

EVA AIRWAYS CORP.
Financial Statements
December 31, 2005 and 2004
(With Auditors' Report Thereon)

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The Board of Directors
EVA Airways Corp.:

We have audited the balance sheets of EVA Airways Corp. as of December 31, 2005 and 2004, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain non-consolidated investee companies. The Company's investments in these companies as of December 31, 2005 and 2004, were evaluated using the equity method, and the resulting book values of these investments amounted to NT\$2,325,362 thousand (US\$70,788 thousand) and NT\$2,204,586 thousand (US\$69,072 thousand), respectively. The resulting investment gains amounted to NT\$292,026 thousand (US\$9,078 thousand) and NT\$206,836 thousand (US\$6,192 thousand) for the years 2005 and 2004, 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 Republic of China generally accepted auditing standards and the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants". Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements of EVA Airways Corp. referred to in the first paragraph present fairly, in all material respects, the financial position of EVA Airways Corp. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with Republic of China generally accepted accounting principles.

February 24, 2006

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

EVA AIRWAYS CORP.

Balance Sheets

December 31, 2005 and 2004
(expressed in thousands of dollars)

Assets	2005		2004		Liabilities and Stockholders' Equity	2005		2004	
	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))	\$ 1,844,196	56,140	1,472,601	46,138	Short-term borrowings (notes 4(i) and 7)	\$ 2,400,000	73,059	1,600,000	50,130
Short-term investments (note 4(b))	2,713,075	82,590	5,350,027	167,623	Payable on commercial paper (note 4(i))	699,662	21,299	99,958	3,132
Notes receivable	390,325	11,882	397,163	12,444	Notes payable	247	8	242	7
Accounts receivable, net	8,019,968	244,139	7,260,497	227,481	Accounts payable	1,439,060	43,807	1,264,961	39,633
Accounts receivable—related parties (note 5)	30,486	928	46,888	1,469	Accounts payable—related parties (note 5)	898,053	27,338	1,032,424	32,347
Other receivables—related parties (note 5)	207,460	6,315	242,182	7,588	Tax payable	-	-	514,559	16,122
Other financial assets—current (notes 4(c) & (r))	784,532	23,882	239,662	7,509	Accrued expenses (note 4(r))	6,663,859	202,857	5,764,087	180,596
Inventories (note 4(d))	7,893,426	240,287	7,246,633	227,046	Other payables—related parties (note 5)	86,018	2,618	98,234	3,078
Prepaid expenses	2,788,747	84,893	2,468,125	77,329	Other payables (notes 4(l) & (m))	3,345,582	101,844	2,590,916	81,177
Other prepayments	722,793	22,003	288,614	9,043	Unearned revenue	8,290,712	252,381	7,430,350	232,802
Deferred income tax assets—current (note 4(o))	442,046	13,457	454,783	14,249	Current portion of long-term liabilities (notes 4(j) & (k), 6 and 7)	5,860,213	178,393	12,480,472	391,029
Other current assets (note 4(r))	679,796	20,694	295,264	9,251	Other current liabilities (note 4(r))	812,311	24,728	520,333	16,302
Total current assets	<u>26,516,850</u>	<u>807,210</u>	<u>25,762,439</u>	<u>807,170</u>	Lease liability—current (note 4(g))	879,098	26,761	578,659	18,130
Long-term equity investments (note 4(e)):					Total current liabilities	<u>31,374,815</u>	<u>955,093</u>	<u>33,975,195</u>	<u>1,064,485</u>
Long-term equity investments under equity method	7,176,435	218,461	6,714,935	210,387	Long-term liabilities:				
Long-term equity investments under cost method	4,108,961	125,082	4,067,360	127,436	Bonds payable (note 4(k))	8,383,754	255,213	6,973,154	218,478
Net long-term equity investments	<u>11,285,396</u>	<u>343,543</u>	<u>10,782,295</u>	<u>337,823</u>	Long-term borrowings (notes 4(j), 6 and 7)	17,907,532	545,131	11,679,522	365,934
Property, plant and equipment (notes 4(f) & (g), 6 and 7):					Other installments payable (note 4(l))	-	-	493,905	15,475
Land	1,869,784	56,919	1,869,784	58,583	Aircraft payable (note 4(m))	17,038,221	518,667	12,764,324	399,922
Buildings	4,391,446	133,682	4,391,446	137,590	Lease liability—noncurrent (note 4(g))	7,281,521	221,660	6,025,726	188,794
Machinery and equipment	4,119,563	125,405	3,691,019	115,644	Total long-term liabilities	<u>50,611,028</u>	<u>1,540,671</u>	<u>37,936,631</u>	<u>1,188,603</u>
Aircraft	65,254,586	1,986,441	64,036,748	2,006,352	Other liabilities:				
Rotable parts	337,390	10,270	429,547	13,458	Accrued employee retirement liabilities (note 4(n))	666,386	20,286	833,969	26,129
	75,972,769	2,312,717	74,418,544	2,331,627	Other liabilities (note 4(r))	1,853,713	56,429	1,850,989	57,994
Less: accumulated depreciation	(26,585,649)	(809,304)	(28,318,551)	(887,256)	Total other liabilities	<u>2,520,099</u>	<u>76,715</u>	<u>2,684,958</u>	<u>84,123</u>
Leased assets, net	8,203,509	249,726	6,602,359	206,860	Total liabilities	<u>84,505,942</u>	<u>2,572,479</u>	<u>74,596,784</u>	<u>2,337,211</u>
Construction in progress	4,868	148	4,868	152	Stockholders' equity (note 4(p)):				
Advances for purchases of equipment	10,351,219	315,106	7,785,375	243,926	Common stock	33,898,869	1,160,607	32,714,259	1,123,557
Net property, plant and equipment	<u>67,946,716</u>	<u>2,068,393</u>	<u>60,492,595</u>	<u>1,895,309</u>	Capital surplus	3,424,986	112,603	3,099,862	102,271
Other assets:					Retained earnings:				
Deferred pension cost (note 4(n))	163,770	4,985	191,064	5,986	Legal reserve	727,666	21,408	403,372	11,690
Refundable deposits (note 7)	15,669,779	477,010	15,130,480	474,057	Retained earnings	3,662,898	109,572	4,708,083	139,411
Deferred charges (note 4(h))	5,071,934	154,397	3,613,920	113,229	Total retained earnings	<u>4,390,564</u>	<u>130,980</u>	<u>5,111,455</u>	<u>151,101</u>
Deferred income tax assets—noncurrent (note 4(o))	1,295,471	39,436	955,811	29,947	Other stockholders' equity adjustments:				
Other assets (notes 4(r) and 6)	531,898	16,192	776,392	24,325	Deferred credit	192,631	5,864	334,275	10,144
Total other assets	<u>22,732,852</u>	<u>692,020</u>	<u>20,667,667</u>	<u>647,544</u>	Cumulative translation adjustments	2,291,327	(64,723)	2,067,954	(29,883)
					Net loss not yet recognized as net pension cost (note 4(n))	(222,505)	(6,644)	(219,593)	(6,555)
					Total other stockholders' equity adjustments	<u>2,261,453</u>	<u>(65,503)</u>	<u>2,182,636</u>	<u>(26,294)</u>
					Total stockholders' equity	<u>43,975,872</u>	<u>1,338,687</u>	<u>43,108,212</u>	<u>1,350,635</u>
					Commitments and contingencies (note 7)				
Total assets	<u>\$ 128,481,814</u>	<u>3,911,166</u>	<u>117,704,996</u>	<u>3,687,846</u>	Total liabilities and stockholders' equity	<u>\$ 128,481,814</u>	<u>3,911,166</u>	<u>117,704,996</u>	<u>3,687,846</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Operations

For the years ended December 31, 2005 and 2004
(expressed in thousands of dollars, except earnings per share)

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Operating revenue (note 5)	\$ 88,015,966	2,735,964	82,655,351	2,474,711
Operating cost (notes 4(r), 5 and 10)	<u>(80,795,304)</u>	<u>(2,511,511)</u>	<u>(71,114,492)</u>	<u>(2,129,176)</u>
Gross profit from operations	7,220,662	224,453	11,540,859	345,535
Operating expenses (notes 5 and 10)	<u>(6,808,750)</u>	<u>(211,649)</u>	<u>(6,825,502)</u>	<u>(204,357)</u>
Operating income	<u>411,912</u>	<u>12,804</u>	<u>4,715,357</u>	<u>141,178</u>
Non-operating income and gains:				
Interest income (note 4(r))	108,262	3,365	49,531	1,483
Investment income, net (note 4(e))	796,799	24,769	605,629	18,133
Gain on disposal of property, plant and equipment, net	763,659	23,738	14,211	425
Exchange gains, net	31,169	969	-	-
Other income	<u>811,196</u>	<u>25,216</u>	<u>452,754</u>	<u>13,556</u>
	<u>2,511,085</u>	<u>78,057</u>	<u>1,122,125</u>	<u>33,597</u>
Non-operating expenses and losses:				
Interest expenses, net of capitalized interest of NT\$315,476 thousand (US\$9,807 thousand) and NT\$140,923 thousand (US\$4,219 thousand) in 2005 and 2004, respectively (notes 4(f) & (r))	(1,749,587)	(54,386)	(1,937,289)	(58,003)
Exchange losses, net (note 4(r))	-	-	(173,839)	(5,205)
Other loss	<u>(36,719)</u>	<u>(1,141)</u>	<u>(43,725)</u>	<u>(1,309)</u>
	<u>(1,786,306)</u>	<u>(55,527)</u>	<u>(2,154,853)</u>	<u>(64,517)</u>
Income before income tax	1,136,691	35,334	3,682,629	110,258
Income tax benefit (expenses) (note 4(o))	<u>189,369</u>	<u>5,886</u>	<u>(439,694)</u>	<u>(13,164)</u>
Net income	<u>\$ 1,326,060</u>	<u>41,220</u>	<u>3,242,935</u>	<u>97,094</u>
Earnings per share (expressed in dollars) (note 4(q)):				
Basic earnings per share:				
Income before income tax	\$ <u>0.34</u>	<u>0.01</u>	<u>1.19</u>	<u>0.04</u>
Net income	\$ <u>0.39</u>	<u>0.01</u>	<u>1.05</u>	<u>0.03</u>
Diluted earnings per share:				
Income before income tax	\$ <u>0.32</u>	<u>0.01</u>	<u>1.08</u>	<u>0.03</u>
Net income	\$ <u>0.37</u>	<u>0.01</u>	<u>0.95</u>	<u>0.03</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2005 and 2004
(expressed in thousands of dollars)

	NT dollars							US dollars								
	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Total	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings	Deferred Credit	Cumulative Translation Adjustments	Net Loss Not Yet Recognized As Net Pension Cost	Total
Balance on December 31, 2003	\$ 27,534,330	2,599,741	263,754	2,764,841	193,865	4,989,232	(132,724)	38,213,039	970,537	87,450	7,636	80,054	5,745	(23,015)	(3,833)	1,124,574
Appropriation of earnings (note 4(p))																
Legal reserve	-	-	139,618	(139,618)	-	-	-	-	-	-	4,054	(4,054)	-	-	-	-
Stock dividends	1,121,073	-	-	(1,121,073)	-	-	-	-	32,551	-	-	(32,551)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	(10,000)	-	-	-	(10,000)	-	-	-	(290)	-	-	-	(290)
Employees' bonuses	-	-	-	(29,002)	-	-	-	(29,002)	-	-	-	(842)	-	-	-	(842)
Cash subscription	2,200,000	330,000	-	-	-	-	-	2,530,000	64,735	9,710	-	-	-	-	-	74,445
Convertible bonds converted into common stock	1,858,856	159,944	-	-	-	-	-	2,018,800	55,734	4,816	-	-	-	-	-	60,550
Transfer of interest-premium arising from conversion option exercised to capital surplus	-	6,685	-	-	-	-	-	6,685	-	192	-	-	-	-	-	192
Transfer of donated assets of investee company under equity method to capital surplus	-	30	-	-	-	-	-	30	-	1	-	-	-	-	-	1
Increase in net equity due to the change in percentage of ownership in long-term equity investments under equity method	-	3,462	-	-	-	-	-	3,462	-	102	-	-	-	-	-	102
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	-	20,429	20,429	-	-	-	-	-	-	640	640
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	-	(107,298)	(107,298)	-	-	-	-	-	-	(3,362)	(3,362)
Deferred credit	-	-	-	-	140,410	-	-	140,410	-	-	-	-	4,399	-	-	4,399
Net income for the year ended December 31, 2004	-	-	-	3,242,935	-	-	-	3,242,935	-	-	-	97,094	-	-	-	97,094
Translation adjustments for the year ended December 31, 2004	-	-	-	-	-	(2,921,278)	-	(2,921,278)	-	-	-	-	-	(6,868)	-	(6,868)
Balance on December 31, 2004	<u>32,714,259</u>	<u>3,099,862</u>	<u>403,372</u>	<u>4,708,083</u>	<u>334,275</u>	<u>2,067,954</u>	<u>(219,593)</u>	<u>43,108,212</u>	<u>1,123,557</u>	<u>102,271</u>	<u>11,690</u>	<u>139,411</u>	<u>10,144</u>	<u>(29,883)</u>	<u>(6,555)</u>	<u>1,350,635</u>
Appropriation of earnings (note 4(p)):																
Legal reserve	-	-	324,294	(324,294)	-	-	-	-	-	-	9,718	(9,718)	-	-	-	-
Stock dividends	329,230	-	-	(329,230)	-	-	-	-	9,866	-	-	(9,866)	-	-	-	-
Cash dividends	-	-	-	(1,646,147)	-	-	-	(1,646,147)	-	-	-	(49,330)	-	-	-	(49,330)
Directors' and supervisors' remuneration	-	-	-	(20,400)	-	-	-	(20,400)	-	-	-	(611)	-	-	-	(611)
Employees' bonuses	-	-	-	(51,174)	-	-	-	(51,174)	-	-	-	(1,534)	-	-	-	(1,534)
Convertible bonds converted into common stock	855,380	325,020	-	-	-	-	-	1,180,400	27,184	10,329	-	-	-	-	-	37,513
Transfer of donated assets of investee company under equity method to capital surplus	-	104	-	-	-	-	-	104	-	3	-	-	-	-	-	3
Increase in net equity due to recording net loss not yet recognized as net pension cost in long-term equity investments under equity method	-	-	-	-	-	-	(20,921)	(20,921)	-	-	-	-	-	-	(637)	(637)
Recognized net loss not yet recognized as net pension cost	-	-	-	-	-	-	18,009	18,009	-	-	-	-	-	-	548	548
Deferred credit	-	-	-	-	(141,644)	-	-	(141,644)	-	-	-	-	(4,280)	-	-	(4,280)
Net income for the year ended December 31, 2005	-	-	-	1,326,060	-	-	-	1,326,060	-	-	-	41,220	-	-	-	41,220
Translation adjustments for the year ended December 31, 2005	-	-	-	-	-	223,373	-	223,373	-	-	-	-	-	(34,840)	-	(34,840)
Balance on December 31, 2005	<u>\$ 33,898,869</u>	<u>3,424,986</u>	<u>727,666</u>	<u>3,662,898</u>	<u>192,631</u>	<u>2,291,327</u>	<u>(222,505)</u>	<u>43,975,872</u>	<u>1,160,607</u>	<u>112,603</u>	<u>21,408</u>	<u>109,572</u>	<u>5,864</u>	<u>(64,723)</u>	<u>(6,644)</u>	<u>1,338,687</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Statements of Cash Flows

For the years ended December 31, 2005 and 2004
(expressed in thousands of dollars)

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Cash flows from operating activities:				
Net income	\$ 1,326,060	41,220	3,242,935	97,094
Adjustments to reconcile net income to net cash flow provided by operating activities:				
Depreciation	4,436,701	137,914	4,567,296	136,745
Amortization and maintenance expense	1,215,966	37,798	1,159,289	34,709
Amortization expense recorded as interest	15,710	488	11,026	346
Gain on disposal of short-term investments	(106,340)	(3,306)	(114,037)	(3,414)
Loss (gain) on disposal and obsolescence of property, plant and equipment	(733,276)	(22,794)	19,785	592
Gain on disposal of long-term equity investments	-	-	(1,016)	(30)
Provision for unrealized exchange gain from long-term borrowings	(9,156)	(285)	(17,409)	(521)
Investment income	(796,799)	(24,769)	(605,629)	(18,133)
Amortization of deferred gain from sale and leaseback of fixed assets	(89,765)	(2,790)	(174,800)	(5,234)
Amortization of other deferred gain	(417,913)	(12,991)	(353,281)	(10,577)
Proceeds from cash dividends on long-term equity investments	158,139	4,916	116,606	3,491
Deferred income tax benefit	(326,923)	(10,162)	(100,220)	(3,001)
Decrease (increase) in notes receivable	6,838	213	(8,809)	(276)
Increase in accounts receivable (including related parties)	(743,069)	(23,098)	(1,515,408)	(47,480)
Decrease (increase) in other receivables (including related parties)	34,722	1,079	(38,354)	(1,202)
Increase in inventories	(646,643)	(20,101)	(259,990)	(8,146)
Increase in prepaid expenses	(320,622)	(9,966)	(788,236)	(24,696)
Decrease (increase) in other prepayments	(434,179)	(13,496)	77,094	2,415
Increase in other financial assets—current	(544,870)	(16,937)	(71,799)	(2,250)
Increase in other current assets	(38,927)	(1,210)	(22,112)	(693)
Increase (decrease) in tax payable	(514,559)	(15,995)	514,559	16,122
Increase in notes and accounts payable (including related parties)	39,733	1,235	380,407	11,919
Increase (decrease) in other payables (including related parties)	452,869	14,077	(537,572)	(16,843)
Increase in accrued expenses	899,772	27,969	866,019	27,133
Increase in unearned revenue	860,362	26,744	2,106,946	66,013
Increase in other current liabilities	291,978	9,076	97,058	3,041
Decrease in accrued employee retirement liabilities	(122,280)	(3,801)	(63,156)	(1,979)
Increase in other liabilities	225,640	7,014	180,137	5,644
Net cash provided by operating activities	<u>4,119,169</u>	<u>128,042</u>	<u>8,667,329</u>	<u>260,789</u>
Cash flows from investing activities:				
Decrease in short-term investments	2,743,292	85,275	1,007,213	31,557
Proceeds from disposal of long-term equity investments	-	-	2,599	81
Payments for purchase of long-term equity investments	(48,920)	(1,540)	(148,317)	(4,647)
Withdrawal of long-term equity investments, net	152,937	4,556	360,000	10,529
Proceeds from disposal of property, plant and equipment	3,869,120	120,271	4,396,665	137,753
Payments for purchase of property, plant and equipment	(5,848,186)	(181,790)	(6,037,833)	(189,173)
Decrease (increase) in refundable deposits and other assets	(24,979)	(776)	4,479	140
Increase in deferred charges	(2,689,891)	(83,615)	(1,784,716)	(55,917)
Net cash used in investing activities	<u>(1,846,627)</u>	<u>(57,619)</u>	<u>(2,199,910)</u>	<u>(69,677)</u>
Cash flows from financing activities:				
Increase in short-term borrowings	11,919,662	370,521	14,067,352	440,748
Increase in long-term borrowings	11,662,169	362,517	9,610,000	301,093
Redemption of short-term borrowings	(10,519,958)	(327,011)	(16,546,910)	(518,436)
Redemption of long-term borrowings	(9,480,175)	(294,690)	(11,983,723)	(375,465)
Installment payments for purchase of property, plant and equipment	(2,266,687)	(70,460)	(2,000,584)	(62,681)
Installment payments for purchase of inventories	(746,530)	(23,206)	(1,915,872)	(60,027)
Redemption of lease liability	(751,707)	(23,367)	(416,161)	(13,039)
Payments of cash dividends	(1,646,147)	(49,330)	-	-
Proceeds from issuance of common stock	-	-	2,530,000	74,445
Payment of employees' bonuses and directors' and supervisors' remuneration	(71,574)	(2,145)	(39,002)	(1,132)
Net cash used in financing activities	<u>(1,900,947)</u>	<u>(57,171)</u>	<u>(6,694,900)</u>	<u>(214,494)</u>
Effect of exchange rate changes on cash	-	(3,250)	-	19,488
Net increase (decrease) in cash and cash equivalents	371,595	10,002	(227,481)	(3,894)
Cash and cash equivalents at beginning of year	1,472,601	46,138	1,700,082	50,032
Cash and cash equivalents at end of year	<u>\$ 1,844,196</u>	<u>56,140</u>	<u>1,472,601</u>	<u>46,138</u>
Additional disclosure of cash flow information:				
Cash payments of interest (excluding capitalized interest expense)	\$ <u>1,560,229</u>	<u>48,500</u>	<u>1,892,176</u>	<u>56,652</u>
Cash payments of income tax	\$ <u>808,321</u>	<u>25,127</u>	<u>24,747</u>	<u>741</u>
Supplemental schedule of noncash investing and financing activities:				
Current portion of long-term borrowings	\$ <u>5,860,213</u>	<u>178,393</u>	<u>12,480,472</u>	<u>391,029</u>
Inventory transferred from fixed assets	\$ <u>150</u>	<u>5</u>	<u>3,175</u>	<u>99</u>
Translation adjustments	\$ <u>223,373</u>	<u>(34,840)</u>	<u>(2,921,278)</u>	<u>(6,868)</u>
Deferred credit	\$ <u>(141,644)</u>	<u>(4,280)</u>	<u>140,410</u>	<u>4,399</u>

See accompanying notes to financial statements.

EVA AIRWAYS CORP.

Notes to Financial Statements

December 31, 2005 and 2004

(amounts not otherwise specified are expressed in thousands of dollars)

1. Organization and Business Scope

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

(Continued)

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

- 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;
- 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 equipments;
- 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, 2005 and 2004, the Company had hired 5,098 and 4,934 employees, respectively.

2. Summary of Significant Accounting Policies

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

(a) Foreign currency transactions and translation

The Company maintains its books in New Taiwan dollars. Transactions negotiated and settled in foreign currencies are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date, and unrealized exchange gains or losses are reflected in the statement of operations.

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

(Continued)

EVA AIRWAYS CORP.**Notes to Financial Statements****(b) US dollar financial statement presentation**

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

(c) Translation of foreign currency for foreign operating units

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

The aircraft 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 translation differences resulting from the translation of the aircraft and the related US dollar loans into New Taiwan dollars at the exchange rate prevailing on the balance sheet date and historical rates are reported as cumulative translation adjustments. The aircraft stated in US dollars are depreciated by using the same method and the same useful lives, and the resulting US dollar depreciation amounts are translated into New Taiwan dollars at the current year's average exchange rate.

The lease assets and lease liability arising from capital lease of aircraft at the balance sheet date are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. The translation differences resulting from the translation of the aircraft at the exchange rate prevailing on the balance sheet date and historical rates are reported as cumulative translation adjustments. The leased aircraft stated in US dollars are depreciated by using the same method and the same useful lives, and the resulting US dollar depreciation amounts are translated into New Taiwan dollars at the current year's average exchange rate.

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

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

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

(Continued)

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

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35), "Accounting for Asset Impairment". In accordance with SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased.

The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

(f) Cash and cash equivalents

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

(g) Short-term investments

Short-term investments are stated at the lower of aggregate cost or market value on the balance sheet date. Cost is determined by using the weighted-average method.

(h) 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.

(i) Long-term equity investments

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

(Continued)

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

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

Stock dividends are not recognized as investment income but as an increase in the number of shares held. The cost of long-term equity investment sold is determined based on the weighted-average method.

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

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

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

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

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

(Continued)

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

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

(j) 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 related interest costs incurred prior to commencement of the use of such assets and includes such capitalized interest costs in the cost of related assets. Routine repair and maintenance are charged to current operations. Major repairs and maintenance, additions, enhancements and replacements are capitalized in the cost of related assets.

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

Buildings: 55 years

Machinery and equipment: 3~18 years

Aircraft: 18 years

Rotable parts: 5~18 years

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

(k) Lease

The Company sold and leased back aircraft under operating lease agreements. If the translation differences resulting from the translation 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 disposing of 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 they should be deferred using the unearned gain on sales-leaseback account according to ROC Statement of Financial Accounting Standards (SFAS) No. 2, "Accounting for Leases", otherwise they should be taken as a loss.

(Continued)

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

The Company sold and leased back aircraft under capital lease agreements. The disposal gains resulting from the differences between the US dollar selling price and the US dollar book value of the aircraft at the exchange rates prevailing on the selling date are deferred using the unearned gain on sales-leaseback account according to ROC SFAS No. 2, "Accounting for Leases", otherwise, if it is a disposal loss, it should be recognized as a loss.

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

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

All leased property under capital leases should be depreciated. If the lease contract contains a bargain purchase option or allows the transfer of ownership at the end of the term, then the depreciation should be determined based on the leased property's useful economic life. The lease term is used otherwise.

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

- a) If the value of the leased property is determined using the maximum borrowing rate for nonfinancial institutions (determined by the ROC Ministry of Finance) on the inception date of the lease, then the interest expense is equal to the beginning balance of the lease payable times the maximum borrowing rate.
- b) If the value of the leased property is determined by its market price, then the interest expense is still equal to the beginning balance of the lease payable times the maximum borrowing rate. However, a service charge should be calculated by multiplying the beginning balance of the lease payable by 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 should calculate 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 above two paragraphs.

(Continued)

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

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

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

(l) Deferred charges

Deferred charges principally include costs for computer software, leasehold improvements, trademarks, air flight route development, training of navigators, and "D" check maintenance for aircraft and engines. 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.

(m) Other financial assets

Other financial assets are financial assets other than cash and cash equivalents, accounts receivable and other receivables, long-term equity investments, and refundable deposits.

(n) Derivative financial instruments

1) Foreign currency forward contracts

The Company enters into foreign currency forward contracts to hedge foreign currency fluctuation risk in relation to foreign currency receivables and payables. These foreign currency forward contracts are translated into reporting currencies at the exchange rates prevailing on the balance sheet date, and the resulting translation differences are recorded as current exchange gains or losses. The differences between forward rates and spot rates, when forward contracts entered into, are recognized as exchange gains or losses during the contract period. The net amount of the foreign currency receivables and payables is recorded as other current assets or other current liabilities on the balance sheet.

2) Other derivative financial instruments

Derivatives are to be recognized as assets or liabilities on the balance sheet and measured at fair value. Change in the fair value of derivatives should be recognized either in net income or in deferred debit or credit (a separate component of stockholders' equity), depending on the designated purpose of the derivatives.

(Continued)

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

The Company has established an employee noncontributory defined benefit retirement plan (the "Plan") covering full-time employees in the Republic of China. 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 the 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 defined contribution plan:

- a) employees who originally adopted the Plan and opted to be subject to the pension mechanism under the New Act; or
- b) employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, the rate of 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.

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) Convertible bonds

The discount or premium on convertible bonds, which is measured as the difference between the issued price and par value, should be amortized over the period from issuance to maturity by using the interest method. The discount or premium on convertible bonds with a put option should be amortized over the period from its issuance date to the expiry date of the put option. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, should be amortized by using the interest method and recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option.

When the holder exercises the conversion option, the issuer should write off the unamortized discount or premium, issued costs, interest payable, pay-back interest from the holder, recognized interest-premium, and par value of the convertible bonds. The net written-off carrying amount of the convertible bonds over the par value of the common stock exchange certificate should be

(Continued)

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

recognized as additional paid-in capital.

If the holder of convertible bonds with a put option does not exercise the put option by the expiry date, the issuer should amortize the interest premium, which has been recognized as a liability, over the period from the expiry date to the maturity date by using the interest method. However, if the market price of exchangeable common stock is higher than the specified put price of the bond, the issuer should reclassify the interest-premium liability as additional paid-in capital.

(q) Revenue recognition

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

(r) Income tax

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

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.

(Continued)

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

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 when due.

(s) Earnings per share

The amount of earnings per share is 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. On the contrary, anti-dilutive potential common shares are ignored in calculating dilutive 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 shall be 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 (capitalization of retained earnings, additional paid-in capital, or employees' bonuses).

3. Reason for and Effect of Accounting Changes

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

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

4. The Important Accounts Are Listed Below

(a) Cash and cash equivalents

The components as of December 31, 2005 and 2004, are summarized below:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Cash on hand	\$ 90,548	2,756	69,278	2,170
Cash in bank	<u>1,753,648</u>	<u>53,384</u>	<u>1,403,323</u>	<u>43,968</u>
	<u>\$ 1,844,196</u>	<u>56,140</u>	<u>1,472,601</u>	<u>46,138</u>

(b) Short-term investments

The components as of December 31, 2005 and 2004, are summarized below:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Mutual funds	\$ <u>2,713,075</u>	<u>82,590</u>	<u>5,350,027</u>	<u>167,623</u>
Fair value	\$ <u>2,720,864</u>	<u>82,827</u>	<u>5,397,898</u>	<u>169,123</u>

(c) Other financial assets — current

The components as of December 31, 2005 and 2004, are summarized below:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Tax refund receivable	\$ 230,024	7,002	200,174	6,272
Non-operating revenues receivable	10,390	316	12,621	395
Other receivables	<u>544,118</u>	<u>16,564</u>	<u>26,867</u>	<u>842</u>
	<u>\$ 784,532</u>	<u>23,882</u>	<u>239,662</u>	<u>7,509</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(d) Inventories

The components as of December 31, 2005 and 2004, are summarized below:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft spare parts	\$ 8,705,281	265,001	8,312,905	260,454
Consumables for use and merchandise for sale during flight	467,002	14,216	400,846	12,559
Fuel for aircraft	63,593	1,936	35,887	1,124
Less: allowance for obsolete inventories	<u>(1,342,450)</u>	<u>(40,866)</u>	<u>(1,503,005)</u>	<u>(47,091)</u>
	<u>\$ 7,893,426</u>	<u>240,287</u>	<u>7,246,633</u>	<u>227,046</u>

The above inventories were fully insured.

(e) Long-term equity investments

Details as of and for the years ended December 31, 2005 and 2004, were as follows:

Investee	Shareholding percentage (%)	Book value		2005 Cost		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Accounted for by the equity method:							
Evergreen Airline Services Corp.	56.33	\$ 394,154	11,999	111,174	3,384	36,000	1,119
RTW Air Services (S) Pte. Ltd.	49.00	22,585	688	13,217	402	6,229	194
Green Siam Air Services Co., Ltd.	49.00	27,029	823	9,421	287	17,174	534
Evergreen Sky Catering Corp.	49.80	674,779	20,541	498,000	15,160	56,001	1,741
Evergreen Airways Service (Macau) Ltd.	99.00	762,254	23,204	326	10	197,370	6,135
Uni Airways Corp.	17.92	197,594	6,015	3,277,238	99,764	19,180	596
Evergreen Aviation Technologies Corp.	80.00	3,174,790	96,645	2,000,450	60,897	342,515	10,647
Evergreen Security Corp.	31.25	40,827	1,243	25,000	761	6,895	214
Evergreen Air Cargo Services Corp.	60.00	959,036	29,194	726,098	22,104	144,971	4,506
Hsiang-Li Investment Corp.	100.00	914,029	27,824	1,000,000	30,441	(35,112)	(1,091)
Uni Japan Co., Ltd.	49.50	1,689	51	1,820	55	473	15
PT Perdana Andalan Air Service	49.00	<u>7,669</u>	<u>234</u>	<u>2,566</u>	<u>78</u>	<u>5,103</u>	<u>159</u>
		<u>7,176,435</u>	<u>218,461</u>	<u>7,665,310</u>	<u>233,343</u>	<u>796,799</u>	<u>24,769</u>
Accounted for by the cost method:							
Publicly traded securities							
Trade-Van Information Services Co., Ltd.	5.85	94,490	2,876	94,490	2,876	-	-
Central Reinsurance Corp.	5.96	<u>358,703</u>	<u>10,920</u>	<u>358,703</u>	<u>10,920</u>	-	-
		<u>453,193</u>	<u>13,796</u>	<u>453,193</u>	<u>13,796</u>	-	-
Non-publicly traded securities							
Abacus International Holding Ltd.	2.11	115,743	3,523	102,233	3,112	-	-
Sun Shine Corp.	19.50	40,365	1,228	40,365	1,228	-	-
Taiwan High Speed Rail Corp.	1.21	1,250,000	38,052	1,250,000	38,052	-	-
Hsin-Tao Power Corp.	9.69	484,612	14,752	484,612	14,752	-	-
Technology Partner II Venture Capital Corp.	5.88	20,000	609	20,000	609	-	-

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Investee	Shareholding percentage (%)	Book value		2005 Cost		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Chung Hwa Express Co., Ltd.	10.00	\$ 20,000	609	20,000	609	-	-
Taiwan Fixed Network Corporation	1.30	840,000	25,571	840,000	25,571	-	-
Evergreen Development Corp.	9.47	870,000	26,484	870,000	26,484	-	-
Pan-Pacific Venture Capital Co., Ltd.	2.14	<u>15,048</u>	<u>458</u>	<u>15,048</u>	<u>458</u>	-	-
		<u>3,655,768</u>	<u>111,286</u>	<u>3,642,258</u>	<u>110,875</u>	-	-
		<u>4,108,961</u>	<u>125,082</u>	<u>4,095,451</u>	<u>124,671</u>	-	-
Total		\$ <u>11,285,396</u>	<u>343,543</u>	<u>11,760,761</u>	<u>358,014</u>	<u>769,799</u>	<u>24,769</u>

Investee	Shareholding percentage (%)	Book value		2004 Cost		Investment income (loss)	
		NT dollars	US dollars	NT dollars	US dollars	NT dollars	US dollars
Accounted for by the equity method:							
Evergreen Airline Services Corp.	56.33	\$ 388,721	12,179	111,174	3,483	51,468	1,541
RTW Air Services (S) Pte. Ltd.	49.00	19,546	612	13,217	414	4,557	136
Green Siam Air Services Co., Ltd.	49.00	24,253	760	9,421	295	15,215	456
Evergreen Sky Catering Corp.	49.80	656,626	20,573	498,000	15,603	66,940	2,004
Evergreen Airways Service (Macau) Ltd.	99.00	724,028	22,685	148,511	4,653	169,119	5,064
Uni Airways Corp.	17.92	194,067	6,080	3,277,238	102,680	(66,807)	(2,000)
Evergreen Aviation Technologies Corp.	80.00	2,837,181	88,892	2,000,450	62,677	282,123	8,447
Evergreen Security Corp.	31.25	33,932	1,063	25,000	784	3,186	95
Evergreen Air Cargo Services Corp.	60.00	886,065	27,762	726,098	22,750	132,133	3,956
Hsiang-Li Investment Corp.	100.00	949,140	29,738	1,000,000	31,331	(52,449)	(1,570)
Uni Japan Co., Ltd.	49.50	<u>1,376</u>	<u>43</u>	<u>1,820</u>	<u>57</u>	<u>144</u>	<u>4</u>
		<u>6,714,935</u>	<u>210,387</u>	<u>7,810,929</u>	<u>244,727</u>	<u>605,629</u>	<u>18,133</u>
Accounted for by the cost method:							
Publicly traded securities							
Trade-Van Information Services Co., Ltd.	5.85	94,491	2,961	94,491	2,961	-	-
Central Reinsurance Corp.	6.14	<u>312,349</u>	<u>9,786</u>	<u>312,349</u>	<u>9,786</u>	-	-
		<u>406,840</u>	<u>12,747</u>	<u>406,840</u>	<u>12,747</u>	-	-
Non-publicly traded securities							
Abacus International Holding Ltd.	2.11	115,743	3,626	102,233	3,202	-	-
Sun Shine Corp.	19.50	40,365	1,265	40,365	1,265	-	-
Taiwan High Speed Rail Corp.	1.40	1,250,000	39,164	1,250,000	39,164	-	-
Hsin-Tao Power Corp.	9.69	484,612	15,184	484,612	15,184	-	-
Technology Partner II Venture Capital Corp.	5.88	\$ 20,000	627	20,000	627	-	-
Chung Hwa Express Co., Ltd.	10.00	20,000	627	20,000	627	-	-
Taiwan Fixed Network Corporation	1.30	840,000	26,318	840,000	26,318	-	-
Evergreen Development Corp.	9.47	870,000	27,258	870,000	27,258	-	-
Pan-Pacific Venture Capital Co., Ltd.	1.50	<u>19,800</u>	<u>620</u>	<u>19,800</u>	<u>620</u>	-	-
		<u>3,660,520</u>	<u>114,689</u>	<u>3,647,010</u>	<u>114,265</u>	-	-
		<u>4,067,360</u>	<u>127,436</u>	<u>4,053,850</u>	<u>127,012</u>	-	-
Total		\$ <u>10,782,295</u>	<u>337,823</u>	<u>11,864,779</u>	<u>371,739</u>	<u>605,629</u>	<u>18,133</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Details of increases in long-term equity investments of the Company in 2005 and 2004 were as follows:

Investee	Unit: thousands of shares					
	Shares	2005 Amounts		Shares	2004 Amounts	
		NT dollars	US dollars		NT dollars	US dollars
Accounted for by the equity method:						
PT Perdana Andalan Air Service	39	\$ <u>2,566</u>	<u>81</u>	-	<u>-</u>	<u>-</u>
Accounted for by the cost method:						
Central Reinsurance Corp.	4,019	<u>46,354</u>	<u>1,459</u>	11,553	<u>148,317</u>	<u>4,647</u>
		\$ <u>48,920</u>	<u>1,540</u>		<u>148,317</u>	<u>4,647</u>

Details of selling long-term equity investments of the Company in 2005 and 2004 were as below:

Investee	Shares	2005			
		Cost		Gain (loss) on disposal of long-term investments	
		NT dollars	US dollars	NT dollars	US dollars
Accounted for by the equity method:					
Evergreen Airways Service (Macau) Ltd. (Note 1)		\$ <u>148,185</u>	<u>4,413</u>	<u>41,779</u>	<u>1,244</u>
Accounted for by the cost method:					
Pan-Pacific Venture Capital Co., Ltd. (Note 2)	432	<u>4,752</u>	<u>143</u>	<u>(432)</u>	<u>(13)</u>
		\$ <u>152,937</u>	<u>4,556</u>	<u>41,347</u>	<u>1,231</u>

Note 1: On November 30, 2005, Evergreen Airways Service (Macau) Ltd. decreased issued stock, and the Company withdrew NT\$189,964 thousand (US\$5,783 thousand). Exchange gain amounted to NT\$41,779 thousand (US\$1,299 thousand).

Note 2: On December 21, 2005, Pan-Pacific Venture Capital decreased issued stock by 24%, and the Company withdrew NT\$4,320 thousand (US\$132 thousand) in cash in proportion to the Company's ownership percentage, which caused losses amounting to NT\$432 thousand (US\$13 thousand).

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Unit: thousands of shares

Investee	Shares	Cost		2004 Gain on disposal of long-term investments	
		NT dollars	US dollars	NT dollars	US dollars
Accounted for by the cost method:					
Trade-Van Information Services Co., Ltd.	194	\$ 1,583	50	1,016	30
Taiwan Fixed Network Corporation (Note)	36,000	<u>360,000</u>	<u>10,529</u>	<u>-</u>	<u>-</u>
		<u>\$ 361,583</u>	<u>10,529</u>	<u>1,016</u>	<u>30</u>

Note: On August 15, 2004, Taiwan Fixed Network Corporation decreased issued stock by 30%, and the Company withdrew NT\$360,000 thousand (US\$10,529 thousand) in cash in proportion to the Company's ownership percentage.

(f) Property, plant and equipment

In 2005 and 2004, the Company capitalized the interest expenses on purchase of aircraft amounting to NT\$315,476 thousand (US\$9,807 thousand) and NT\$140,923 thousand (US\$4,219 thousand), respectively. The monthly interest rates on the above transactions were 0.25%~0.27% and 0.23%~0.25%, respectively.

As of December 31, 2005 and 2004, insurance coverage for property, plant and equipment, and inventories amounted to approximately NT\$51,823,727 thousand (US\$1,577,587 thousand) and NT\$56,284,500 thousand (US\$1,763,465 thousand), respectively.

(g) Lease assets

The details were as follows:

Lease item	Quantity	Lessor	Lease term	Terms of lease contract
Boeing 747 aircraft	4	GECAS	2004.4.13~ 2016.11.12	Pay rent monthly, and the lease term is equal to 75% or more of the total estimated economic life of the leased property
Engines	6	Taiwan Life Financing Co., Ltd.	2004.6.29~ 2011.6.28	Pay rent every three months, and the lease transfers ownership of the leased property by the end of the lease term
Computers	1	IBM	2004.7.25~ 2009.7.24	Pay rent monthly, and the lease transfers ownership of the leased property by the end of the lease term

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

Discount rate of leased assets	Present value of leased assets at the transaction date			
	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
1.18%~6.93%	\$ 8,748,540	266,318	6,426,010	201,335
1.76%	540,296	16,447	540,296	16,928
2.50%	41,844	1,274	41,844	1,311

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

As of December 31, 2005, the details of leased assets were as follows:

	NT dollars	US dollars
Aircraft	\$ 8,748,540	266,318
Engines	540,296	16,447
Computers	41,844	1,274
Less: accumulated depreciation	<u>(1,127,171)</u>	<u>(34,313)</u>
	\$ <u>8,203,509</u>	<u>249,726</u>

As of December 31, 2005, insurance coverage for leased assets amounted to approximately NT\$10,768,403 thousand (US\$327,805 thousand).

As of December 31, 2005, the book value and present value of lease liability were as follows:

Year due	NT dollars	US dollars
As of December 31, 2006	\$ 1,221,019	37,170
As of December 31, 2007	926,355	28,200
As of December 31, 2008	964,033	29,346
As of December 31, 2009	998,062	30,382
As of December 31, 2010	992,671	30,218
And after	<u>5,058,771</u>	<u>153,996</u>
Book value	10,160,911	309,312
Less: unrealized interest expenses	<u>(2,000,292)</u>	<u>(60,891)</u>
Present value	8,160,619	248,421
Less: current portion	<u>(879,098)</u>	<u>(26,761)</u>
	\$ <u>7,281,521</u>	<u>221,660</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

As of December 31, 2004, the details of leased assets were as follows:

	NT dollars	US dollars
Aircraft	\$ 6,426,010	201,335
Engines	540,296	16,928
Computers	41,844	1,311
Less: accumulated depreciation	<u>(405,791)</u>	<u>(12,714)</u>
	\$ <u>6,602,359</u>	<u>206,860</u>

As of December 31, 2004, insurance coverage for leased assets amounted to approximately NT\$8,273,054 thousand (US\$259,205 thousand).

As of December 31, 2004, the book value and present value of lease liability were as follows:

Year due	NT dollars	US dollars
As of December 31, 2005	\$ 917,925	28,760
As of December 31, 2006	850,243	26,639
As of December 31, 2007	785,879	24,623
As of December 31, 2008	745,976	23,372
As of December 31, 2009	740,701	23,207
And after	<u>4,738,715</u>	<u>148,470</u>
Book value	8,779,439	275,071
Less: unrealized interest expenses	<u>(2,175,054)</u>	<u>(68,147)</u>
Present value	6,604,385	206,924
Less: current portion	<u>(578,659)</u>	<u>(18,130)</u>
	\$ <u>6,025,726</u>	<u>188,794</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(h) Deferred charges

As of December 31, 2005 and 2004, deferred charges, net of amortization, consisted of the following:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Computer software	\$ 288,062	8,769	309,968	9,712
Leasehold improvements	1,874,462	57,061	718,569	22,514
Air flight route development cost	1,262	39	13,452	421
Navigator training costs	15,087	459	51,050	1,599
Major overhaul for aircraft and engines	2,482,515	75,571	2,323,639	72,803
Others	<u>410,546</u>	<u>12,498</u>	<u>197,242</u>	<u>6,180</u>
	<u>\$ 5,071,934</u>	<u>154,397</u>	<u>3,613,920</u>	<u>113,229</u>

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

Details were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Unsecured loans	\$ 2,400,000	73,059	1,600,000	50,130
Payable on commercial paper, net of prepaid interest of NT\$338 thousand (US\$10 thousand) for 2005 and NT\$42 thousand (US\$1 thousand) for 2004	<u>699,662</u>	<u>21,299</u>	<u>99,958</u>	<u>3,132</u>
	<u>\$ 3,099,662</u>	<u>94,358</u>	<u>1,699,958</u>	<u>53,262</u>

The interest expenses on the aforementioned short-term borrowings were calculated based on floating interest rates. For the years ended December 31, 2005 and 2004, the interest rates were 1.15%~1.48% and 0.90%~1.30%, respectively. As of December 31, 2005 and 2004, the unused credit lines amounted to approximately NT\$5,903,733 thousand (US\$179,718 thousand) and NT\$7,475,887 thousand (US\$234,229 thousand), respectively.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(j) Long-term borrowings

As of December 31, 2005 and 2004, the details of long-term borrowings were as follows:

Nature	Interest rate (%)	2005		Interest rate (%)	2004	
		NT dollars	US dollars		NT dollars	US dollars
Secured loans:						
Land and buildings	2.05~2.43	\$ <u>2,800,000</u>	<u>85,236</u>	2.25~4.50	<u>1,400,000</u>	<u>43,864</u>
Aircraft						
NT\$ loans	1.95~2.77	4,637,000	141,157	1.76~4.95	4,689,046	146,914
US\$ loans	2.70~5.47	<u>1,503,966</u>	<u>45,783</u>	1.95~3.58	<u>3,426,787</u>	<u>107,365</u>
		<u>6,140,966</u>	<u>186,940</u>		<u>8,115,833</u>	<u>254,279</u>
Simulators						
US\$ loans	2.58~4.71	<u>290,591</u>	<u>8,846</u>	1.59~2.11	<u>282,338</u>	<u>8,846</u>
		<u>290,591</u>	<u>8,846</u>		<u>282,338</u>	<u>8,846</u>
Subtotal		<u>9,231,557</u>	<u>281,022</u>		<u>9,798,171</u>	<u>306,989</u>
Unsecured loans:	1.55~4.62	<u>14,036,188</u>	<u>427,281</u>	1.25~6.50	<u>10,401,823</u>	<u>325,902</u>
Total		23,267,745	708,303		20,199,994	632,891
Less: current portion		<u>(5,360,213)</u>	<u>(163,172)</u>		<u>(8,520,472)</u>	<u>(266,957)</u>
		\$ <u>17,907,532</u>	<u>545,131</u>		<u>11,679,522</u>	<u>365,934</u>

As of December 31, 2005, the remaining balances of the loans were due as follows:

Year due	NT dollars	US dollars
As of December 31, 2006	\$ 5,360,213	163,172
As of December 31, 2007	4,661,682	141,908
As of December 31, 2008	4,448,696	135,425
As of December 31, 2009	3,026,733	92,138
As of December 31, 2010	4,092,400	124,579
And after	<u>1,678,021</u>	<u>51,081</u>
	\$ <u>23,267,745</u>	<u>708,303</u>

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

As of December 31, 2005 and 2004, the unused credit lines for long-term borrowings amounted to NT\$900,000 thousand (US\$27,397 thousand) and NT\$2,600,000 thousand (US\$81,461 thousand), respectively. The pledges for long-term borrowings are disclosed in note 6.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(k) Bonds payable

Details of bonds payable as of December 31, 2005 and 2004, are as follows:

	Description	Annual interest rate	Issue date	2005		2004	
				NT dollars	US dollars	NT dollars	US dollars
Bonds payable	Farmers Bank	5.525%	2000.01	\$ -	-	160,000	5,013
	Bank of Taiwan	5.525%	2000.01	-	-	400,000	12,532
Bonds payable	Shanghai Commercial & Savings Bank	5.470%	2000.07	-	-	300,000	9,399
	Chinatrust Commercial Bank	5.480%	2000.07	-	-	500,000	15,666
	Bank of Panhsin	5.640%	2000.07	-	-	300,000	9,399
	Chinatrust Commercial Bank	5.530%	2000.07	-	-	500,000	15,666
Bonds payable	International Commercial Bank of China	5.250%	2000.12	-	-	500,000	15,666
	Cathay United Bank	5.250%	2000.12	-	-	500,000	15,666
	Bank of Taiwan	5.250%	2000.12	-	-	400,000	12,532
	Farmers Bank	5.250%	2000.12	-	-	400,000	12,532
Bonds payable	Taipei Fubon Bank	3.700%	2001.07	500,000	15,221	500,000	15,666
Bonds payable	Taiwan Cooperative Bank	Floating	2004.02	500,000	15,221	500,000	15,666
Bonds payable	Land Bank	2.25%	2004.07	500,000	15,221	500,000	15,666
	Chang Hwa Bank	2.25%	2004.07	500,000	15,221	500,000	15,666
	Taipei Fubon Bank	2.25%	2004.07	500,000	15,221	500,000	15,666
Bonds payable	Bank of Taiwan	2.110%	2005.01	500,000	15,221	-	-
	Taiwan Cooperative Bank	2.110%	2005.01	500,000	15,221	-	-
Bonds payable	Far-Eastern International Bank	1.850%	2005.08	500,000	15,221	-	-
	Shanghai Commercial & Savings Bank	1.850%	2005.08	500,000	15,221	-	-
	Chinatrust Commercial Bank	1.850%	2005.08	600,000	18,263	-	-
	Hua Nan Bank	1.850%	2005.08	500,000	15,221	-	-
Convertible bonds payable		0.00%	2004.08	<u>3,283,754</u>	<u>99,961</u>	<u>4,473,154</u>	<u>140,149</u>
Subtotal				8,883,754	270,434	10,933,154	342,550
Less: current portion				<u>(500,000)</u>	<u>(15,221)</u>	<u>(3,960,000)</u>	<u>(124,072)</u>
				\$ <u>8,383,754</u>	<u>255,213</u>	<u>6,973,154</u>	<u>218,478</u>

(Continued)

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

(1) Second convertible bonds payable

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

(i) Coupon rate: 0%

(ii) Issue period: From August 9, 2004, to August 8, 2009

(iii) Redemption: Except for the bonds that have already been redeemed, converted, or purchased and cancelled, the bonds can be redeemed on the fifth anniversary of the issue date at par value.

(iv) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 150% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the issue amount.

(v) Redemption at the option of the bondholders: The Company will, at the option of the bondholders, redeem such bond on the third anniversary of the issue date at par value.

(vi) Conversion

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

B) Conversion price:

The conversion price is set at NT\$14.50, which is a premium of 111% over the base price. The base price is defined as the average of the closing prices of the issuer's common shares traded on the Taiwan Stock Exchange for a period of 1, 3 or 5 trading days, whichever is chosen, immediately preceding but excluding the pricing date, which is July 26, 2004. The conversion price will be subject to adjustments in the event that any change occurs to the capital structure. As of December 31, 2005, the conversion price was NT\$13.67.

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EVA AIRWAYS CORP.

Notes to Financial Statements

(l) Other installments payable

The Company purchased aircraft spare parts by installments. As of December 31, 2005 and 2004, the details were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Installment amount payable	\$ 427,105	13,002	1,173,635	36,772
Less: current portion	<u>(427,105)</u>	<u>(13,002)</u>	<u>(679,730)</u>	<u>(21,297)</u>
	<u>\$ -</u>	<u>-</u>	<u>493,905</u>	<u>15,475</u>

The current portion of other installments payable was recorded as other payables. As of December 31, 2005, the remaining balances of other installments payable were due as follows:

Year due	NT dollars	US dollars
As of December 31, 2005	\$ <u>427,105</u>	<u>13,002</u>

The interest expenses of the aforementioned installments are calculated based on floating interest rates. For the years ended December 31, 2005 and 2004, the average interest rates were 2.33%~2.61% and 2.33%~3.19%, respectively.

(m) Aircraft payable

The Company purchased aircraft by installments. As of December 31, 2005 and 2004, the details were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Aircraft payable	\$ 19,453,463	592,191	14,656,281	459,200
Less: current portion	<u>(2,415,242)</u>	<u>(73,524)</u>	<u>(1,891,957)</u>	<u>(59,278)</u>
	<u>\$ 17,038,221</u>	<u>518,667</u>	<u>12,764,324</u>	<u>399,922</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

The current portion of aircraft payable was recorded as other payables. As of December 31, 2005, the remaining balances of the aircraft payables were due as follows:

Year due	NT dollars	US dollars
As of December 31, 2006	\$ 2,415,242	73,524
As of December 31, 2007	2,428,135	73,916
As of December 31, 2008	2,369,893	72,143
As of December 31, 2009	2,426,657	73,871
As of December 31, 2010	2,459,044	74,856
And after	<u>7,354,492</u>	<u>223,881</u>
	\$ <u>19,453,463</u>	<u>592,191</u>

The interest expenses of the aforementioned aircraft payable are calculated based on floating interest rates. For the years ended December 31, 2005 and 2004, the average interest rates were 2.06%~6.77% and 1.12%~6.77%, respectively. The pledges for the aircraft payable are disclosed at note 6.

(n) Retirement plans

Net retirement plan liabilities based on the actuarial computation at December 31, 2005 and 2004, are detailed as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Benefit obligation:				
Vested benefit obligation	\$ (66,876)	(2,035)	(86,487)	(2,710)
Nonvested benefit obligation	<u>(1,808,946)</u>	<u>(55,067)</u>	<u>(1,658,727)</u>	<u>(51,970)</u>
Accumulated benefit obligation	(1,875,822)	(57,102)	(1,745,214)	(54,680)
Projected effects of salary adjustments	<u>(268,833)</u>	<u>(8,184)</u>	<u>(237,964)</u>	<u>(7,456)</u>
Projected benefit obligation	(2,144,655)	(65,286)	(1,983,178)	(62,136)
Plan assets at fair value	<u>1,209,436</u>	<u>36,817</u>	<u>911,245</u>	<u>28,551</u>
Projected benefit obligation in excess of plan assets	(935,219)	(28,469)	(1,071,933)	(33,585)
Unrecognized net transition obligation	163,770	4,985	191,064	5,986
Unrecognized pension loss	456,691	13,902	443,831	13,906
Pension liabilities that need to be accrued	<u>(351,628)</u>	<u>(10,704)</u>	<u>(396,931)</u>	<u>(12,436)</u>
Accrued employee retirement liabilities	\$ <u>(666,386)</u>	<u>(20,286)</u>	<u>(833,969)</u>	<u>(26,129)</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

The components of net pension cost are summarized as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Service cost	\$ 168,481	5,237	210,281	6,296
Interest cost	67,372	2,095	68,675	2,056
Actual return on plan assets	(15,311)	(476)	(9,043)	(271)
Amortization:				
Unrecognized net transition obligation	<u>18,726</u>	<u>582</u>	<u>34,958</u>	<u>1,047</u>
Net pension cost	\$ <u>239,268</u>	<u>7,438</u>	<u>304,871</u>	<u>9,128</u>

The pension cost from adopting the defined contribution scheme deposited in the Bureau of Labor Insurance amounted to NT\$37,927 thousand (US\$1,179 thousand).

Actuarial assumptions at December 31, 2005 and 2004, are summarized as follows:

	2005	2004
Discount rate	3.50%	3.50%
Rate of increase in future compensation levels	1.00%	1.00%
Expected long-term rate of return on plan assets	3.50%	3.50%

As of December 31, 2005 and 2004, the retirement fund deposited in the Central Trust of China was NT\$1,209,436 thousand (US\$36,817 thousand) and NT\$911,245 thousand (US\$28,551 thousand), respectively.

(o) Income tax

- (1) The Company's earnings are subject to a maximum income tax rate of 25%. For the years ended December 31, 2005 and 2004, the components of estimated income tax benefits (expenses) were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Income tax expenses — current	\$ (137,554)	(4,276)	(539,914)	(16,165)
Income tax benefits — deferred	<u>326,923</u>	<u>10,162</u>	<u>100,220</u>	<u>3,001</u>
	\$ <u>189,369</u>	<u>5,886</u>	<u>(439,694)</u>	<u>(13,164)</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

- (2) For the years ended December 31, 2005 and 2004, the differences between expected income tax expenses at statutory rates and income tax benefits (expenses) as reported in the accompanying financial statements were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Expected income tax expenses	\$ (284,173)	(8,833)	(920,657)	(27,565)
Surtax on undistributed earnings	(134,147)	(4,170)	(105,021)	(3,144)
Gain on disposal of investments	26,585	826	28,949	867
Investment income recognized under equity method—unrealized	199,200	6,192	151,407	4,533
Dividend income	34,130	1,061	15,557	466
Permanent difference in depreciation expenses	(45,573)	(1,417)	(94,549)	(2,831)
Exchange losses recorded as translation adjustments	29,238	909	105,061	3,145
Increase in investment tax credits	460,237	14,306	50,790	1,521
Valuation allowance for deferred income tax assets, net	-	-	467,629	14,001
Others	(96,128)	(2,988)	(138,860)	(4,157)
	\$ <u>189,369</u>	<u>5,886</u>	<u>(439,694)</u>	<u>(13,164)</u>

- (3) For the years ended December 31, 2005 and 2004, the deferred income tax benefits were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Loss carryforwards	\$ -	-	(522,588)	(15,646)
Unrealized (realized) exchange losses	(51,288)	(1,595)	32,676	978
Investment tax credits	350,098	10,883	(112,772)	(3,376)
Provision (reversal) for reducing inventory to market price	(40,138)	(1,248)	83,592	2,503
Purchase of fixed assets by installments, adjusted for tax purposes	85,952	2,672	126,967	3,801
Deferred gains on disposal of fixed assets, adjusted for tax purposes	(96,390)	(2,996)	24,716	740
Valuation allowance for deferred income tax assets, net	-	-	467,629	14,001
Accrued employee retirement liabilities	78,689	2,446	-	-
	\$ <u>326,923</u>	<u>10,162</u>	<u>100,220</u>	<u>3,001</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

- (4) The components of the deferred income tax assets as of December 31, 2005 and 2004, are summarized as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Deferred income tax assets – current:				
Unrealized exchange losses	\$ 27,744	845	79,032	2,476
Allowance for obsolete inventories	335,613	10,217	375,751	11,773
Other	78,689	2,395	-	-
	<u>\$ 442,046</u>	<u>13,457</u>	<u>454,783</u>	<u>14,249</u>
Deferred income tax assets – noncurrent:				
Purchase of fixed assets by installments, adjusted for tax purposes	\$ 717,463	21,841	631,511	19,786
Deferred gains on disposal of fixed assets, adjusted for tax purposes	227,910	6,938	324,300	10,161
Investment tax credits	350,098	10,657	-	-
	<u>\$ 1,295,471</u>	<u>39,436</u>	<u>955,811</u>	<u>29,947</u>

The expiration years of the remaining investment tax credits as of December 31, 2005, are summarized as follows:

Expiry year	Investment tax credits	
	NT dollars	US dollars
2009	\$ <u>350,098</u>	<u>10,657</u>

The Company's income tax returns have been examined and assessed through 2003 by the ROC income tax authority.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(p) Stockholders' equity

(1) Common stock

As of December 31, 2005, the Company's authorized share capital consisted of 4,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 3,389,887 thousand shares were issued and outstanding.

As of December 31, 2004, the Company's authorized share capital consisted of 4,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 3,271,426 thousand shares were issued and outstanding.

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

On June 15, 2004, the Company's stockholders resolved to transfer unappropriated earnings of NT\$1,121,073 thousand by issuing 112,107 thousand shares of common stock, at NT\$10 par value per share. The stock issuance was authorized by and registered with the government authorities.

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

The details as of December 31, 2005 and 2004, were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Cash subscription in excess of par value of shares	\$ 1,794,333	61,794	1,794,333	61,794
Gain on disposal of property, plant and equipment of investee company	1,668	53	1,668	53
Additional paid-in capital from bond conversion	745,546	22,711	420,527	12,382
Increase in net equity due to change in percentage of ownership in long-term investments under equity method	234,600	6,816	234,600	6,816
Donated assets	<u>648,839</u>	<u>21,229</u>	<u>648,734</u>	<u>21,226</u>
	\$ <u>3,424,986</u>	<u>112,603</u>	<u>3,099,862</u>	<u>102,271</u>

(Continued)

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

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

Furthermore, the amount of the capital surplus from the premiums on shares issued above their par value and earnings from gifts received credited to capital should not exceed 10 percent of the amount of paid-in capital in one year.

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

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

To promote long-term development, the Company has adopted a steady dividend policy, in which a cash dividend of around 0~50% of the appropriated dividend is distributed and a stock dividend of around 50%~100% of the appropriated dividend is distributed. However, if the predicted earnings per share of a year in which 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.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

The related information on employees' bonuses and directors' and supervisors' remuneration appropriated from 2004 earnings was as follows:

	2004	
	NT dollars	US dollars
Employees' bonuses — cash	\$ 51,174	1,534
Directors' and supervisors' remuneration	<u>20,400</u>	<u>611</u>
	<u>\$ 71,574</u>	<u>2,145</u>

If the related expenditures listed above were taken as expenses incurred in 2004, the related imputed earnings per share (after tax) would be NT\$1.03 (US\$0.03).

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

(3) Unappropriated earnings, imputation credit account, and creditable ratio

The details of unappropriated earnings as of December 31, 2005 and 2004, were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Unappropriated earnings after 1998	\$ <u>3,662,898</u>	<u>109,572</u>	<u>4,708,083</u>	<u>139,411</u>

As of December 31, 2005 and 2004, the details of the ICA and the related creditable ratio were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
ICA	\$ <u>783,829</u>	<u>23,861</u>	<u>116,460</u>	<u>3,649</u>
Creditable ratio	<u>21.40%</u> (estimated)		<u>6.94%</u> (actual)	

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

(r) Financial instruments

(1) Derivative financial instruments

(i) As of December 31, 2005 and 2004, the nominal amounts and market value of derivative financial instruments were as follows:

	2005		2004	
	Nominal Amount	Market Value	Nominal Amount	Market Value
Interest rate swap agreements (recorded as other current assets)	USD 120,000 NTD 4,600,000	USD 415	USD 120,000 NTD 4,600,000	USD 1,564
Forward exchange contracts (recorded as other current liabilities)	-	-	USD 19,000	USD (101)
Fuel price option agreements (recorded as other current assets and other assets/liabilities)	-	USD 5,457	-	USD 8,909

(ii) The Company engaged in derivative financial instruments for the years ended December 31, 2005 and 2004. Details were as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Interest rate swap agreements:				
Interest expenses (recorded as non-operating expenses and losses – interest expenses)	\$ -	-	36,225	1,085
Interest income (recorded as non-operating income and gains – interest income)	1,061	33	-	-
Interest receivable (recorded as other financial assets – current)	-	-	6,875	215
Interest payable (recorded as accrued expenses)	5,546	169	-	-
Option agreements:				
Gain on derivatives (recorded as non-operating expenses and losses – exchange losses, net)	-	-	18,370	550
Forward exchange contracts:				
Future net cash outflow	-	-	609,657	19,101
Future net cash inflow	-	-	606,423	19,000
Fuel price option agreements:				
Net gains (recorded as adjustment of operating cost)	1,382,272	42,078	1,264,493	37,859

(Continued)

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

(iii) Purposes and risks of engaging in derivative financial instruments

1) Interest rate swap agreements

The Company had several interest rate swap agreements to hedge its exposure to fluctuations in interest rates on long-term borrowings.

The counter-parties to the swap transactions were international financial institutions with excellent reputations. Management believed that the risk of loss due to non-performance of the counter-parties was remote.

2) Option agreements

The Company entered into several interest rate and currency option agreements for hedging purposes.

There were no such transactions for the year ended December 31, 2005.

3) Forward exchange contracts

The Company enter into several forward exchange contracts to hedge the risk of changes in exchange rates of foreign currency receivable and payables.

The related forward exchange contracts for the year ended December 31, 2005, were all expired.

4) Fuel price option agreements

The Company entered into several fuel price option agreements to hedge the risk of fluctuations in fuel price.

(2) Fair value of nonderivative financial instruments

There were no significant differences between the book value and the fair value for cash and cash equivalents, notes and accounts receivable (including related parties), other receivables (including related parties), other financial assets, other current assets, short-term borrowings, notes and accounts payable (including related parties), other payables (including related parties), tax payable, accrued expenses, other current liabilities, current portion of long-term liabilities, and lease payable because of the proximity of their due dates.

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

The details of other nonderivative instruments as of December 31, 2005 and 2004, are summarized as follows:

Nonderivative financial instruments	2005			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 2,713,075	2,720,864	82,590	82,827
Long-term equity investments:				
Fair value can be estimated in fact	453,193	460,564	13,796	14,020
Fair value can not be estimated in fact	10,832,203	-	329,747	-
Long-term liabilities:				
Bonds payable	8,383,754	8,295,291	255,213	252,520
Long-term borrowings	17,907,532	17,907,532	545,131	545,131
Aircraft payable	17,038,221	17,038,221	518,667	518,667
Lease payable	7,281,521	7,281,521	221,660	221,660
Off-balance-sheet financial instruments:				
Letters of credit	-	286,248	-	8,714
Nonderivative financial instruments	2004			
	NT dollars		US dollars	
	Book value	Fair value	Book value	Fair value
Assets:				
Short-term investments	\$ 5,350,027	5,397,898	167,623	169,123
Long-term equity investments:				
Fair value can be estimated in fact	406,840	449,671	12,747	14,089
Fair value can not be estimated in fact	10,375,455	-	325,076	-
Long-term liabilities:				
Bonds payable	6,973,154	7,290,045	218,478	228,406
Long-term borrowings	11,679,522	11,679,522	365,934	365,934
Other installments payable	493,905	493,905	15,475	15,475
Aircraft payable	12,764,324	12,764,324	399,922	399,922
Lease payable	6,025,726	6,025,726	188,794	188,794
Off-balance-sheet financial instruments:				
Letters of credit	-	517,952	-	16,228

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

- (i) The fair value of short-term investments is market value.
- (ii) The fair value of long-term equity investments is market value if they are traded on the public market.

(Continued)

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

- (iii) The fair value of convertible bonds is market value.
 - (iv) The fair value of long-term liabilities (except convertible bonds) is the discounted future cash flows, and the discount rates during 2005 and 2004 were 3.14% and 2.93%, respectively.
 - (v) The fair value of letters of credit is based on the contract.
 - (vi) The fair value of the derivative instruments is based on the receipt or payment if the Company terminates the contracts on the balance sheet date, and generally includes the unrealized gain or loss of the unexpired contracts. Most of the derivative financial instruments have quotations from financial institutions.
- (4) Off-balance-sheet credit risk financial instruments

Financing guaranty: For the period from June 8, 2002, to June 8, 2004, the Company provided a guaranty for an investee Company amounting to NT\$80,000 thousand. As of December 31, 2005 and 2004, the Company had provided a guaranty for an investee company amounting to NT\$0, respectively. The guaranty was used to guarantee financial borrowings, which have an off-balance-sheet credit risk. Credit risk means the probable accounting loss from a counter-party who violates the contract and/or a significant decrease in the value of a mortgage. If the credit line of the guarantee is used up and the borrowing still cannot be redeemed, the Company's credit risk is equal to the amount of the contract. The counter-party did not provide a mortgage when the Company promised to provide the financing guaranty.

(5) Concentrations of credit risk

The Company's primary potential credit risk is accounts receivable. However, there was no concentration of credit risk because there was more than one counter-party. To decrease the credit risk of accounts receivable, the Company continually evaluated the collectibility of accounts receivable and recognized allowance for doubtful accounts. All bad debts were within management's expectations.

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EVA AIRWAYS CORP.

Notes to Financial Statements

5. Transactions with Related Parties

(a) Name and relationship of related parties

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

(b) Significant transactions with related parties

(1) Revenue, cost and expenses

During the years ended December 31, 2005, and 2004, the Company's transactions with related parties were as follows:

Revenue	2005			2004		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen Airline Services Corp.	\$ 1,754	55	-	1,845	55	-
Uni Airways Corp.	32,428	1,008	0.04	43,454	1,301	0.06
Evergreen Aviation Technologies Corp.	146,784	4,563	0.17	198,225	5,935	0.24
Evergreen Air Cargo Services Corp.	17,298	538	0.02	8,489	254	0.01
Evergreen International Corp.	11,615	361	0.01	3,639	109	-
Others	4,264	133	-	2,544	76	-
	<u>\$ 214,143</u>	<u>6,658</u>	<u>0.24</u>	<u>258,196</u>	<u>7,730</u>	<u>0.31</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

Cost	2005			2004		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen International Corp.	\$ 53,925	1,676	0.07	45,785	1,371	0.06
Evergreen International Storage & Transport Corp.	75,081	2,334	0.09	60,429	1,809	0.09
Evergreen Airline Services Corp.	844,988	26,266	1.05	807,976	24,191	1.14
Evergreen Sky Catering Corp.	880,886	27,382	1.09	811,471	24,296	1.14
Uni Airways Corp.	944,139	29,349	1.17	707,956	21,196	1.00
Evergreen Aviation Technologies Corp.	4,599,514	142,975	5.69	3,892,027	116,528	5.47
Evergreen Air Cargo Services Corp.	345,149	10,729	0.43	358,647	10,738	0.50
Others	1,607	50	-	1,305	39	-
	<u>\$ 7,745,289</u>	<u>240,761</u>	<u>9.59</u>	<u>6,685,596</u>	<u>200,168</u>	<u>9.40</u>

Expenses	2005			2004		
	NT dollars	US dollars	Percentage	NT dollars	US dollars	Percentage
Evergreen International Corp.	\$ 140,383	4,364	2.06	121,931	3,651	1.79
Evergreen International Storage & Transport Corp.	19,195	597	0.28	21,809	653	0.32
Evergreen Airline Services Corp.	27,167	844	0.40	26,053	780	0.38
Evergreen Sky Catering Corp.	23,107	718	0.34	24,207	725	0.35
Uni Airways Corp.	78,652	2,445	1.16	112,532	3,369	1.65
Evergreen Aviation Technologies Corp.	22,012	684	0.32	16,212	485	0.24
Evergreen Security Corp.	48,697	1,514	0.72	43,108	1,291	0.63
RTW Air Services (S) Pte. Ltd.	51,108	1,589	0.75	47,956	1,436	0.70
Green Siam Air Services Co., Ltd.	71,885	2,235	1.06	75,931	2,273	1.11
Uni Japan Co., Ltd.	25,185	783	0.37	18,688	559	0.27
PT Perdalan Andalan Air Service	25,775	801	0.38	-	-	-
Others	969	30	-	2,426	73	0.04
	<u>\$ 534,135</u>	<u>16,604</u>	<u>7.84</u>	<u>510,853</u>	<u>15,295</u>	<u>7.48</u>

(2) Guaranty

The Company's guaranty to a related party for the year ended December 31, 2004, was as follows:

	2004			
	Maximum balance		Ending balance	
	NT dollars	US dollars	NT dollars	US dollars
Uni Airways Corp.	<u>\$ 80,000</u>	<u>2,507</u>	<u>-</u>	<u>-</u>

There were no such transactions during the year ended December 31, 2005.

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EVA AIRWAYS CORP.

Notes to Financial Statements

- (3) 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, 2005 and 2004, resulting from the aforementioned transactions are summarized as follows:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Accounts receivable – related parties:				
Uni Airways Corp.	\$ 11,406	347	13,809	433
Evergreen Aviation Technologies Corp.	14,722	448	32,550	1,020
Evergreen Marine Corp.	2,070	63	261	8
Evergreen Air Cargo Service Corp.	1,429	44	-	-
Others	<u>859</u>	<u>26</u>	<u>268</u>	<u>8</u>
	<u>30,486</u>	<u>928</u>	<u>46,888</u>	<u>1,469</u>
Other receivables – related parties:				
Uni Airways Corp. (Note)	133,242	4,056	163,934	5,136
Evergreen Air Cargo Services Corp.	6,971	212	3,822	120
Evergreen Aviation Technologies Corp.	38,689	1,178	48,246	1,512
Evergreen Airline Services Corp.	17,050	519	8,538	267
Evergreen International Corp.	5,933	181	3,100	97
Uni Japan Co., Ltd.	-	-	12,376	388
Evergreen Sky Catering Corp.	3,198	97	1,907	60
Others	<u>2,377</u>	<u>72</u>	<u>259</u>	<u>8</u>
	<u>207,460</u>	<u>6,315</u>	<u>242,182</u>	<u>7,588</u>
Total receivables – related parties	\$ <u>237,946</u>	<u>7,243</u>	<u>289,070</u>	<u>9,057</u>

Note: As of December 31, 2004, the overdue accounts receivable transferred to other receivables were NT\$34,687 thousand (US\$1,087 thousand), respectively. The aging report for the abovementioned overdue accounts receivable was as shown below:

	2004							
	Aging report for overdue accounts receivable							
	Amount		Over 1~6 months		Over 7~12 months		Over one year	
NT	US	NT	US	NT	US	NT	US	
dollars	dollars	dollars	dollars	dollars	dollars	dollars	dollars	
Uni Airways Corp.	\$ <u>34,687</u>	<u>1,087</u>	<u>13,671</u>	<u>429</u>	<u>13,127</u>	<u>411</u>	<u>7,889</u>	<u>247</u>

There were no such transitions during the year ended December 31, 2005.

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EVA AIRWAYS CORP.

Notes to Financial Statements

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Accounts payable—related parties:				
Evergreen International Corp.	\$ 8,429	257	9,435	296
Evergreen Airline Services Corp.	172,359	5,247	160,386	5,025
Evergreen Sky Catering Corp.	144,195	4,389	130,810	4,098
Uni Airways Corp.	131,136	3,992	142,577	4,467
Evergreen Aviation Technologies Corp.	355,065	10,809	520,568	16,310
Evergreen Air Cargo Services Corp.	61,819	1,882	56,754	1,778
Evergreen International Storage & Transport Corp.	6,807	207	347	11
Green Siam Air Services Co, Ltd.	6,474	197	7,490	235
RTW Air Services (S) Pte Ltd.	5,989	182	4,057	127
PT Perdana Andalan Air Service	3,535	108	-	-
Others	<u>2,245</u>	<u>68</u>	<u>-</u>	<u>-</u>
	<u>898,053</u>	<u>27,338</u>	<u>1,032,424</u>	<u>32,347</u>
Other payables—related parties:				
Evergreen International Corp.	15,565	474	28,350	888
Evergreen Airline Services Corp.	42,931	1,307	32,827	1,029
Evergreen Sky Catering Corp.	1,871	57	2,436	76
Uni Airways Corp.	7,486	228	19,406	608
Evergreen Aviation Technologies Corp.	8,706	265	2,817	88
Evergreen Air Cargo Services Corp.	3,940	120	2,328	73
Evergreen International Storage & Transport Corp.	1,071	32	6,053	190
Evergreen Security Corp.	4,395	134	3,970	125
Evergreen Marine Corp.	<u>53</u>	<u>1</u>	<u>47</u>	<u>1</u>
	<u>86,018</u>	<u>2,618</u>	<u>98,234</u>	<u>3,078</u>
Total payables—related parties	\$ <u>984,071</u>	<u>29,956</u>	<u>1,130,658</u>	<u>35,425</u>

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EVA AIRWAYS CORP.

Notes to Financial Statements

6. Pledged Assets

The book values of the pledged assets as of December 31, 2005 and 2004, were as follows:

Pledged assets	Object	2005		2004	
		NT dollars	US dollars	NT dollars	US dollars
Land	Long-term borrowings	\$ 1,864,122	56,747	1,864,122	58,405
Buildings	Long-term borrowings	2,573,809	78,350	2,667,079	83,563
Aircraft	Long-term borrowings	38,452,290	1,170,542	34,488,218	1,080,559
Engines – included in machinery and equipment	Long-term borrowings	121,051	3,685	137,712	4,315
Simulators – included in machinery and equipment	Long-term borrowings	313,487	9,543	343,221	10,754
Time deposit – included in other assets	Customs duty and contract performance guarantees	531,389	16,176	605,242	18,963
		<u>\$ 43,856,148</u>	<u>1,335,043</u>	<u>40,105,594</u>	<u>1,256,559</u>

7. Commitments and Contingencies

(a) As of December 31, 2005, the outstanding contracts for purchases of aircraft were as follows:

Entering date	Type of aircraft	Quantity	Total price of contract	Prepayments (Note)
June 2000	Boeing 777	5	US\$ 1,260,851	NT\$4,816,616 (US\$146,625)
April 2004	Boeing 777	8	US\$ 1,491,496	NT\$4,003,662 (US\$121,877)
November 2004	Airbus A330-200	1	US\$ 138,608	NT\$1,107,151 (US\$33,703)

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

(b) As of December 31, 2005, the Company had issued a total of NT\$8,131,479 thousand (US\$247,534 thousand) in promissory notes to banks for obtaining guaranties for credit lines. As of December 31, 2005, the Company had obtained guaranties from ABN-AMRO Bank, Citibank, Bank of America and HSBC Bank amounting to NT\$279,822 thousand (US\$8,518 thousand).

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EVA AIRWAYS CORP.

Notes to Financial Statements

- (c) The Company entered into aircraft, land and engine lease contracts using the operating lease or capital lease method. As of December 31, 2005, the Company had paid \$15,625,005 thousand (US\$475,647 thousand) as refundable deposits. According to the contracts, future lease payments in the following five years are as follows:

Year due	NT dollars	US dollars
As of December 31, 2006	\$ 11,484,402	349,601
As of December 31, 2007	8,998,803	273,936
As of December 31, 2008	7,110,998	216,469
As of December 31, 2009	6,244,051	190,078
As of December 31, 2010	<u>5,374,265</u>	<u>163,600</u>
	\$ <u>39,212,519</u>	<u>1,193,684</u>

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

- (a) Total personnel, depreciation and amortization expenses for the years ended December 31, 2005 and 2004, are summarized below:

By function	Operating cost	2005 Operating expenses	NT dollars		2004 Operating expenses	Total
			Total	Operating cost		
Personnel expenses						
Salaries	\$ 3,217,212	2,647,551	5,864,763	3,310,924	2,812,000	6,122,924
Insurance	132,828	111,169	243,997	114,902	102,091	216,993
Pension	164,380	114,219	278,599	177,837	127,034	304,871
Others (meal allowances, etc)	940,608	219,902	1,160,510	914,301	198,255	1,112,556
Depreciation	4,224,112	212,590	4,436,702	4,356,802	210,494	4,567,296
Amortization	994,308	221,658	1,215,966	942,512	216,777	1,159,289

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

By function By item	US dollars					
	Operating cost	2005 Operating expenses	Total	Operating cost	2004 Operating expenses	Total
Personnel expenses						
Salaries	\$ 100,006	82,299	182,305	99,129	84,192	183,321
Insurance	4,129	3,456	7,585	3,440	3,057	6,497
Pension	5,110	3,550	8,660	5,325	3,803	9,128
Others (meal allowances, etc)	29,239	6,835	36,074	27,374	5,936	33,310
Depreciation	131,306	6,608	137,914	130,443	6,302	136,745
Amortization	30,908	6,890	37,798	28,219	6,490	34,709

(b) Reclassification

Certain amounts in the financial statements for the year ended December 31, 2004, have been reclassified to conform with the presentation of the financial statements for the year ended December 31, 2005, for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

11. Segment Financial Information

(a) Diversified industry:

The Company mainly operates an international air transportation business.

(b) Geographic area information:

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
South East Asia:				
Operating revenue	\$ <u>30,395,917</u>	<u>944,853</u>	<u>22,452,705</u>	<u>672,237</u>
Income from operations	\$ <u>142,252</u>	<u>4,422</u>	<u>1,280,892</u>	<u>38,350</u>
Identifiable assets	\$ <u>679,739</u>	<u>20,692</u>	<u>291,944</u>	<u>9,147</u>
North America:				
Operating revenue	\$ <u>13,660,863</u>	<u>424,646</u>	<u>11,401,497</u>	<u>341,362</u>
Income from operations	\$ <u>63,933</u>	<u>1,987</u>	<u>650,438</u>	<u>19,474</u>
Identifiable assets	\$ <u>292,991</u>	<u>8,919</u>	<u>447,225</u>	<u>14,012</u>

(Continued)

EVA AIRWAYS CORP.

Notes to Financial Statements

	2005		2004	
	NT dollars	US dollars	NT dollars	US dollars
Other foreign areas:				
Operating revenue	\$ <u>16,194,650</u>	<u>503,408</u>	<u>16,447,653</u>	<u>492,445</u>
Income from operations	\$ <u>75,790</u>	<u>2,356</u>	<u>938,312</u>	<u>28,093</u>
Identifiable assets	\$ <u>539,103</u>	<u>16,411</u>	<u>1,136,626</u>	<u>35,612</u>
Domestic:				
Operating revenue	\$ <u>27,764,536</u>	<u>863,057</u>	<u>32,353,496</u>	<u>968,667</u>
Income from operations	\$ <u>129,937</u>	<u>4,039</u>	<u>1,845,715</u>	<u>55,261</u>
Identifiable assets	\$ <u>115,684,585</u>	<u>3,521,601</u>	<u>105,046,906</u>	<u>3,291,252</u>
Total operating revenue	\$ <u>88,015,966</u>	<u>2,735,964</u>	<u>82,655,351</u>	<u>2,474,711</u>
Income from operations	\$ 411,912	12,804	4,715,357	141,178
Investment income, net	796,799	24,769	605,629	18,133
General income (expenses)	1,677,567	52,147	298,932	8,950
Interest expenses	(1,749,587)	(54,386)	(1,937,289)	(58,003)
Income before income tax	\$ <u>1,136,691</u>	<u>35,334</u>	<u>3,682,629</u>	<u>110,258</u>
Total identifiable assets	\$ 117,196,418	3,567,623	106,922,701	3,350,023
Long-term equity investments	<u>11,285,396</u>	<u>343,543</u>	<u>10,782,295</u>	<u>337,823</u>
Total assets	\$ <u>128,481,814</u>	<u>3,911,166</u>	<u>117,704,996</u>	<u>3,687,846</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 international air transportation services. Consequently, it is not practical to separate export and domestic sales.