

**CHINESE MARITIME TRANSPORT LTD.**

**Financial Statements**

**June 30, 2008 and 2007**

**(With Auditors' Report Thereon)**

## **Independent Auditors' Report**

The Board of Directors  
Chinese Maritime Transport Ltd.:

We have audited the accompanying balance sheets of Chinese Maritime Transport Ltd. as of June 30, 2008 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the six-month periods 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. The long-term equity investments in the financial statements accounted for using the equity method amounting to NT\$4,887,530,000 and NT\$5,816,400,000, constituting 40.06% and 61.21% of the total assets, as of June 30, 2008 and 2007, respectively, and the related investment income of NT\$442,574,000 and NT\$267,036,000, constituting 23.07% and 21.55% of the income before tax, respectively, for the six-month periods then ended were recognized based on the investees' financial statements, which were audited by other auditors.

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

As stated in note 7 to the financial statements, long-term equity investments accounted for under the equity method amounting to NT\$658,781,000 and NT\$720,795,000 as of June 30, 2008 and 2007, respectively, and the related investment income of NT\$16,236,000 and NT\$14,972,000 recognized for the six-month periods then ended, were based on the investee companies' unaudited financial statements.

In our opinion, based on our audits and the aforementioned reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the investee companies' financial statements discussed in the third paragraph been audited, the financial statements referred to in the first paragraph present fairly the financial position of Chinese Maritime Transport Ltd. as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the six-month periods then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China.

As stated in note 3 to the financial statements, Chinese Maritime Transport Ltd. adopted ROC Statement of Financial Accounting Standards No. 39 "Share-based Payment" effective January 1, 2008, and the Interpretation issued by the Accounting Research and Development Foundation. Accordingly, Chinese Maritime Transport Ltd. recognized the amount of employees' bonuses and directors' and supervisors' remuneration for the six-month period ended June 30, 2008, and the net income and basic earnings per share were decreased by NT\$51,180,000 and NT\$0.20, respectively.

Taipei, Taiwan (Republic of China)  
August 15, 2008

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

## CHINESE MARITIME TRANSPORT LTD.

### Statements of Income

**For the six-month periods ended June 30, 2008 and 2007**  
(expressed in thousands of New Taiwan dollars, except earnings per share )

	<b>2008</b>		<b>2007</b>	
	Amount	%	Amount	%
<b>Operating revenue</b> (note 16):				
Freight revenue – container hauling, net	\$ 963,917	96	804,738	96
Freight revenue – airline agent and others	<u>39,442</u>	<u>4</u>	<u>32,418</u>	<u>4</u>
	1,003,359	100	837,156	100
<b>Operating cost</b> (notes 16 and 19)	<u>797,816</u>	<u>80</u>	<u>650,776</u>	<u>78</u>
<b>Gross profit</b>	205,543	20	186,380	22
<b>Operating expenses</b> (notes 3, 16 and 19)	<u>166,258</u>	<u>16</u>	<u>102,681</u>	<u>12</u>
<b>Operating income</b>	<u>39,285</u>	<u>4</u>	<u>83,699</u>	<u>10</u>
<b>Non-operating income and gain:</b>				
Interest income (note 16)	23,461	2	10,829	2
Investment income under equity method, net (note 7)	1,908,467	190	1,171,303	140
Gain on valuation of financial assets (note 5)	20,408	2	1,843	-
Foreign exchange gain, net	39,242	4	308	-
Gain on disposal of investments	37,099	4	-	-
Others (note 8)	<u>9,689</u>	<u>1</u>	<u>7,779</u>	<u>1</u>
	<u>2,038,366</u>	<u>203</u>	<u>1,192,062</u>	<u>143</u>
<b>Non-operating expenses and losses:</b>				
Interest expense	61,465	6	36,865	4
Impairment loss (note 7)	38,619	4	-	-
Others	<u>27</u>	<u>-</u>	<u>21</u>	<u>-</u>
	100,111	10	36,886	4
<b>Income before tax</b>	1,977,540	197	1,238,875	149
Income tax expense (note 13)	<u>58,942</u>	<u>6</u>	<u>66,242</u>	<u>8</u>
<b>Net income</b>	<u>\$ 1,918,598</u>	<u>191</u>	<u>1,172,633</u>	<u>141</u>
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>income tax</b>	<b>income tax</b>	<b>income tax</b>	<b>income tax</b>
<b>Basic earnings per share</b> (NT\$, note 14)	<u>\$ 7.71</u>	<u>7.48</u>	<u>4.83</u>	<u>4.57</u>
<b>Diluted earnings per share</b>	<u>\$ 7.70</u>	<u>7.47</u>		

See accompanying notes to financial statements.

# CHINESE MARITIME TRANSPORT LTD.

## Statements of Cash Flows

**For the six-month periods ended June 30, 2008 and 2007**  
(expressed in thousands of New Taiwan dollars)

	2008	2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,918,598	1,172,633
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,024	10,952
Impairment loss	38,619	-
Investment income under the equity method, net	(1,908,467)	(1,171,303)
Cash dividends from investee companies accounted for under equity method	-	57,104
Increase in financial assets measured at fair value through profit or loss – current	(166,480)	(843)
Increase in notes and accounts receivable	(5,976)	(23,191)
Decrease (increase) in other current financial assets	3,897	(2,045)
Increase in notes and accounts payable	2,833	22,302
Increase in accrued expenses and other current liabilities	57,619	40,646
Decrease in prepaid pension and deferred pension cost	5,068	4,431
Decrease in deferred income tax liabilities	(6,856)	(1,051)
Others	(4,538)	(2,991)
<b>Net cash provided by (used in) operating activities</b>	<u>(52,659)</u>	<u>106,644</u>
<b>Cash flows from investing activities:</b>		
Capital refund from investee company	575,243	-
Increase in long-term equity investments	(96,851)	(298,447)
Additions to property and equipment and rental assets	(34,506)	(19,411)
Decrease (increase) in other receivables – related parties	129,750	(811,500)
Decrease (increase) in refundable deposits	349	(544,742)
Others	-	48
<b>Net cash provided by (used in) investing activities</b>	<u>573,985</u>	<u>(1,674,052)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term loans	(229,397)	793,978
Increase in long-term loans	469,631	1,139,896
Decrease in long-term loans	(109,000)	(414,000)
Directors' and supervisors' remuneration	(21,000)	-
<b>Net cash provided by financing activities</b>	<u>110,234</u>	<u>1,519,874</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	631,560	(47,534)
<b>Cash and cash equivalents at beginning of year</b>	304,776	306,338
<b>Cash and cash equivalents at end of year</b>	<u>\$ 936,336</u>	<u>258,804</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for:		
Interest	\$ <u>60,929</u>	<u>35,741</u>
Income tax	\$ <u>55,806</u>	<u>32,743</u>
Increase in long-term equity investment		\$ 398,447
Decrease in other receivables – related parties		<u>(100,000)</u>
Cash paid		\$ <u>298,447</u>
<b>Investing and financing activities not affecting current cash flows:</b>		
Current portion of long-term receivables – related parties	\$ <u>38,250</u>	<u>836,500</u>
Current portion of long-term loans	\$ <u>1,319,046</u>	<u>593,000</u>
Cash dividends payable	\$ <u>1,538,841</u>	<u>466,315</u>
Employees' bonuses and directors' and supervisors' remuneration declared	\$ <u>41,608</u>	<u>37,847</u>
Cash dividends receivable from investee companies accounted for under equity method	\$ <u>415,751</u>	<u>-</u>

See accompanying notes to financial statements.

# CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

June 30, 2008 and 2007

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

### (1) Organization

Chinese Maritime Transport Ltd. (the Company), previously named Associated Transport Inc., was incorporated as a company limited by shares on January 31, 1978, in the Republic of China. The main activities of the Company are container hauling, vessel transportation, and related business, and acting as the general sales agent for Saudi Arabian Airlines. In an effort to expand its global shipping operations, the Company invested in Chinese Maritime Transport (S) Pte Ltd. (CMTS) in Singapore and Chinese Maritime Transport (Hong Kong) Limited (CMT HK) in Hong Kong to engage in bulk-carrier transportation.

As of June 30, 2008 and 2007, the number of employees hired by the Company was approximately 124 and 117, respectively.

### (2) Summary of Significant Accounting Policies

The financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and accounting principles and practices generally accepted in the Republic of China. The significant accounting policies and measurement bases adopted in preparing the accompanying financial statements are summarized as follows:

#### (a) Foreign currency transactions and translation

The Company's reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting unrealized exchange gain (loss) from such translations is reflected in the accompanying consolidated statements of income. According to amended Statement of Financial Accounting Standards (SFAS) No. 14 "The Effects of Changes in Foreign Exchange Rates", non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gain (loss) from such translations is reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gain (loss) from such translations is recorded as a separate component of stockholders' equity.

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**CHINESE MARITIME TRANSPORT LTD.****Notes to Financial Statements**

For long-term equity investments in foreign subsidiaries and investees, which are accounted for by the equity method, their foreign currency financial statements have to be translated into the Company's reporting currency. Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency are accounted for as translation adjustment, which is a separate component of stockholders' equity.

(b) Accounting estimates

The preparation of financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

(c) Distinction between current and non-current assets and liabilities

Current assets are unrestricted cash and cash equivalents and other assets to be realized in cash, sold, or consumed (prepaid items) within 12 months of the balance sheet date. Current liabilities are obligations to be paid or settled within 12 months of the balance sheet date. All other assets or liabilities are classified as non-current.

(d) Impairment of assets

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.

(e) Cash equivalents

Cash equivalents represent investments in commercial paper with a maturity of three months or less from the date of investment.

(f) Financial assets

The Company adopts transaction-date accounting for financial instrument transactions. At the initial recognition, financial instruments are measured at fair value. Except for the trading-purpose financial instruments, the original cost of financial instruments should include the cost of acquisition or issuance.

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**CHINESE MARITIME TRANSPORT LTD.****Notes to Financial Statements**

The financial instruments the Company held or issued are classified as financial assets measured at fair value through profit or loss. The main purposes of the financial instruments are selling or repurchasing in the short term.

(g) Allowance for doubtful accounts

Allowance for doubtful accounts is provided according to the collectibility of each account. The amount is determined by considering the past collection experience, customers' credit, an aging analysis, and the Company's credit policy.

(h) Long-term investments under equity method

Long-term investments are accounted for under the equity method when the percentage of ownership held by the Company and its subsidiaries exceeds 20% or if the Company and its subsidiaries own less than 20% of the investee's common stock ownership but have significant influence on the investee's operations.

The difference between the cost of the investment and the amount of underlying equity in net assets of an investee attributed to depreciable or amortizable assets is amortized over the estimated remaining economic years. The difference attributed to the carrying amount in excess of or lower than the fair value of assets is written off entirely when the difference disappears. The cost of investment in excess of the fair value of identifiable net assets is recognized as goodwill and is not amortized. The difference attributed to the fair value of identifiable net assets in excess of the cost of investment causes a proportional decrease in the carrying amount of non-current assets. When the carrying amount of non-current assets is decreased to zero, the remaining difference is recognized as extraordinary gain or loss.

Unrealized inter-company profits or losses resulting from transactions between the Company and its subsidiaries and investees accounted for under the equity method are deferred until realized, or are amortized based on the useful lives of the assets that give rise to such unrealized profits or losses.

When the equity adjustment accounts of investee companies accounted under the equity method, including revaluation increments, cumulative translation adjustments and unrealized gain or loss on financial instruments, are changed, the change is reflected in those accounts and long-term equity investment under the equity method based on the percentage of ownership.

The Company prepares consolidated financial statements for the first six months and annually each year, and prepares consolidated financial statements by quarter beginning in 2008. The investees over which the Company has control are consolidated into the Company's financial statements.

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**CHINESE MARITIME TRANSPORT LTD.****Notes to Financial Statements**

## (i) Property and equipment, rental assets and depreciation

Property and equipment are stated at cost and can be revalued at government-declared values or indexes. Repairs and maintenance are charged to expenses as incurred; major renewals and improvements are capitalized and depreciated accordingly.

Excluding land, depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the respective assets. When the property and equipment have reached the end of their estimated useful lives but are still in use, the remaining cost is depreciated using the same method over the estimated remaining useful lives of the assets. The useful lives of respective assets are summarized as follows:

- Buildings: 24~55 years.
- Building improvements: 3~25 years
- Transportation equipment: 4~6 years.
- Furniture, fixtures and other equipment: 3~6 years.

Property and equipment leased to other parties under operating leases are classified as rental assets. The rental income is recorded as non-operating income after the related depreciation is accounted for as a deducted item.

## (j) Intangible assets

Other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The amortizable amounts of intangible assets are determined after deducting residual values from their original costs. Amortization is made on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. An intangible asset with an indefinite useful life shall not be amortized. The estimated useful lives for the computer software is 3 years.

The residual value, the amortization period, and the amortization method for an intangible asset with a definite useful life shall be reviewed at least at each financial year-end. The useful life of an intangible asset that is not being amortized shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. Such changes shall be accounted for as changes in accounting estimates.

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**CHINESE MARITIME TRANSPORT LTD.****Notes to Financial Statements****(k) Employee retirement plan**

The Company has established an employee noncontributory defined benefit retirement plan covering all regular employees under the Labor Standards Law. According to this plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments and are based on the years of service and the average salary for the six months before the employee's retirement. Each employee will earn two months of salary for each of the first 15 years of service and one month of salary for each service year from the sixteenth year on. The maximum amount is 45 months of salary.

The Company previously made a monthly cash contribution of 9% of salaries and wages to a pension fund maintained with the Bank of Taiwan (previously the "Central Trust of China") to meet the above obligation. Payment of employee retirement benefits will be paid by the pension fund first and then by the Company if the fund is insufficient.

For the above defined benefit pension plan the Company has its pension plan actuarially valued on the balance sheet date and recognizes the net periodic pension costs. As a result, the excess of the accumulated benefit obligation over the fair value of plan assets is recognized as pension obligation, and the excess of plan assets over net periodic pension cost is recognized as prepaid pension on the balance sheet. The net periodic pension costs include the service costs and amortization of net unrecognized transition obligations over 15 years.

Under the Labor Pension Act, a defined contribution pension plan should be implemented for all new employees and for any employees employed before the enforcement date (July 1, 2005) of that Act and who choose the new plan. For the employees who are covered under the defined contribution pension plan, the Company has made a monthly cash contribution of 6% of salaries and wages to employees' individual pension fund accounts at the Bureau of Labor Insurance based on the Labor Pension Act, and the contribution was recorded as pension expenses in the accompanying statements of income.

**(l) Revenue and cost recognition**

Freight revenue is recognized after providing transportation service. Operating cost is recognized as incurred.

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**CHINESE MARITIME TRANSPORT LTD.****Notes to Financial Statements****(m) Employees' bonuses and directors' and supervisors' remuneration**

Employees' bonuses and directors' and supervisors' remuneration based on the ROC Company Act and the Company's articles of incorporation and appropriated after January 1, 2008, are accounted for by Interpretation (96)052 issued by ARDF. The Company and its domestic subsidiaries estimate the amount of employees' bonuses and directors' and supervisors' remuneration according to the Interpretation and recognize it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

**(n) Income tax**

The Company's income tax is calculated based on accounting income. The amount of deferred tax liabilities or assets is calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effects of taxable temporary differences are recorded as deferred tax liabilities. The tax effects of deductible temporary differences are recognized as deferred tax assets. An allowance is provided for deferred tax assets that may not be realized in the future.

Deferred tax assets or liabilities are classified as current or noncurrent based on the classification of the asset or liability that resulted in the deferred item or, on certain transactions not directly related to an asset or liability, on the timing of the expected reversal date.

The 10% surtax on undistributed earnings is recorded as current income tax expense after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

**(o) Earnings per share**

Earnings per share of common stock are computed based on the weighted-average number of common shares outstanding during the period. Earnings per share for the prior period are retroactively adjusted to reflect the effects of new shares issued by transferring capital surplus, retained earnings, and employees' bonuses approved in the annual stockholders' meetings held before and in 2008.

Employee stock bonuses which have not yet been approved by the stockholders' meeting are potential common shares. Only basic earnings per share are disclosed if there is no dilution effect. Otherwise, both basic and diluted earnings per share are disclosed. For the purpose of calculating diluted net income per share, the potential common shares are deemed to have been converted into common stock at the beginning of the period, and the effect on net income of the additional common shares outstanding is considered accordingly.

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**CHINESE MARITIME TRANSPORT LTD.**

**Notes to Financial Statements**

**(3) Changes in Accounting Policy**

- (a) Effective from January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 39 (SFAS No. 39) and Interpretation (96) 052 issued by the ARDF. In accordance with SFAS No. 39 and the above Interpretation, the Company classified, measured, recognized and disclosed the share-based payment transactions, employees' bonuses, and directors' and supervisors' remuneration. Accordingly, net income decreased by \$51,180 (including \$55 for domestic subsidiaries) and earnings per share by 0.20 New Taiwan dollars. In accordance with the Interpretation issued by ARDF, the new shares issued as employees' bonuses in 2008 and later years are no longer retroactively adjusted when calculating basic earnings per share and diluted earnings per share. If the employees' bonuses in the form of stock have a dilution effect, it should be considered when calculating diluted earnings per share.
- (b) Effective from January 1, 2007, the Company adopted the newly pronounced Statement of Financial Accounting Standards No. 37 (SFAS No. 37) "Intangible Assets". In accordance with SFAS No. 37, the Company reevaluated the useful lives and the amortization method used for recognized intangible assets at the beginning of the financial year, and there was no need to change the useful lives or the amortization method.

**(4) Cash and Cash Equivalents**

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Petty cash, checking accounts and demand deposits	\$ 229,623	84,083
Time deposits	610,935	-
Cash equivalent – commercial paper	<u>95,778</u>	<u>174,721</u>
	<b>\$ <u>936,336</u></b>	<b><u>258,804</u></b>

**(5) Financial Instruments**

The Company has not invested in any derivative financial instruments during the six-month periods ended June 30, 2008 and 2007. The non-derivative financial instruments held by the Company as of June 30, 2008 and 2007, were as follows:

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Financial assets measured at fair value through profit or loss:		
Financial assets held for trading:		
Listed stocks	\$ 166,480	-
Open-end mutual funds	<u>-</u>	<u>23,928</u>
	<b>\$ <u>166,480</u></b>	<b><u>23,928</u></b>

As of June 30, 2008 and 2007, the unrealized gain on financial assets measured at fair value through profit or loss from changes in fair value amounted to \$20,408 and \$1,843, respectively.

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## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

## (6) Notes and Accounts Receivable – Third Parties

	June 30, 2008	June 30, 2007
Notes receivable	\$ 5,714	4,921
Accounts receivable	136,778	120,016
Less: allowance for doubtful accounts	<u>(1,790)</u>	<u>(1,790)</u>
	<b>\$ <u>140,702</u></b>	<b><u>123,147</u></b>

## (7) Long-term Equity Investments

		June 30, 2008		June 30, 2007
	%	Amount	%	Amount
Chinese Maritime Transport (Hong Kong) Ltd. (CMT HK)	100.00	\$ 4,420,130	100.00	2,498,973
Chinese Maritime Transport (S) Pte Ltd. (CMTS)	100.00	983,173	100.00	1,748,851
Hope Investment Ltd. (HIL)	100.00	732,058	100.00	704,449
CMT Logistics Co., Ltd. (CMTL)	100.00	646,492	100.00	712,641
Mo Hsin Investment Ltd. (MHI)	100.00	458,648	100.00	437,803
AGM Investment Ltd. (AGM)	100.00	411,855	100.00	445,865
Taiwan Navigation Co., Ltd. (Taiwan Navigation)	2.975	375,389	2.450	305,497
Others		<u>218,375</u>		<u>165,483</u>
		8,246,120		7,019,562
Less: accumulated impairment losses		<u>(38,619)</u>		<u>-</u>
		<b>\$ <u>8,207,501</u></b>		<b><u>7,019,562</u></b>

- (a) In order to engage in bulk-carrier transportation, the Company invested in CMTS in Singapore in March 1994 (with current paid-in capital amounting to US\$20,150,000) and CMT HK in Hong Kong in June 2004 (with current paid-in capital amounting to US\$15,000,000). CMTS and CMT HK invested in their respective subsidiaries to engage in the business of bulk-carrier transportation. Those subsidiaries own and operate 5 cape-sized bulk carriers with 800 thousand DWT in total.

Due to the excess of working capital, CMTS decreased its capital and refunded \$575,273 (USD 20,150,000) to the shareholders in the six-month period ended June 30, 2008. The investment income of CMT HK increased because the business of bulk-carrier transportation was profitable.

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## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

- (b) In order to extend bulk-carrier transportation, the Company invested in Taiwan Navigation directly and through its subsidiaries AGM, MHI, HIL, Fortune Marine Investment Ltd. (FMI), and Fortune King Investment Ltd. (FKI) during 2006 to 2008. As of June 30, 2008 and 2007, the percentage of ownership held by the Company and its subsidiaries was 38.021% and 37.496%, respectively, and was accounted for under the equity method. The total market price of the shares amounted to \$8,568,742 and \$5,555,253 as of June 30, 2008 and 2007, respectively. As of June 30, 2008 and 2007, the long-term equity investment in Taiwan Navigation was as follows:

Company	2008.6.30		2007.6.30	
	Carrying value	%	Carrying value	%
The Company	\$ 375,389	2.975	305,497	2.450
HIL	1,859,793	17.149	1,988,572	17.149
MHI	876,691	7.897	937,761	7.897
AGM	790,934	9.990	834,051	9.990
FMI	775	0.005	834	0.005
FKI	775	0.005	834	0.005
	<u>\$ 3,904,357</u>	<u>38.021</u>	<u>4,067,549</u>	<u>37.496</u>

- (c) Because of the operating change of CMTL, the Company assessed that the recoverable amount of CMTL was lower than its carrying value, and recognized an impairment loss of \$38,619 in the first half of 2008. The Company adopted its value in use as the recoverable amount of CMTL, and the discount rate was 2.5%.
- (d) Net investment income on long-term equity investments accounted for under the equity method for the six-month periods ended June 30, 2008 and 2007, amounted to \$1,908,467 and \$1,171,303, respectively. Part of the investment income amounting to \$1,892,231 and \$1,156,331 for the six-month periods ended June 30, 2008 and 2007, respectively, was based on the investees' audited financial statements, and the remainder was based on the investees' unaudited financial statements.
- (e) Cash dividends receivable as of June 30, 2008, amounted to \$415,751 and was recorded as other current financial asset.

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## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

## (8) Property and Equipment / Rental Assets

- (a) The Company's land was revalued in July 1993 according to the government-declared land values. The revaluation was as follows:

	June 30, 2008	June 30, 2007
Revaluation:		
Property and equipment	\$ 202,449	202,449
Rental assets	<u>27,336</u>	<u>27,336</u>
Revaluation increment, gross	229,785	229,785
Less: provision for land value increment tax	<u>(69,000)</u>	<u>(69,000)</u>
Revaluation increment, net	<u>\$ 160,785</u>	<u>160,785</u>

- (b) The rental assets are summarized as follows:

	June 30, 2008	June 30, 2007
Land	\$ 69,879	69,879
Buildings and improvements	42,007	42,007
Revaluation increment – land	<u>27,336</u>	<u>27,336</u>
Cost and revaluation increment	139,222	139,222
Less: accumulated depreciation	<u>(13,637)</u>	<u>(12,088)</u>
Rental assets, net	<u>\$ 125,585</u>	<u>\$ 127,134</u>

Rental income was received in accordance with the rental contracts, which were renewed periodically. The rental income (net of the depreciation expense) for the six-month periods ended June 30, 2008 and 2007, amounted to \$5,428 and \$5,923, respectively. According to the existing rental contracts, the expected rental income to be received in future years is as follows:

Period	Amount
2008.07.01~2009.06.30	\$ 4,822
2009.07.01~2009.12.31	<u>2,088</u>
	<u>\$ 6,910</u>

- (c) The pledge information is summarized in note 17.

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

## (9) Short-term Loans and Commercial Paper Payable

	June 30, 2008	June 30, 2007
Credit loans	\$ 80,000	430,000
Secured loans	-	943,630
Commercial paper payable	230,000	100,000
Less: discount on commercial paper payable	<u>(333)</u>	<u>(45)</u>
	<b><u>\$ 309,667</u></b>	<b><u>1,473,585</u></b>
Unused credit lines	<b><u>\$ 720,000</u></b>	<b><u>1,356,370</u></b>
Range of interest rates	<b>2.678%~2.75%</b>	<b>1.778%~3.025%</b>

The Company's collateral for loans was land, buildings, and guarantee with time deposit from related party CMTS as of June 30, 2007, as summarized in notes 16 and 17. The Company did not provide any pledged asset for the above-mentioned loans as of June 30, 2008.

## (10) Long-term Loans

Bank	Usage and redemption period	June 30, 2008	June 30, 2007
China Development Industrial Bank	Working capital (repay principal in full in 2009.8)	\$ 200,000	200,000
China Development Industrial Bank	Working capital (repay principal in full in 2010.5)	300,000	300,000
Taipei Fubon Bank	Working capital (eight installments, quarterly, 2008.5~2010.2)	175,000	200,000
Far Eastern International Bank	Working capital (four installments, quarterly, 2009.4~2010.1)	199,908	199,896
Standard Chartered Bank (formerly Hsinchu International Bank)	Working capital (repay principal in full in 2009.5)	150,000	150,000
Standard Chartered Bank (formerly Hsinchu International Bank)	Working capital (ten installments, quarterly, 2007.9~2009.12)	90,000	150,000
China Development Industrial Bank and seven other participating banks	Working capital (nine installments, quarterly, 2008.9~2010.9)	800,000	-
China Development Industrial Bank and seven other participating banks	Working capital (seven installments, quarterly, 2009.3~2010.9)	650,000	-
China Development Industrial Bank and seven other participating banks	Working capital (repay principal in full in 2010.9)	349,167	-
Mega International Commercial Bank	Working capital (five installments, quarterly, 2007.11~2008.11)	400,000	400,000
Industrial Bank of Taiwan	Working capital (seven installments, semi-annually, 2008.11~2011.11)	200,000	-
Shin Kong Bank	Working capital (repay principal in full in 2009.6)	199,776	-

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

Bank	Usage and redemption period	June 30, 2008	June 30, 2007
Cathay United Bank	Working capital (twelve installments, quarterly, 2007.8~2010.5)	100,000	150,000
Industrial Bank of Taiwan	Working capital (seven installments, semi-annually, 2007.8~2010.8)	70,000	100,000
Industrial Bank of Taiwan	Working capital (seven installments, semi-annually, 2006.11~2009.11)	44,000	72,000
The Shanghai Commercial & Savings Bank, Ltd.	Working capital (repay principal in full in 2009.12)	-	200,000
		<u>3,927,851</u>	<u>2,121,896</u>
Less: current portion		<u>(1,319,046)</u>	<u>(593,000)</u>
		<b>\$ 2,608,805</b>	<b>1,528,896</b>
Range of interest rates		<b>2.58%~3.092%</b>	<b>1.70%~2.95%</b>

- (a) During 2004 to 2008, the Company entered into long-term loan agreements with China Development Industrial Bank, Taipei Fubon Bank, Far Eastern International Bank and Hsinchu International Bank (now Standard Chartered Bank) to obtain credit lines amounting to \$1,115,000 in total. Based on the agreements, the Company committed to maintain specific financial ratios and to providing audited financial statements at the end of each half and full fiscal year.
- (b) During 2007, the Company entered into a long-term loan agreement with China Development Industrial Bank (lead bank) and seven other participating banks to obtain a credit line amounting to \$1,800,000. Based on the agreement, the Company committed to maintain specific financial ratios and to providing audited or reviewed financial statements quarterly. The Company also committed to holding all the shares of CMTS and CMT HK during the loan period, and the shares of Taiwan Navigation directly owned by the Company will not be provided as a pledge.
- (c) The Company issued commercial promissory notes to Far Eastern International Bank, China Development Industrial Bank (lead bank), and Shin Kong Bank amounting to \$750,000. The commercial paper payable will expire within one year, but the underwriter's agreements were over one year. The Company intended to refinance the commercial paper payable to extend the loan period to over one year in the future, and the Company is also able to refinance according to the terms stated in the agreements and related documents. Therefore, the commercial paper payable was recorded under long-term loans.
- (d) The Company did not provide any pledged asset for the above-mentioned loans as of June 30, 2007. The Company's collateral for loans was land and buildings as of June 30, 2008, as summarized in note 17.

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

(e) As of June 30, 2008, the repayment schedule for the long-term loans (without considering discount on commercial paper payable) was as follows:

Period	Amount
2008.07.01~2009.06.30	\$ 1,319,270
2009.07.01~2010.06.30	1,827,984
2010.07.01~2011.06.30	761,746
2011.07.01~2012.06.30	<u>20,000</u>
	<b>\$ <u>3,929,000</u></b>

**(11) Pension**

The related pension information for the Company as of and for the six-month periods ended June 30, 2008 and 2007, was as follows:

	Six-month period ended June 30, 2008	Six-month period ended June 30, 2007
Net pension cost		
Defined benefit pension plan	\$ 6,636	6,936
Defined contribution pension plan	<u>744</u>	<u>580</u>
	<b>\$ <u>7,380</u></b>	<b><u>7,516</u></b>
	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Pension fund deposits in Bank of Taiwan	\$ <u>131,279</u>	<u>132,205</u>
Prepaid pension	<u>-</u>	<u>24,574</u>
Deferred pension cost	<u>9,124</u>	<u>-</u>
Vested benefit	<b>\$ <u>147,401</u></b>	<b><u>137,651</u></b>

**(12) Stockholders' Equity**

## (a) Common stock

Based on a resolution of the stockholders' meeting held on June 28, 2007, the Company declared cash dividends amounting to \$466,315 and increased its capital through the issuance of stock dividends by transferring retained earnings amounting to \$233,158. The registration procedure related to this issuance was completed.

Based on a resolution of the stockholders' meeting held on June 28, 2007, the Company decreased its authorized capital to \$2,331,578 and then increased its authorized capital to \$3,600,000. The registration procedure related to this capital change was completed.

(Continued)

**CHINESE MARITIME TRANSPORT LTD.****Notes to Financial Statements**

As of June 30, 2008 and 2007, the authorized capital was \$3,600,000, at par value of \$10 (New Taiwan dollars) per share.

(b) Reserve and appropriation of retained earnings

(i) Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit or to increase common stock. Cash dividends cannot be declared out of capital surplus. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases by transferring paid-in capital in excess of par value can only commence in the following year.

(ii) Appropriation of retained earnings and dividend policy

According to the Company's articles of incorporation, 10% of annual net income (less payment of corporate income tax and losses of prior years, if any) shall be appropriated as legal reserve, and if a net debit balance of stockholders' equity occurs, the Company should appropriate the same amount as special reserve from retained earnings. Not less than 30% of the remaining balance and the accumulated unappropriated earnings of prior years, if any, should be distributed as follows:

- 2% as employee bonuses.
- Remuneration to directors and supervisors not exceeding 2%.
- The remainder as dividends and bonuses for stockholders.

Dividends are paid in cash or stock from retained earnings, and the amount of cash dividends should not be less than 10% of total dividends. However, if the cash dividend per share is less than \$0.1 (New Taiwan dollar), a stock dividend will be paid instead.

Pursuant to the ROC Company Act, legal reserve may only be used to offset a deficit and cannot be used to pay cash dividends, except that one-half of the legal reserve can be capitalized when it equals at least 50% of the contributed capital.

According to SFB regulations, when the Company has a net debit balance of the stockholders' equity account, there must be an equal special reserve set aside from current net income or unappropriated earnings of prior years. When the debit balance of the stockholders' equity account is reversed, the reversal of the amount of special reserve for distribution is permitted in the following year.

(Continued)

**CHINESE MARITIME TRANSPORT LTD.**

**Notes to Financial Statements**

The Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation in preparing the interim financial statements. The Company recognized employees' bonuses and directors' and supervisors' remuneration of \$35,130 and \$17,565, respectively, in the six-month period ended June 30, 2008, which were 2% and 1%, respectively, of net income after deducting the legal reserve. The number of shares of the dividend distribution will be based on the closing price of the day before the shareholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in 2009.

- (iii) Based on a resolution of the stockholders' meetings held in 2008 and 2007, the earnings distribution relating to employees, directors and supervisors for fiscal years 2007 and 2006 was as follows:

	<b>2007</b>	<b>2006</b>
Employees' bonuses – cash	\$ 41,608	25,247
Directors' and supervisors' remuneration	<u>21,000</u>	<u>12,600</u>
	<b>\$ <u>62,608</u></b>	<b><u>37,847</u></b>

The above earnings distribution had no difference from the resolution by the meeting of the board of directors. Earnings distribution of fiscal year 2008 is still subject to being determined by a meeting of the board of directors and approved in a stockholders' meeting. The related information about earnings distribution can be queried in the Market Observation Post System after the above meetings are held by the Company.

**(13) Income Tax**

- (a) The Company was certified to meet the definition of "Business Operation Headquarters" as defined by the "Statute for Upgrading Industries". According to the statute, the Company can obtain an income tax exemption on dividends declared by the stockholders' meeting of the investee. For years 2008 and 2007, the certification has been obtained.

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

- (b) The income tax rate of the Company is 25%. The Company is also subject to the "Income Basic Tax Act" and has to compute basic income tax starting from January 1, 2006. The Company's income tax expenses as of and for the six-month periods ended June 30, 2008 and 2007, were as follows:

	Six-month period ended June 30, 2008	Six-month period ended June 30, 2007
Current income tax expense	\$ 17,905	14,789
10% surtax on unappropriated earnings	47,893	52,504
Deferred tax expense (benefit):		
Decrease in deferred pension cost and prepaid pension and others	<u>(6,856)</u>	<u>(1,051)</u>
Income tax expense	<u>\$ 58,942</u>	<u>66,242</u>

- (c) The differences between "expected" income tax computed by applying the statutory income tax rate and income tax expenses are summarized as follows:

	Six-month period ended June 30, 2008	Six-month period ended June 30, 2007
"Expected" income tax	\$ 494,375	309,709
10% surtax on unappropriated earnings	47,893	52,504
Tax effect of tax exemption for long-term investment income under equity method	(467,462)	(292,826)
Unrealized gain on financial instruments and others	<u>(15,864)</u>	<u>(3,145)</u>
Income tax expense	<u>\$ 58,942</u>	<u>66,242</u>

- (d) As of June 30, 2008 and 2007, deferred income tax assets (liabilities) were as follows:

	June 30, 2008	June 30, 2007
Deferred income tax assets:		
Foreign currency translation adjustments	\$ <u>53,794</u>	<u>-</u>
Deferred income tax liabilities:		
Reserve for loss on outward investment	(19,525)	(24,540)
Unrealized gain on financial instruments	(2,041)	-
Foreign currency translation adjustments	-	(56,082)
Prepaid pension and deferred pension cost and others	<u>(2,283)</u>	<u>(6,153)</u>
	<u>(23,849)</u>	<u>(86,775)</u>
Deferred income tax liabilities – net	<u>\$ 29,945</u>	<u>(86,775)</u>

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

The deferred tax assets (liabilities) stated above were classified as follows:

	June 30, 2008	June 30, 2007
Deferred tax liabilities – current	\$ (2,041)	(9)
Deferred tax assets (liabilities) – noncurrent	<u>31,986</u>	<u>(86,766)</u>
Deferred income tax assets (liabilities) – net	<u>\$ 29,945</u>	<u>(86,775)</u>

(e) The Company's income tax returns have been examined by the tax authorities through 2005.

(f) Information on imputation credit account (ICA)

	June 30, 2008	June 30, 2007
Unappropriated earnings retained after January 1, 1998	<u>\$ 3,018,004</u>	<u>1,793,108</u>
ICA balance	<u>\$ 202,736</u>	<u>72,204</u>
	<b>2007</b>	<b>2006</b>
Creditable ratio for earnings distribution to resident shareholders in the R.O.C.	<u>6.91%</u> (estimated)	<u>4.82%</u> (actual)

**(14) Basic Earnings per Share**

	Six-month period ended June 30, 2008		Six-month period ended June 30, 2007	
	Before income tax	After income tax	Before income tax	After income tax
Net income	<u>\$ 1,977,540</u>	<u>1,918,598</u>	<u>1,238,875</u>	<u>1,172,633</u>
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	<u>256,474</u>	<u>256,474</u>	<u>256,474</u>	<u>256,474</u>
<b>Basic earnings per share</b>	<u>\$ 7.71</u>	<u>7.48</u>	<u>4.83</u>	<u>4.57</u>
<b>Diluted earnings per share:</b>				
Net income	<u>\$ 1,977,540</u>	<u>1,918,598</u>		
Weighted-average number of shares outstanding (thousands)	256,474	256,474		
Effect of dilutive potential common stock: Employee bonuses	<u>475</u>	<u>475</u>		
	<u>256,949</u>	<u>256,949</u>		
Diluted earnings per share	<u>\$ 7.70</u>	<u>7.47</u>		

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

## (15) Information about Financial Instruments

- (a) The Company did not invest in derivative financial instruments during the six-month periods ended June 30, 2008 and 2007. The book values of non-derivative financial instruments with a short maturity approximate their fair values. As of June 30, 2008 and 2007, the fair values of other non-derivative financial instruments were as follows:

Non-derivative financial instruments	June 30, 2008		June 30, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Financial assets measured at fair value through profit or loss – current	\$ 166,480	166,480	23,928	23,928
Other non-current financial assets	1,021,000	1,021,000	-	-
Financial liabilities:				
Long-term loans	3,927,851	3,927,851	2,121,896	2,121,896
Off-balance-sheet financial instruments:				
Guarantee for bank loans	-	1,991,480	-	662,260

- (b) The following methods and assumptions were used in estimating fair values:
- (i) The book value of short-term financial instruments is considered to be the fair value because of the short-term nature of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. Such method is applicable to cash and cash equivalents, notes and accounts receivable or payable, other receivable – related parties, other current financial assets, short-term loans, and accrued expenses.
  - (ii) If public quoting of financial assets and liabilities is available, then the quoted price will be the fair value. If market value is not available, an assessment method will be used. The assumptions used by financial market traders for similar financial instruments when quoting their prices are used as a reference. The points of similarity include the credit rating of the debt, the method of computing interest expense for the remaining period of contracts, the payment of principal, and the currency.
  - (iii) The fair values of other non-current financial assets and the long-term loans were based on the present value of future cash flow, and the discount rates were the interest rates of similar loan agreements which the Company could obtain. The fair values approximate their book values on the balance sheet date.
  - (iv) The fair values of bank loan guarantees are based on the loan contracts.

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

- (c) The fair value of the financial instruments evaluated by the Company under public quoting or an assessment method is summarized as follows:

	<u>June 30, 2008</u>		<u>June 30, 2007</u>	
	<u>Public quote value</u>	<u>Assessment value</u>	<u>Public quote value</u>	<u>Assessment value</u>
Financial assets:				
Cash and cash equivalents	\$ 936,336	-	258,804	-
Financial assets measured at fair value through profit or loss – current	166,480	-	23,928	-
Notes and accounts receivable (including related parties)	-	219,778	-	208,183
Other current financial assets	-	463,828	-	850,270
Other non-current financial assets	-	1,021,000	-	-
Financial liabilities:				
Short-term loans and commercial paper payable	-	309,667	-	1,473,585
Notes and accounts payable	-	170,951	-	176,002
Accrued expenses and other payables	-	258,865	-	179,883
Cash dividends payable	-	1,538,841	-	466,315
Long-term loans	-	3,927,851	-	2,121,896

There were no net gains resulting from an assessment method for the six-month periods ended June 30, 2008 and 2007.

- (d) Information about significant financial risk

- (i) Market risk

The equity securities held by the Company, other than those accounted for under the equity method, are classified as financial assets measured at fair value through gain or loss. As these assets are measured at fair value, the Company has risk exposure related to changes in fair value in an equity securities market.

(Continued)

**CHINESE MARITIME TRANSPORT LTD.****Notes to Financial Statements**

## (ii) Credit risk

The primary potential credit risk is from financial instruments like cash, cash equivalents, equity securities accounted for other than under the equity method, and accounts receivable. The Company's cash deposits are maintained with different financial institutions. Cash equivalents represent investments in bonds purchased under resale agreements with a maturity of three months or less from the date of investment. Equity securities accounted for other than equity method were funds and listed stock issued by a company with a good credit ratings. The Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk of cash and cash equivalents. The aggregation of sales to the Company's major customers exceeding 10% of the Company's total sales accounted for 82% and 81% of the total net sales for the six-month periods ended June 30, 2008 and 2007, respectively. In order to reduce credit risk, the Company assesses the financial status of the customers and the possibility of collection of receivables in order to estimate an adequate allowance for doubtful accounts on a regular basis. The customers have had a good credit and profit record. The Company has never suffered a significant credit loss.

## (iii) Liquidity risk

As the capital and working capital of the Company are sufficient to fulfill all contract obligations, there is no liquidity risk related to unfulfilled contract obligations. The fund and securities invested by the Company have quoted prices and could be sold back or sold in public at the approximate market price.

## (iv) Cash flow risk from changes in interest rates

The Company's short-term and long-term loans are both based on floating interest rates. Changes in the prevailing market rate will affect the interest on short-term and long-term loans and cause future cash flows to fluctuate. The Company will increase its cash outflow by \$10,598 in the following year for every 0.25% increase in the market rate, based on the loan balances outstanding at June 30, 2008.

(Continued)

**CHINESE MARITIME TRANSPORT LTD.**

**Notes to Financial Statements**

**(16) Related-party Transactions**

(a) Names of related parties and their relationship with the Company

<b>Related Party</b>	<b>Relationship</b>
CMTS	Subsidiary company
CMT HK	"
HIL	"
AGM	"
MHI	"
Chang Shun Transport Co., Ltd. (CST)	"
Huang Yuen Transport Co., Ltd. (HYT)	"
Associated Transport Inc. (ATI)	"
Mao Hua Transport Ltd. (MHT)	"
AG Prosperity Transport Ltd. (APT)	"
China Peace Shipping Ltd. (CPE)	Subsidiary company of CMT HK
China Pioneer Shipping Ltd. (CPN)	Subsidiary company of CMT HK
China Pride Shipping Ltd. (CPD)	Subsidiary company of CMT HK
Orient Overseas Container Line (Taiwan) Limited (OTWL)	Related party in essence
Associated International Inc. (AII)	AII's chairman of the board of directors is the same as the Company's, and AII also is a director of the Company
CMT Land Development Inc. (CMD)	Subsidiary company of AII

(b) Summary of significant transactions with related parties

(i) Freight revenue

	<b>Six-month period ended June 30, 2008</b>		<b>Six-month period ended June 30, 2007</b>	
	<b>Amount</b>	<b>% of freight revenue</b>	<b>Amount</b>	<b>% of freight revenue</b>
OTWL	\$ 384,820	38	317,080	38
Others	56	-	-	-
	<u>\$ 384,876</u>	<u>38</u>	<u>317,080</u>	<u>38</u>

The collection periods for related parties are similar to those for ordinary customers: within 30 to 45 days. There are several different conditions in the service contracts with different parties. If the contracts have similar conditions, the selling prices for related parties and ordinary customers are not significantly different.

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

Accounts receivable resulting from the above transactions were as follows:

	June 30, 2008		June 30, 2007	
	Amount	%	Amount	%
OTWL	\$ 79,075	36	85,036	41
Others	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>\$ <u>79,076</u></b>	<b><u>36</u></b>	<b><u>85,036</u></b>	<b><u>41</u></b>

(ii) Freight expense

	Six-month period ended June 30, 2008		Six-month period ended June 30, 2007	
	Amount	% of freight expense	Amount	% of freight expense
HYT	\$ 55,116	10	46,514	10
ATI	54,470	10	26,930	6
CST	47,433	9	38,778	9
MHT	34,306	6	16,919	4
APT	<u>31,692</u>	<u>6</u>	<u>23,139</u>	<u>5</u>
	<b>\$ <u>223,017</u></b>	<b><u>41</u></b>	<b><u>152,280</u></b>	<b><u>34</u></b>

The Company engaged related parties to handle container hauling transport. The prices were similar to market prices, and the service charges were paid depending on the cash and operational demands of the subsidiaries.

Accounts payable resulting from the above transactions were as follows:

	June 30, 2008		June 30, 2007	
	Amount	%	Amount	%
HYT	\$ 10,117	6	10,079	5
ATI	9,873	6	4,689	3
CST	19,373	11	18,640	11
MHT	6,053	4	6,107	3
APT	<u>5,637</u>	<u>3</u>	<u>5,290</u>	<u>3</u>
	<b>\$ <u>51,053</u></b>	<b><u>30</u></b>	<b><u>44,805</u></b>	<b><u>25</u></b>

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

## (iii) Ship management, temporary debits and temporary credits

The Company charged CMTS and CMT HK a ship management fee (US\$10,000 per vessel per month) and recorded it as operating revenue. The Company charged a 1.25% commission on the rental revenue of the ships that CMTS and CMT HK chartered to their clients. The ship management fee and commission income for the six-month periods ended June 30, 2008 and 2007, were as follows:

<b>Ship management fee</b>	<b>Six-month period ended June 30, 2008</b>	<b>Six-month period ended June 30, 2007</b>
CMTS	\$ 3,866	3,932
CMT HK	<u>5,820</u>	<u>5,924</u>
	<b>\$ <u>9,686</u></b>	<b><u>9,856</u></b>
<b>Commission income</b>	<b>Six-month period ended June 30, 2008</b>	<b>Six-month period ended June 30, 2007</b>
CMTS	\$ 9,159	7,513
CMT HK	<u>6,467</u>	<u>2,887</u>
	<b>\$ <u>15,626</u></b>	<b><u>10,400</u></b>

The Company received temporary credits to pay various expenses in the ROC on behalf of CMTS and CMT HK. The advance receipts recorded as other current liabilities are summarized as follows:

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
CMTS	\$ 10,250	6,413
CMT HK	<u>26,361</u>	<u>10,160</u>
	<b>\$ <u>36,611</u></b>	<b><u>16,573</u></b>

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

## (iv) Operating expenses

The Company's rental payment to related parties for parking space is summarized below:

	Six-month period ended June 30, 2008		Six-month period ended June 30, 2007	
	Amount	% of operating expenses	Amount	% of operating expenses
CMD	\$ 2,006	1	3,141	3
AII	<u>1,862</u>	<u>1</u>	<u>1,862</u>	<u>2</u>
	<u>\$ 3,868</u>	<u>2</u>	<u>5,003</u>	<u>5</u>

- (v) The Company purchased land and buildings for business use from CMD. The purchase price was \$3,534, based on the appraisal report issued by China Credit Information Service, Ltd. and negotiation by the two parties. The ownership was transferred in January 2008, and the total price has been paid.

## (vi) Financing

The Company's loans to related parties were as follows:

	June 30, 2008				
	Maximum balance	Ending balance	Interest rate	Interest income	Interest receivable
HIL	\$ 900,000	900,000	2.5%~2.7%	11,574	1,997
MHI	260,000	110,000	2.5%~2.7%	2,351	244
ATI	32,000	23,000	2.5%~2.7%	380	-
HYT	20,000	12,000	2.5%~2.7%	212	-
APT	13,500	7,500	2.5%~2.7%	153	-
MHT	13,500	<u>6,750</u>	2.5%~2.7%	<u>147</u>	-
		<u>\$ 1,059,250</u>		<u>14,817</u>	<u>2,241</u>

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

	<b>June 30, 2007</b>				
	<b>Maximum balance</b>	<b>Ending balance</b>	<b>Interest rate</b>	<b>Interest income</b>	<b>Interest receivable</b>
HIL	\$ 600,000	600,000	2.00%	3,462	-
MHI	300,000	200,000	2.00%	1,874	-
HYT	40,000	30,000	2.00%	357	-
APT	13,000	6,500	2.00%	111	-
AGM	50,000	-	2.00%	200	-
ATI	7,000	-	2.00%	54	-
		<b>\$ <u>836,500</u></b>		<b><u>6,058</u></b>	<b><u>-</u></b>

The above loans to related parties were provided to support subsidiaries' operational and financial needs. Interest charged on the loans has been agreed with subsidiaries. As of June 30, 2008 and 2007, the long-term loans due within one year amounting to \$38,250 and \$836,500, respectively, were recorded as other current financial assets, with the remaining balance amounting to \$1,021,000 and \$0, respectively, recorded as other non-current financial assets.

For operating needs, the Company received interest-free financing from CMT HK and CPE amounting to \$456,000 (USD 15,000,000) and \$304,000 (USD 10,000,000), respectively. The financing had been fully repaid as of June 30, 2008.

## (vii) Guarantees

The Company provided the following guarantees for related parties:

<b>Guarantee</b>	<b>Subject</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
CPD	Guarantee for payment of bulk-carrier construction	\$ 955,710	-
CPE	Bank loans	550,330	622,260
CPN	Guarantee for payment of bulk-carrier construction	<u>485,440</u>	<u>-</u>
		<b>\$ <u>1,991,480</u></b>	<b><u>622,260</u></b>

As of June 30, 2007, a related party had provided a guarantee in the form of a time deposit of \$572,750 (USD 17,430,000) for part of the Company's bank loans as follows:

<b>Guarantor</b>	<b>Bank</b>	<b>Purpose</b>	<b>June 30, 2007</b>
CMTS	Shanghai Commercial Bank Ltd.	Guarantee for short-term loans	<b>\$ <u>572,750</u></b>

(Continued)

## CHINESE MARITIME TRANSPORT LTD.

## Notes to Financial Statements

## (17) Pledged Assets

Assets	Subject	June 30, 2008	June 30, 2007
Refundable deposits	Guarantee for letters of credit and others	\$ 8,554	12,685
Refundable deposits – negotiable time deposits	Guarantee for provisional injunction against Taiwan Navigation (note)	543,700	543,700
Property and equipment – land and buildings	Short-term and long-term loans	205,693	205,729
Rental assets – land and buildings	Short-term and long-term loans	<u>53,448</u>	<u>53,953</u>
		<b>\$ <u>811,395</u></b>	<b><u>816,067</u></b>

(note) The provisional injunction against Taiwan Navigation is stated in note 19(c). Because the refundable deposits were expected to be returned in the third quarter of 2008, the deposits were recorded as current assets.

## (18) Commitments and Contingent Liabilities

- (a) See note 16(b)(vii) for guarantees provided for related parties.
- (b) In order to extend its business scale, CMT HK took over two bulk-carrier construction contracts from a third party on September 28, 2007, and May 8, 2008. The related information was as follows:

<u>The date of contract</u>	<u>Total price</u>	<u>Estimated delivery</u>	<u>Price paid</u>
September 28, 2007	\$ 2,427,200 (USD 80,000,000)	June 2011	968,969 (USD 31,937,000)
May 8, 2008	3,185,700 (USD 105,000,000)	September 2009	1,256,197 (USD 41,404,000)

## (19) Others

- (a) Reserve for loss on outward investment

The Company has provided a reserve for loss on outward investment, in accordance with the “Statute for Upgrading Industries”. The amount was computed at 20% of the total amount of outward investment, which is the limit stipulated by the “Statute for Upgrading Industries”. The statute also stipulates that if there are no actual losses in the five years after the initial provision for the reserve, the loss reserve should be reversed and recognized as income in the fifth year.

(Continued)

**CHINESE MARITIME TRANSPORT LTD.**

**Notes to Financial Statements**

However, as provision of such reserve is not in accordance with generally accepted accounting principles, the loss reserve is reversed during the preparation of the financial statements, but the Company does not adjust the books. Accordingly, the net income and retained earnings on the Company's books are increased (decreased) by the following amounts:

	<b>Six-month period ended June 30, 2008</b>	<b>Six-month period ended June 30, 2007</b>
Increase in net income	\$ 20,058	-
Decrease in retained earnings	(78,100)	(98,158)

- (b) Employee expenses, depreciation expenses, and amortization expenses for the six-month periods ended June 30, 2008 and 2007, were as follows:

	<b><u>Six-month period ended June 30, 2008</u></b>		
	<b>Cost of sales</b>	<b>Operating expenses</b>	<b>Total</b>
Employee expenses			
Salaries and wages	\$ 917	106,371	107,288
Labor and health insurance	64	3,176	3,240
Pension expense	64	7,316	7,380
Other	108	2,157	2,265
Depreciation expenses (note)	6,223	5,263	11,486
Amortization expenses	-	777	777

	<b><u>Six-month period ended June 30, 2007</u></b>		
	<b>Cost of sales</b>	<b>Operating expenses</b>	<b>Total</b>
Employee expenses			
Salaries and wages	\$ 1,100	49,446	50,546
Labor and health insurance	68	3,048	3,116
Pension expense	68	7,448	7,516
Other	107	1,893	2,000
Depreciation expenses (note)	4,502	4,871	9,373
Amortization expenses	-	777	777

(note) excluding the amount recorded as a deduction from rental income of \$761 and \$802 for the six-month periods ended June 30, 2008 and 2007, respectively.

(Continued)

**CHINESE MARITIME TRANSPORT LTD.****Notes to Financial Statements**

## (c) Status of lawsuit with Taiwan Navigation

In order to defend the Company's rights regarding the investee company Taiwan Navigation, the Company initiated lawsuits related to Taiwan Navigation, and the status of the lawsuits was as follows:

<b>Lawsuit</b>	<b>The Status of the Lawsuit</b>
(i) Resolution of Taiwan Navigation's directors' meeting about exchanging shares with Yang Ming Marine Transport Corp.	Taiwan Navigation withdrew the application to exchange shares with Yang Ming Marine Transport Corp. from the Securities and Futures Bureau on December 12, 2007. Therefore, the Company canceled its appeal regarding the exchange of shares resolution approved by Taiwan Navigation's board meeting on December 20, 2007. During January 2008, the Company withdrew the provisional injunction against Taiwan Navigation's directors, and also applied for the return of a negotiable time deposit of \$543,700 as a guarantee for provisional injunction. The application for returning the refundable deposit of \$543,700 is still being reviewed by the Taipei District Court.
(ii) Petition about Taiwan Navigation's delay in holding a stockholders' meeting	The Appeal Committee of the Executive Yuan dismissed the case on December 4, 2007.
(iii) Application for termination of the Ministry of Economic Affairs' approval of Taiwan Navigation's delay in holding a stockholders' meeting	The Taiwan Supreme Administrative Court dismissed the Company's appeal on August 16, 2007.
(iv) Civil action regarding Taiwan Navigation's 2007 stockholders' meeting resolution	The Company had initiated a civil action on December 13, 2007, demanding that the resolution of Taiwan Navigation's stockholders' meeting in 2007 be declared null and void. The Company withdrew the action as conditions changed.

## (d) Reclassification

Certain accounts in the financial statements for the six-month period ended June 30, 2007, have been reclassified to conform to the 2008 presentation. Such reclassification does not have a significant impact on the accompanying financial statements.

**CHINESE MARITIME TRANSPORT LTD.**

**Balance Sheets**

**June 30, 2008 and 2007**

(expressed in thousands of New Taiwan dollars)

<b>Assets</b>	<b>2008</b>		<b>2007</b>		<b>Liabilities and Stockholders' Equity</b>	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (note 4)	\$ 936,336	8	258,804	3	Short-term loans and commercial paper payable (note 9)	\$ 309,667	3	1,473,585	16
Financial assets measured at fair value through profit or loss – current (note 5)	166,480	1	23,928	-	Notes and accounts payable	119,898	1	131,197	1
Notes and accounts receivable (note 6)	140,702	1	123,147	1	Accounts payable – related parties (note 16)	51,053	-	44,805	-
Accounts receivable – related parties (note 16)	79,076	1	85,036	1	Accrued expenses and other payables	258,865	2	179,883	2
Other current financial assets (notes 7 and 16)	463,828	4	850,270	9	Cash dividends payable	1,538,841	13	466,315	5
Other current assets	14,794	-	5,808	-	Other current liabilities (notes 13 and 16)	12,048	-	5,272	-
Refundable deposits – current (note 17)	543,700	5	-	-	Current portion of long-term loans (note 10)	1,319,046	11	593,000	6
	<u>2,344,916</u>	<u>20</u>	<u>1,346,993</u>	<u>14</u>		<u>3,609,418</u>	<u>30</u>	<u>2,894,057</u>	<u>30</u>
<b>Investments:</b>					<b>Long-term liabilities:</b>				
Long-term investments under equity method (note 7)	8,207,501	67	7,019,562	74	Long-term loans (note 10)	2,608,805	21	1,528,896	16
Other non-current financial assets (note 16)	1,021,000	8	-	-	Provision for land value increment tax (note 8)	69,000	1	69,000	1
	<u>9,228,501</u>	<u>75</u>	<u>7,019,562</u>	<u>74</u>		<u>2,677,805</u>	<u>22</u>	<u>1,597,896</u>	<u>17</u>
<b>Property and equipment (notes 8, 16 and 17):</b>					<b>Other liabilities:</b>				
Land	131,437	1	128,112	1	Deferred income tax liabilities and others (note 13)	479	-	87,245	1
Buildings	48,835	-	44,055	-	<b>Total liabilities</b>	<u>6,287,702</u>	<u>52</u>	<u>4,579,198</u>	<u>48</u>
Transportation equipment	152,485	1	154,199	2	<b>Common stock (note 12)</b>	<u>2,564,736</u>	<u>21</u>	<u>2,331,578</u>	<u>25</u>
Furniture, fixtures and other equipment	104,946	1	78,952	1	<b>Stock dividends to be distributed (note 12)</b>	-	-	<u>233,158</u>	<u>2</u>
Land revaluation increment	202,449	2	202,449	2	<b>Capital surplus (note 12)</b>	<u>42,503</u>	-	<u>42,503</u>	-
	640,152	5	607,767	6	<b>Retained earnings (note 12):</b>				
Less: accumulated depreciation	(195,617)	(1)	(194,134)	(2)	Legal reserve	480,427	4	249,274	3
Prepayment for purchase of equipment	-	-	8,623	-	Unappropriated earnings	3,018,004	25	1,793,108	19
	<u>444,535</u>	<u>4</u>	<u>422,256</u>	<u>4</u>		<u>3,498,431</u>	<u>29</u>	<u>2,042,382</u>	<u>22</u>
<b>Intangible assets:</b>					<b>Equity adjustments:</b>				
Deferred pension cost (note 11)	9,124	-	-	-	Cumulative translation adjustments	(324,738)	(3)	170,385	2
Computer software	2,891	-	4,445	-	Net loss not recognized as pension cost	(11,583)	-	-	-
	<u>12,015</u>	-	<u>4,445</u>	-	Unrealized gains on financial instruments	42,261	-	1,840	-
<b>Other assets:</b>					Unrealized land revaluation increment (note 8)	101,491	1	101,491	1
Rental assets (notes 8 and 17)	125,585	1	127,134	2		<u>(192,569)</u>	<u>(2)</u>	<u>273,716</u>	<u>3</u>
Refundable deposits (note 17)	13,265	-	557,571	6	<b>Total stockholders' equity</b>	5,913,101	48	4,923,337	52
Deferred income tax assets – non-current (note 13)	31,986	-	-	-	<b>Commitments and contingencies (note 18)</b>	-	-	-	-
Prepaid pension (note 11)	-	-	24,574	-					
	<u>170,836</u>	<u>1</u>	<u>709,279</u>	<u>8</u>	<b>Total liabilities and stockholders' equity</b>	<u>\$ 12,200,803</u>	<u>100</u>	<u>9,502,535</u>	<u>100</u>
<b>Total assets</b>	<b>\$ 12,200,803</b>	<b>100</b>	<b>9,502,535</b>	<b>100</b>					

See accompanying notes to financial statements.

**CHINESE MARITIME TRANSPORT LTD.**

**Statements of Changes in Stockholders' Equity**

**For the six-month periods ended June 30, 2008 and 2007**  
(expressed in thousands of New Taiwan dollars)

	Common stock	Stock dividends to be distributed	Capital surplus	Retained earnings Legal reserve	Unappropriated earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gains on financial instruments	Unrealized land revaluation increment	Total
<b>Balance as of December 31, 2006</b>	\$ 2,331,578	-	42,503	109,012	1,498,057	150,820	-	328	101,491	4,233,789
Appropriations:										
Legal reserve	-	-	-	140,262	(140,262)	-	-	-	-	-
Employees' bonuses, and directors' and supervisors' remuneration	-	-	-	-	(37,847)	-	-	-	-	(37,847)
Dividends (cash and stock)	-	233,158	-	-	(699,473)	-	-	-	-	(466,315)
Net income for the six-month period ended June 30, 2007	-	-	-	-	1,172,633	-	-	-	-	1,172,633
Unrealized gain on financial instruments – long-term investment under equity method	-	-	-	-	-	-	-	1,512	-	1,512
Foreign currency translation adjustments	-	-	-	-	-	19,565	-	-	-	19,565
<b>Balance as of June 30, 2007</b>	<u>\$ 2,331,578</u>	<u>233,158</u>	<u>42,503</u>	<u>249,274</u>	<u>1,793,108</u>	<u>170,385</u>	<u>-</u>	<u>1,840</u>	<u>101,491</u>	<u>4,923,337</u>
<b>Balance as of December 31, 2007</b>	\$ 2,564,736	-	42,503	249,274	2,932,008	92,666	(11,583)	44,241	101,491	6,015,336
Appropriations:										
Legal reserve	-	-	-	231,153	(231,153)	-	-	-	-	-
Employees' bonuses, and directors' and supervisors' remuneration	-	-	-	-	(62,608)	-	-	-	-	(62,608)
Dividends	-	-	-	-	(1,538,841)	-	-	-	-	(1,538,841)
Net income for the six-month period ended June 30, 2008	-	-	-	-	1,918,598	-	-	-	-	1,918,598
Unrealized gain on financial instruments – long- term investment under equity method	-	-	-	-	-	-	-	(1,980)	-	(1,980)
Foreign currency translation adjustments	-	-	-	-	-	(417,404)	-	-	-	(417,404)
<b>Balance as of June 30, 2008</b>	<u>\$ 2,564,736</u>	<u>-</u>	<u>42,503</u>	<u>480,427</u>	<u>3,018,004</u>	<u>(324,738)</u>	<u>(11,583)</u>	<u>42,261</u>	<u>101,491</u>	<u>5,913,101</u>

See accompanying notes to financial statements.