company did not calculate the diluted EPS due to the net loss in the year of 2009.

(p) Hedge accounting

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

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of December 31, 2010 and 2009, the cash flow hedging items and derivative financial hedging instruments were as follows:

Hedged item	Hedging instrument	Fair value of assigned hedging instrument				Period of generating cash flow	Account
		2010		2009			
		NT dollars	US dollars	NT dollars	US dollars		
Floating price of fuel	Fuel option agreements	\$ -	-	(897,196)	(28,011)	2009~2010	Derivative financial liabilities for hedge purposes—current

As of December 31, 2010 and 2009, the unrealized valuation loss on financial instruments due to hedging of cash flow amounted to NT\$0 (US\$0) and NT\$897,196 (US\$28,011), respectively, recorded under stockholders' equity.

(q) Disclosure of financial instruments

(1) Fair value of financial instruments

The details of financial instruments as of December 31, 2010 and 2009, were as follows:

	2010					
	Book value	NT dollars		Book value	US dollars	
		Public quote value	Assessment value		Public quote value	Assessment value
Financial assets:						
Cash and cash equivalents	\$ 14,145,427	-	14,145,427	485,597	-	485,597
Notes and accounts receivable (including receivables from related parties)	7,862,263	-	7,862,263	269,902	-	269,902
Other receivables (including receivables from related parties)	150,458	-	150,458	5,165	-	5,165
Available-for-sale financial assets—current	1,943,977	1,943,977	-	66,735	66,735	-
Available-for-sale financial assets—noncurrent—stock	802,839	802,839	-	27,560	27,560	-
Available-for-sale financial assets—noncurrent—Treasury notes	188,292	188,292	-	6,464	6,464	-
Financial assets carried at cost—noncurrent	2,251,437	-	-	77,289	-	-
Other assets	718,076	-	718,076	24,651	-	24,651
Financial liabilities:						
Accounts payable (including payable from related parties)	4,063,161	-	4,063,161	139,484	-	139,484
Accrued expenses	7,234,011	-	7,234,011	248,335	-	248,335
Other payable (including payable from related parties)	204,893	-	204,893	7,034	-	7,034
Bonds payable (including current portion)	9,000,000	2,015,043	7,032,803	308,959	69,174	241,428
Long-term borrowings (including current portion)	45,994,157	-	45,994,157	1,578,928	-	1,578,928
Installment accounts payable	18,929,201	-	19,202,199	649,818	-	659,190

(Continued)

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

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

- i) The maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable/payable (including related parties), other receivables (including related parties), other assets, short-term borrowings, accrued expenses, and other payables (including related parties), are within one year of the balance sheet date, and therefore, their book value is equal to their fair value.
- ii) If public quoting of financial assets and liabilities is available, the quote price will be the fair value. If market value is not available, an assessment method will be used. The assumptions used should be the same as those used by the financial market traders when quoting their prices.
- iii) The assessed value of bonds payable, long-term borrowings, installment accounts payable and lease liability is the discounted future cash flows, and the discount rates during the years ended December 31, 2010 and 2009, were 0.25%~6.77% and 0.28%~6.93% p.a., respectively.
- iv) The fair value of letters of credit is based on the amount of the contract.
- v) The fair value of guaranteed borrowings is based on the amount of the contract.

(3) For the years ended December 31, 2010 and 2009, the evaluation gain or loss on financial assets at fair value through profit or loss amounted to gains of NT\$5,151 (US\$164) and losses of NT\$638,026 (US\$19,311), respectively.

(4) Disclosure of financial risks

(i) Market risk

As of December 31, 2010 and 2009, the bonds payable, installment accounts payable, and lease liability with the risk arising from floating interest rates amounted to NT\$16,622,697 (US\$570,638) and NT\$22,251,251 (US\$694,700), respectively.

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

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

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(ii) Credit risk**

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

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

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

(iii) Liquidity risk

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

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

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

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

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

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

As of December 31, 2010 and 2009, the financial liabilities with the risk arising from floating interest rates amounted to NT\$69,094,065 (US\$2,371,921) and NT\$76,351,395 (US\$2,383,746), respectively.

5. Transactions with Related Parties

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(a) Name and relationship of related parties

Name	Relationship with the Company
Evergreen Marine Corp.	Major shareholder
Evergreen International Corp.	Major shareholder
Falcon Investment Services Ltd.	Major shareholder
Evergreen International Storage & Transport Corp.	Major shareholder
Evergreen Airline Services Corp.	Subsidiary
Evergreen Sky Catering Corp.	Subsidiary
Evergreen Aviation Technologies Corp.	Subsidiary
Evergreen Air Cargo Services Corp.	Subsidiary
Hsiang-Li Investment Corp.	Subsidiary
RTW Air Services (S) Pte. Ltd.	Subsidiary
Green Siam Air Services Co., Ltd.	Subsidiary
Evergreen Airways Service (Macau) Ltd.	Subsidiary
PT Perdana Andalan Air service	Subsidiary
Concord Pacific Ltd.	Subsidiary
SINO GAIN LIMITED	Subsidiary
Uni Airways Corp.	Investee company accounted for by equity method
Evergreen Security Corp.	Investee company accounted for by equity method
Evergreen Reinsurance Company Limited	Investee company of the Company's major shareholders
Greencompass Marine S.A.	Grand-investee company of the Company's major shareholders
Evergreen International S.A.	Investee company of the Company's shareholders
Shanghai Airlines Cargo International Co., Ltd.	Investee company of the Company's subsidiary
Chang Yung-Fa Charity Foundation	Director
Chang Yung-Fa Foundation	Its chairman being the Company's director
Directors, Supervisors, and Managers	The Company's directors, supervisors and major management

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(b) Significant transactions with related parties

(1) Revenue, cost and expenses

During the years ended December 31, 2010 and 2009, the Company's transactions with related parties were as follows:

Revenue	2010			2009		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Uni Airways Corp.	\$ 515,504	16,355	0.49	304,407	9,213	0.42
Evergreen Aviation Technologies Corp.	365,217	11,587	0.35	333,730	10,101	0.45
Shanghai Airlines Cargo International Co., Ltd	60,530	1,920	0.06	102,340	3,098	0.14
Evergreen International Corp.	41,835	1,327	0.04	26,198	793	0.04
Evergreen Air Cargo Services Corp.	15,912	505	0.02	1,960	59	-
Others	<u>3,648</u>	<u>116</u>	<u>-</u>	<u>4,417</u>	<u>134</u>	<u>0.01</u>
	\$ <u>1,002,646</u>	<u>31,810</u>	<u>0.96</u>	<u>773,052</u>	<u>23,398</u>	<u>1.06</u>

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

Cost	2010			2009		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen Aviation Technologies Corp.	\$ 4,783,273	151,754	5.71	2,905,394	87,936	4.14
Evergreen Sky Catering Corp.	1,140,946	36,198	1.36	962,750	29,139	1.37
Evergreen Airline Services Corp.	951,580	30,190	1.13	846,542	25,622	1.21
Uni Airways Corp.	671,454	21,302	0.80	636,466	19,264	0.91
Evergreen Air Cargo Services Corp.	285,774	9,066	0.34	201,008	6,084	0.29
Shanghai Airlines Cargo International Co., Ltd	220,018	6,980	0.26	83,111	2,515	0.12
Evergreen Reinsurance Company Limited	207,922	6,597	0.25	219,600	6,646	0.31
Others	<u>49,300</u>	<u>1,564</u>	<u>0.06</u>	<u>45,339</u>	<u>1,372</u>	<u>0.06</u>
	\$ <u>8,310,267</u>	<u>263,651</u>	<u>9.91</u>	<u>5,900,210</u>	<u>178,578</u>	<u>8.41</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Expenses	2010			2009		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen International Corp.	\$ 136,957	4,345	1.97	125,625	3,802	2.12
Uni Airways Corp.	86,936	2,758	1.25	40,608	1,229	0.69
Green Siam Air Services Co., Ltd.	72,606	2,304	1.04	58,075	1,758	0.98
RTW Air Services (S) Pte. Ltd.	50,521	1,603	0.73	25,988	786	0.44
Evergreen Security Corp.	41,682	1,322	0.60	40,229	1,218	0.68
PT Perdana Andalan Air Service	38,944	1,236	0.56	25,477	771	0.43
Evergreen Airline Services Corp.	28,150	893	0.40	27,072	819	0.46
Evergreen Sky Catering Corp.	22,673	719	0.33	7,526	228	0.13
Evergreen Aviation Technologies Corp.	8,045	255	0.12	12,212	370	0.21
Others	<u>101,560</u>	<u>3,222</u>	<u>1.45</u>	<u>1,069</u>	<u>32</u>	<u>0.02</u>
	\$ <u>588,074</u>	<u>18,657</u>	<u>8.45</u>	<u>363,881</u>	<u>11,013</u>	<u>6.16</u>

Evergreen International Storage & Transport Corp. provides public transportation services. There were no differences on the services and prices between the related parties and non-related parties. Therefore, the expenses were recorded but not disclosed.

The Company sold spare parts to Evergreen Aviation Technologies Corp. amounting to NT\$438,716 (US\$13,919) and NT\$153,887 (US\$4,658) for the years ended December 31, 2010 and 2009, respectively.

Evergreen Aviation Technologies Corp. provides maintenance services for aircraft and engines for the Company. As of December 31, 2010 and 2009, the aforementioned balance amounted to NT\$2,707,252 (US\$92,937) and NT\$1,629,231 (US\$50,866), respectively, recorded under differed charges.

(2) Financing from related parties

The Company engaged in financings from Evergreen International Corp. and certain related parties. The interest expense was calculated based on floating rates. For the year ended December 31, 2009, the maximum balance and the interest expense were NT\$8,729,942 (US\$272,555) and NT\$97,270 (US\$2,944), respectively. As of December 31, 2009, the aforementioned financings had been redeemed.

There was no such transaction in 2010.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(3) Property transaction

The Company sold two aircraft for US\$97,067 to SINO GAIN LIMITED on November 27, 2009, and immediately bought them back by installments. There were no gains or losses on disposal recorded for this sale and buyback transaction. As for the years ended December 31, 2010, and 2009 installment payments amounted to NT\$1,420,088 (US\$48,750) and NT\$2,081,950 (US\$65,000), respectively, recorded under installment accounts payable.

(4) Endorsement and guarantees

As of December 31, 2010, and 2009, the details of guarantees to related parties were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
SINO GAIN LIMITED	\$ <u>1,420,088</u>	<u>48,750</u>	<u>2,081,950</u>	<u>65,000</u>

(5) The abovementioned transactions with related parties were made with no significant difference from those with non-related parties, but sometimes the payments were overdue. Receivables and payables as of December 31, 2010 and 2009, resulting from the aforementioned transactions were as follows:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Accounts receivable—related parties:				
Uni Airways Corp.	\$ 138,108	4,741	73,829	2,305
Evergreen Aviation Technologies Corp.	27,782	954	39,930	1,247
Shanghai Airlines Cargo International Co., Ltd	19,064	654	45,108	1,408
Evergreen International Corp.	3,308	114	3,145	98
Others	<u>2,277</u>	<u>78</u>	<u>956</u>	<u>30</u>
	\$ <u>190,539</u>	<u>6,541</u>	<u>162,968</u>	<u>5,088</u>
Other receivables—related parties:				
Uni Airways Corp.	\$ 36,825	1,264	56,972	1,779
Shanghai Airlines Cargo International Co., Ltd	29,878	1,026	102,747	3,208
Evergreen Aviation Technologies Corp.	7,655	263	10,928	341
Others	<u>562</u>	<u>19</u>	<u>15,332</u>	<u>478</u>
	74,920	2,572	185,979	5,806
Less: credit to long-term equity investments under equity method	<u>-</u>	<u>-</u>	<u>(80,056)</u>	<u>(2,499)</u>
	\$ <u>74,920</u>	<u>2,572</u>	<u>105,923</u>	<u>3,307</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Note: As of December 31, 2010 and 2009, the overdue accounts receivable transferred to other receivables. The aging for the abovementioned overdue accounts receivable is shown below:

2010								
Aging for overdue accounts receivable								
NT dollars					US dollars			
Name	Amount	Over 1-6 months	Over 7-12 months	Over one year	Amount	Over 1-6 months	Over 7-12 months	Over one year
Shanghai Airlines Cargo International Co., Ltd.	\$ 28,755	16,112	2,303	10,340	987	553	79	355

2009								
Aging for overdue accounts receivable								
NT dollars					US dollars			
Name	Amount	Over 1-6 months	Over 7-12 months	Over one year	Amount	Over 1-6 months	Over 7-12 months	Over one year
Shanghai Airlines Cargo International Co., Ltd.	\$ 96,345	43,098	31,565	21,682	3,008	1,346	985	677

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Accounts payable—related parties:				
Evergreen Aviation Technologies Corp.	\$ 1,892,867	64,980	585,669	18,285
Evergreen Sky Catering Corp.	177,885	6,107	179,214	5,595
Evergreen Airline Services Corp.	164,878	5,660	148,683	4,642
Uni Airways Corp.	82,979	2,848	47,125	1,471
Shanghai Airlines Cargo International Co., Ltd.	54,880	1,884	15,756	492
Evergreen Air Cargo Services Corp.	53,385	1,833	57,447	1,794
Green Siam Air Services Co, Ltd.	12,172	418	13,583	424
RTW Air Services (S) Pte Ltd.	10,729	368	8,537	267
Evergreen International Corp.	9,757	335	8,943	279
Others	14,411	495	13,223	412
	\$ 2,473,943	84,928	1,078,180	33,661
Other payables—related parties:				
Evergreen Airline Services Corp.	\$ 78,873	2,708	60,571	1,891
Evergreen International Corp.	34,371	1,180	27,447	857
Uni Airways Corp.	15,861	544	12,063	377
Evergreen Air Cargo Services Corp.	8,391	288	8,653	270
Evergreen Aviation Technologies Corp.	8,056	277	33,784	1,055
Evergreen Security Corp.	3,766	129	3,663	114
Others	4,076	140	2,759	86
	\$ 153,394	5,266	148,940	4,650

(c) Summary of payroll and remuneration of the Company's directors, supervisors and major management

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

For the years ended December 31, 2010 and 2009, the related information about payroll and remuneration of major management, such as directors, supervisors and managers, received from the Company was as below:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Salaries	\$ 76,832	2,438	20,650	625
Bonus and extra payment	8,814	280	2,990	90
Employee bonus	183	6	-	-

For the details of the estimated remuneration of directors and supervisors and employee bonus, please see note 4(n).

6. Pledged Assets

The book values of the pledged assets as of December 31, 2010 and 2009, were as follows:

Pledged assets	Object	2010		2009	
		NT dollars	US dollars	NT dollars	US dollars
Land	Long-term borrowings	\$ 1,863,910	63,986	1,863,910	58,193
Buildings	Long-term borrowings	2,172,929	74,594	2,235,703	69,800
Aircraft	Long-term borrowings, Installment accounts payable	55,652,842	1,910,499	63,542,064	1,983,830
Simulators— included in machinery and equipment	Installment accounts payable	438,801	15,064	503,000	15,704
Engines-included in machinery and equipment	Long-term borrowings	2,733,104	93,824	3,103,851	96,904
Advances for purchases of equipment	Long-term borrowings	10,924,674	375,032	5,423,849	169,337
Time deposit— included in other assets	Customs duty and contract performance guaranties	718,076	24,651	989,434	30,891
Spare parts-included in inventories	Installment accounts payable	1,000,062	34,331	1,300,081	40,589
US treasury note-included in available-for-sale financial assets-noncurrent	Contract performance guaranties	188,292	6,464	261,401	8,161
		<u>\$ 75,692,690</u>	<u>2,598,445</u>	<u>79,223,293</u>	<u>2,473,409</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

7. Commitments and Contingencies

- (a) The Company entered into aircraft, and building lease contracts using the operating lease or capital lease method. As of December 31, 2010, the Company had paid NT\$1,487,169 (US\$51,053) as refundable deposits. According to these contracts, future lease payments in the following five years are as follows:

Year due	NT dollars	US dollars
January 1, 2011~December 31, 2011	\$ 7,083,959	243,184
January 1, 2012~December 31, 2012	6,494,691	222,955
January 1, 2013~December 31, 2013	6,048,614	207,642
January 1, 2014~December 31, 2014	6,025,420	206,846
January 1, 2015~December 31, 2015	5,799,220	199,081
And after	<u>11,580,155</u>	<u>397,534</u>
	\$ <u>43,032,059</u>	<u>1,477,242</u>

- (b) As of December 31, 2010, the details of guarantees to related parties are disclosed in note 5(b).
- (c) The Company is the subject of investigations by the related authorities of the United States, and these investigations are focused on air cargo competition and oil surcharges. The Company has been cooperating with the United States government and appointed a legal counsel in connection with these investigations. On December 31 2010, the investigations are ongoing, and the results are uncertain.

8. Important Damage Losses: none

9. Important Subsequent Events: none

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

10. Others

- (a) Total personnel expenses, depreciation and amortization for the years ended December 31, 2010 and 2009, were as follows:

		2010				
By function		NT dollars		US dollars		
By item	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Personnel expenses						
Salaries	\$ 3,322,531	2,833,038	6,155,569	105,410	89,881	195,291
Insurance	153,070	125,508	278,578	4,856	3,982	8,838
Pension	230,663	125,871	356,534	7,318	3,993	11,311
Others (meal allowances, etc)	1,123,244	175,227	1,298,471	35,636	5,559	41,195
Depreciation	8,024,318	135,160	8,159,478	254,579	4,288	258,867
Amortization	1,081,617	60,550	1,142,167	34,315	1,921	36,236
		2009				
By function		NT dollars		US dollars		
By item	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Personnel expenses						
Salaries	\$ 3,036,856	2,526,968	5,563,824	91,915	76,482	168,397
Insurance	130,167	118,481	248,648	3,940	3,586	7,526
Pension	169,604	119,262	288,866	5,133	3,610	8,743
Others (meal allowances, etc)	1,048,278	202,505	1,250,783	31,728	6,129	37,857
Depreciation	7,991,648	152,777	8,144,425	241,878	4,624	246,502
Amortization	1,142,363	97,215	1,239,578	34,575	2,942	37,517

- (b) Reclassification

Certain amounts in the financial statements for the year ended December 31, 2009, have been reclassified to conform with the presentations of the financial statements for the year ended December 31, 2010, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(c) The information of significant foreign currency of financial assets and liabilities.

Financial assets	Local Amount	2010.12.31	NT dollars	Local Amount	2009.12.31	NT dollars
		Exchange Rate			Exchange Rate	
Currency						
USD	\$ 114,709	29.1300	3,341,473	83,210	32.0300	2,665,230
EUR	3,596	38.8769	139,783	3,112	46.1200	143,522
JPY	465,946	0.3581	166,847	221,049	0.3474	76,784
HKD	248,237	3.7473	930,230	193,787	4.1305	800,437
CNY	848,713	4.4203	<u>3,751,594</u>	229,572	4.6920	<u>1,077,152</u>
			<u>8,329,927</u>			<u>4,763,125</u>
Long-term equity investment under equity method						
USD	14,799	29.1300	<u>431,098</u>	11,190	32.0300	<u>358,400</u>
Financial liabilities	Local Amount	2010.12.31	NT dollars	Local Amount	2009.12.31	NT dollars
Currency						
USD	189,845	29.1300	5,530,173	109,813	32.0300	3,517,315
EUR	7,361	38.8769	286,176	5,482	46.1200	252,814
JPY	1,597,227	0.3581	571,938	779,792	0.3474	270,868
HKD	26,543	3.7473	99,465	31,248	4.1305	129,070
CNY	107,039	4.4203	<u>473,149</u>	59,941	4.6920	<u>281,245</u>
			<u>6,960,901</u>			<u>4,451,312</u>

11. Segment Financial Information

(a) Diversified industry:

The Company mainly operates an international air transportation business.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(b) Geographic area information:

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Asia:				
Operating revenue	\$ <u>39,790,741</u>	<u>1,262,397</u>	<u>24,994,021</u>	<u>756,478</u>
Gain (loss) from operations	\$ <u>4,820,448</u>	<u>152,933</u>	<u>(961,916)</u>	<u>(29,114)</u>
Identifiable assets	\$ <u>816,677</u>	<u>28,036</u>	<u>951,546</u>	<u>29,708</u>
North America:				
Operating revenue	\$ <u>21,483,468</u>	<u>681,582</u>	<u>16,907,594</u>	<u>511,731</u>
Gain (loss) from operations	\$ <u>2,602,614</u>	<u>82,570</u>	<u>(650,703)</u>	<u>(19,694)</u>
Identifiable assets	\$ <u>133,152</u>	<u>4,571</u>	<u>274,405</u>	<u>8,567</u>
Other foreign areas:				
Operating revenue	\$ <u>6,151,949</u>	<u>195,176</u>	<u>5,482,715</u>	<u>165,942</u>
Gain (loss) from operations	\$ <u>745,278</u>	<u>23,644</u>	<u>(211,007)</u>	<u>(6,387)</u>
Identifiable assets	\$ <u>197,208</u>	<u>6,770</u>	<u>111,162</u>	<u>3,470</u>
Domestic:				
Operating revenue	\$ <u>36,983,853</u>	<u>1,173,345</u>	<u>25,895,181</u>	<u>783,752</u>
Gain (loss) from operations	\$ <u>4,480,408</u>	<u>142,145</u>	<u>(996,598)</u>	<u>(30,163)</u>
Identifiable assets	\$ <u>135,032,460</u>	<u>4,635,512</u>	<u>137,388,589</u>	<u>4,289,372</u>
Total operating revenue	\$ <u>104,410,011</u>	<u>3,312,500</u>	<u>73,279,511</u>	<u>2,217,903</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

	2010		2009	
	NT dollars	US dollars	NT dollars	US dollars
Income (loss) from operations	\$ 12,648,748	401,292	(2,820,224)	(85,358)
Investment income, net	1,055,194	33,477	278,177	8,420
General income	108,889	3,455	790,290	23,919
Interest expenses	<u>(1,767,564)</u>	<u>(56,077)</u>	<u>(1,973,576)</u>	<u>(59,733)</u>
Income (loss) before income tax	\$ <u>12,045,267</u>	<u>382,147</u>	<u>(3,725,333)</u>	<u>(112,752)</u>
Total identifiable assets	\$ 136,179,497	4,674,889	138,725,702	4,331,117
Long-term equity investments	<u>11,850,022</u>	<u>406,797</u>	<u>11,211,034</u>	<u>350,017</u>
Total assets	\$ <u>148,029,519</u>	<u>5,081,686</u>	<u>149,936,736</u>	<u>4,681,134</u>

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