

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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## **Independent Auditors' Report**

The Board of Directors  
Dong Lien Maritime S.A. (Panama)

We have audited the accompanying consolidated balance sheets of Dong Lien Maritime S.A. (Panama) and subsidiaries as of June 30, 2006 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the half-years then ended (expressed in U.S. dollars). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Republic of China generally accepted auditing standards. 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dong Lien Maritime S.A. (Panama) and subsidiaries as of June 30, 2006 and 2005, and the results of their operations and their cash flows for the half-years then ended, in conformity with Republic of China generally accepted accounting principles.

August 13, 2006  
Taipei, Taiwan, R.O.C.

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.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2006 AND 2005**  
**(expressed in U.S. dollars)**

<u>ASSETS</u>	June 30			
	2006		2005	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 4(1))	\$ 26,200,356	9	13,427,988	5
Financial assets at fair value through profit or loss (Note 4(2))	1,000,000	-	4,529,152	2
Accounts receivable, net	127,055	-	709,400	-
Other accounts receivable—related party (Note 5)	3,406,741	1	-	-
Agency current accounts (Note 5)	9,291,922	3	5,877,005	2
Other financial assets—current (Note 8)	672,098	-	1,440,842	-
Inventories	2,344,828	1	1,650,726	1
Prepayments and other current assets (Note 5)	1,876,378	1	722,889	-
Restricted assets (Note 6)	-	-	491,667	-
	<u>44,919,378</u>	<u>15</u>	<u>28,849,669</u>	<u>10</u>
<b>FUNDS AND INVESTMENTS (Note 4(3))</b>				
Long-term equity investments—equity method	2,156,271	1	2,030,303	1
Financial assets carried at cost—noncurrent (Note 4(2))	1,141,688	-	912,720	-
	<u>3,297,959</u>	<u>1</u>	<u>2,943,023</u>	<u>1</u>
<b>PROPERTY AND EQUIPMENT (Notes 4(4) and 6)</b>				
Vessel equipment	304,279,245	103	291,592,576	106
Leasehold improvements	101,791	-	171,652	-
Prepayments for business facilities	10,959,355	4	5,124,001	2
Less: accumulated depreciation	( 72,860,211)	( 25)	( 61,738,481)	( 22)
	<u>242,480,180</u>	<u>82</u>	<u>235,149,748</u>	<u>86</u>
<b>OTHER ASSETS</b>				
Deposits-out (Note 7(2))	3,000,000	1	5,548,507	2
Deferred charges	2,355,330	1	2,688,049	1
	<u>5,355,330</u>	<u>2</u>	<u>8,236,556</u>	<u>3</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 296,052,847</u></b>	<b><u>100</u></b>	<b><u>275,178,996</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 1,564,706	1	1,561,435	1
Accrued expenses	1,448,799	-	1,614,875	1
Agency current accounts (Note 5)	609,840	-	677,636	-
Collections in advance and other current liabilities (Note 5)	1,655,050	1	3,252,319	1
Current portion of long-term loans (Note 4(5))	15,877,967	5	20,434,864	7
	<u>21,156,362</u>	<u>7</u>	<u>27,541,129</u>	<u>10</u>
<b>LONG-TERM LIABILITIES</b>				
Long-term loans (Note 4(5))	121,145,484	41	128,446,369	47
<b>OTHER LIABILITIES</b>				
Unrealized gain on sale and leaseback	-	-	3,460	-
<b>TOTAL LIABILITIES</b>	<u>142,301,846</u>	<u>48</u>	<u>155,990,958</u>	<u>57</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock (Note 4(6))	60,851,392	21	60,851,392	22
Retained earnings	92,899,609	31	58,336,646	21
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>153,751,001</u>	<u>52</u>	<u>119,188,038</u>	<u>43</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 296,052,847</u></b>	<b><u>100</u></b>	<b><u>275,178,996</u></b>	<b><u>100</u></b>

**The accompanying notes are an integral part of the consolidated financial statements.**

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE HALF-YEARS ENDED JUNE 30, 2006 AND 2005**  
(expressed in U.S. dollars)

	<b>January 1 ~ June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating revenue, net</b>	\$ 47,612,573	100	50,520,512	100
<b>Operating costs</b>	29,496,316	62	27,446,331	54
<b>Operating gross profit</b>	18,116,257	38	23,074,181	46
<b>Operating expenses</b>	526,709	1	489,577	1
<b>Operating income</b>	17,589,548	37	22,584,604	45
<b>Nonoperating income</b>				
Interest income	610,368	1	156,382	-
Investment gain – equity method (Note 4(3))	219,693	1	280,144	1
Cash dividends (Note 4(2))	266,380	1	28,500	-
Gain on disposal of property and equipment	865	-	2,595	-
Foreign exchange gain	-	-	1,772,811	4
Other income	651,155	1	618,415	1
	1,748,461	4	2,858,847	6
<b>Nonoperating expenses</b>				
Interest expense	3,452,266	7	2,514,490	5
Loss on disposal of investments	-	-	10,811	-
Foreign exchange loss	1,209,529	3	-	-
Other expenses	168,495	-	39,103	-
	4,830,290	10	2,564,404	5
<b>Net income</b>	<b>\$ 14,507,719</b>	<b>31</b>	<b>22,879,047</b>	<b>46</b>
Earnings per share (Note 4(7))	<b>\$ 0.24</b>		<b>0.38</b>	

**The accompanying notes are an integral part of the consolidated financial statements.**

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE HALF-YEARS ENDED JUNE 30, 2006 AND 2005**  
(expressed in U.S. dollars)

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balances, January 1, 2005</b>	\$ 60,851,392	39,493,165	100,344,557
Cash dividends	-	( 4,035,566)	( 4,035,566)
Net income for January 1 ~ June 30, 2005	-	22,879,047	22,879,047
<b>Balance, June 30, 2005</b>	<b>\$ 60,851,392</b>	<b>58,336,646</b>	<b>119,188,038</b>
<b>Balances, January 1, 2006</b>	\$ 60,851,392	78,391,890	139,243,282
Net income for January 1 ~ June 30, 2006	-	14,507,719	14,507,719
<b>Balance, June 30, 2006</b>	<b>\$ 60,851,392</b>	<b>92,899,609</b>	<b>153,751,001</b>

The accompanying notes are an integral part of the consolidated financial statements.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE HALF- YEARS ENDED JUNE 30, 2006 AND 2005**  
**(expressed in U.S. dollars)**

	January 1 ~ June 30	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 14,507,719	22,879,047
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	7,429,831	6,418,262
Amortization	939,029	678,133
Gain on disposal of property and equipment	( 865)	( 2,595)
Investment gain—equity method	( 219,693)	( 280,144)
Loss on disposal of investments	-	10,811
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	2,000,000	( 4,539,963)
Accounts receivable, net	441,280	99,232
Agency current accounts (debit)	( 1,867,850)	( 3,148,389)
Other financial assets—current	388,407	1,210,995
Inventories	( 346,604)	( 39,110)
Prepayments and other current assets	( 741,442)	1,223,219
Accounts payable	( 431,117)	158,263
Accrued expenses	( 355,468)	10,424
Agency current accounts (credit)	( 288,966)	135,829
Collections in advance and other current liabilities	( 375,369)	825,416
<b>Net cash provided by operating activities</b>	<u>21,078,892</u>	<u>25,639,430</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease in restricted assets	491,667	-
Purchases of property and equipment	( 24,797,646)	( 40,784,182)
Purchase of long-term investments	-	( 314,323)
Proceeds from repayment of long-term investments	277,115	-
Proceeds from sale of property and equipment	2,000,000	-
Increase in deferred charges	( 872,872)	( 1,649,256)
Decrease in deposits-out	1,898,507	4,644,999
<b>Net cash used in investing activities</b>	<u>( 21,003,229)</u>	<u>( 38,102,762)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
(Decrease) increase in long-term loans	( 973,279)	20,818,631
Cash dividends	-	( 4,035,566)
<b>Net cash (used in) provided by financing activities</b>	<u>( 973,279)</u>	<u>16,783,065</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	( 897,616)	4,319,733
<b>Cash and cash equivalents, beginning of period</b>	27,097,972	9,108,255
<b>Cash and cash equivalents, end of period</b>	<u>\$ 26,200,356</u>	<u>13,427,988</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest (excluding capitalized interest)	<u>\$ 3,588,121</u>	<u>2,369,830</u>
Cash paid during the period for income tax	<u>\$ -</u>	<u>-</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	<u>\$ 15,877,967</u>	<u>20,434,864</u>
Sale price of property and equipment	\$ 5,406,741	-
Less: Other accounts receivable—related party, end of period	( 3,406,741)	-
Proceeds from sale of property and equipment	<u>\$ 2,000,000</u>	<u>-</u>

**The accompanying notes are an integral part of the financial statements.**

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2006 AND 2005**  
**(amounts expressed in U.S. dollars, unless otherwise stated)**

**1. ORGANIZATION AND OPERATIONS**

DONG LIEN MARITIME S.A. (PANAMA) (the Company) was established on September 28, 1979, in accordance with the Company Law of Panama. The Company invested in wholly owned subsidiaries, including FOURSEAS MARITIME S.A. (PANAMA), ELEGANT PESCADORES S.A. (PANAMA), BRAVE PESCADORES S.A., GRAND OCEAN NAVIGATION S.A. (PANAMA), JACKSON STEAMSHIP S.A. (PANAMA), BLOSSOM PESCADORES S.A. (PANAMA), ROYAL PESCADORES S.A. (PANAMA), SHINING PESCADORES S.A. (PANAMA), BRILLIANT PESCADORES S.A., SUNNY PESCADORES S.A. (PANAMA), GENIUS PESCADORES S.A. (PANAMA), GALLANT PESCADORES S.A. (PANAMA), GRAND PESCADORES S.A. (PANAMA), MOON BRIGHT SHIPPING CORP. (PANAMA), EXCELLENT PESCADORES S.A. (PANAMA), HONOR PESCADORES S.A. (PANAMA), BRIGHT PESCADORES S.A. (PANAMA), SUPERIOR PESCADORES S.A. (PANAMA), VALOR PESCADORES S.A. (PANAMA), GRAND OVERSEAS S.A. (PANAMA), UNICORN BRILLIANT S.A. (PANAMA), PHAROS PESCADORES S.A. (PANAMA), BEACON PESCADORES S.A. (PANAMA), POSEIDON PESCADORES S.A. (PANAMA), LEADER PESCADORES S.A. (PANAMA), WELL PESCADORES S.A. (PANAMA), GLARING PESCADORES S.A. (PANAMA), VIGOR PESCADORES S.A. (PANAMA), TRUMP PESCADORES S.A. (PANAMA), and FOURSEAS PESCADORES S.A. (PANAMA). As of June 30, 2006, the Company and its subsidiaries owned twenty-five vessels: Babitonga (Great), Paragon, Best, Elegant, Brave, Advance, Oceanic, Buenos Aires (Giant), Blossom, Royal, Shining, Brilliant, Sunny, Scan Bulker, Grand, Federal, Excellent, Honor, Bright, Superior, Grand Overseas, Unicorn Brilliant, Leader, Well and Glaring.

The Company and its subsidiaries' main business scope includes

- (1) Shipping agency business.
- (2) Sea transportation and related businesses.
- (3) Ships and spare parts wholesale business.
- (4) Ships and spare parts retail trade business.
- (5) The Company may conduct any business that is not prohibited or restricted by laws and regulations.

The parent company: Shih Wei Navigation Co., Ltd.

As of June 30, 2006, the number of employees was 487.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company's financial statements were compiled in accordance with generally accepted accounting principles of the Republic of China. The significant accounting policies and measurement basis were as follows:

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. For purposes of preparing the consolidated financial statements, all inter-company transactions between the Company and its subsidiaries have been eliminated.

For the half-year ended June 30, 2006, the subsidiaries included in the consolidated financial statements were as follows:

Subsidiary	Direct / Indirect Ownership Percentage	Main Business Scope
FOURSEAS MARITIME S.A. (PANAMA)	100%	Primarily engaged in international transportation and shipping agency business
ELEGANT PESCADORES S.A. (PANAMA)	100%	"
BRAVE PESCADORES S.A.	100%	"
GRAND OCEAN NAVIGATION S.A. (PANAMA)	100%	"
JACKSON STEAMSHIP S.A. (PANAMA)	100%	"
BLOSSOM PESCADORES S.A. (PANAMA)	100%	"
ROYAL PESCADORES S.A. (PANAMA)	100%	"
SHINING PESCADORES S.A. (PANAMA)	100%	"
BRILLIANT PESCADORES S.A.	100%	"
SUNNY PESCADORES S.A. (PANAMA)	100%	"
GENIUS PESCADORES S.A. (PANAMA)	100%	"
GALLANT PESCADORES S.A. (PANAMA)	100%	"
GRAND PESCADORES S.A. (PANAMA)	100%	"
MOON BRIGHT SHIPPING CORP. (PANAMA)	100%	"
EXCELLENT PESCADORES S.A. (PANAMA)	100%	"
HONOR PESCADORES S.A. (PANAMA)	100%	"
BRIGHT PESCADORES S.A. (PANAMA)	100%	"
SUPERIOR PESCADORES S.A. (PANAMA)	100%	"
VALOR PESCADORES S.A. (PANAMA)	100%	"
GRAND OVERSEAS S.A. (PANAMA)	100%	"
UNICORN BRILLANTS S.A. (PANAMA)	100%	"
PHAROS PESCADORES S.A. (PANAMA)	100%	"
BEACON PESCADORES S.A. (PANAMA)	100%	"
POSEIDON PESCADORES S.A. (PANAMA)	100%	"
LEADER PESCADORES S.A. (PANAMA)	100%	"
WELL PESCADORES S.A. (PANAMA)	100%	"
GLARING PESCADORES S.A. (PANAMA)	100%	"
VIGOR PESCADORES S.A. (PANAMA)	100%	"
TRUMP PESCADORES S.A. (PANAMA)	100%	"
FOURSEAS PESCADORES S.A. (PANAMA)	100%	"

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Foreign currency transactions

The accounts of the Company are maintained in U.S. dollars. Foreign currency transactions except for derivative financial instruments are recorded in U.S. dollars at the rates of exchange prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing on the balance sheet dates. The resulting exchange differences are recorded as current gains and losses. Effective January 1, 2006, the Company adopted ROC Statement of Financial Accounting Standards (SFAS) No. 14 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into NT dollars at foreign exchange rates ruling at the dates the fair value was determined.

If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange income (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 income (loss) from such translations is recorded as a separate component of stockholders' equity. The foreign currency financial statements of foreign subsidiaries and investees, which are accounted for by the equity method, are recorded in the functional currency. The translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency are accounted for as a cumulative translation adjustment, which is a separate component of stockholders' equity.

(3) Accounting estimation

When preparing the financial reports, the Company will make necessary measurements, valuations and disclosures according to Republic of China generally accepted accounting principles. There will be some differences between certain assumptions and the actual results.

(4) Classification as current and noncurrent assets and liabilities

Unrestricted cash or cash equivalents, assets held for the trading purposes, and assets that will be held short term and are expected to be converted to cash within 12 months from the balance sheet date are classified as current assets; otherwise, they are classified as noncurrent assets.

Liabilities due on demand within 12 months from the balance sheet date are classified as current liabilities; otherwise, they are classified as noncurrent liabilities.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(5) Asset impairment

Effective January 1, 2005, the Company adopted ROC Statement of Financial Accounting Standards No. 35 (SFAS No.35) "Accounting for Asset Impairment". In accordance with ROC SFAS No.35, the Company assesses at 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 carrying value in excess of the recoverable amount.

(6) Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, checking accounts, time deposits rescindable anytime, certificates of deposits, and cash equivalents. Cash equivalents are short-term investments which could be converted to cash anytime and which do not have a significant level of market risk related to potential interest rate changes, and include treasury bills, commercial paper, banker's acceptances with maturities of three months or less at the date of purchase.

(7) Financial assets

The Consolidated Companies adopted ROC SFAS No. 34 "Accounting for Financial Instruments" commencing from January 1, 2006. Financial assets are classified into the following accounts: financial assets at fair value through profit or loss; available-for-sale financial assets; held-to-maturity financial assets; financial assets carried at cost; and bond portfolios with no active bond market.

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

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

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- a. Financial assets at fair value through profit or loss: The main purposes of the financial instruments are selling or repurchasing in the short term. Except for the derivatives that the Consolidated Companies held for hedging purposes and are considered to be effective, all derivatives should be classified into this account.
- b. Available-for-sale financial assets: These are evaluated at fair value, and any changes are recorded as a separate component of stockholders' equity. If there is evidence of impairment, impairment loss should be recognized. If the impairment loss decreases subsequently, the decreased amount of impairment for equity financial instruments cannot be reversed. If the impairment loss on debt financial instruments decreases and is apparently related to events that occurred after the impairment, the decreased amount of impairment loss should be reversed and recognized in the accompanying consolidated statements of income.
- c. Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are booked at original cost. If there is evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.
- d. Held-to-maturity financial assets: These will be evaluated at amortized cost. If there is evidence of impairment, impairment loss should be recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. But the reversed faced value cannot exceed the amortized cost.

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

(8) Derivative financial instruments and hedging

Derivative financial instruments held by the Company were to hedge foreign exchange rate and interest rate risk exposure on operating, financing and investing activities. According to the Company's policy, derivative financial instruments held or issued by the Company were for hedging. When derivative financial instruments no longer are for hedging, they are treated as financial instruments held for trading.

Fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation that met all the conditions of hedge accounting were netted, with the resulting amount presented as gain or loss.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The accounting policies for derivative financial instruments are as follows:

- a. Fair value hedging: The translation difference resulting from remeasuring by fair value or from variation of exchange rate is recorded as current gain or loss in the accompanying consolidated statement of income. The gain or loss resulting from the hedging risk will be adjusted in the face value of the hedged items and will be recognized as current gain or loss in the accompanying consolidated statement of income as soon as possible.
- b. Cash flow hedging: The gain or loss on hedging instruments will be recognized as an adjustment of stockholders' equity. If the hedging transaction will be recognized as assets or liabilities, the gain or loss recorded in stockholders' equity will be reclassified as current gain or loss in the accompanying consolidated statement of income. And if the hedging transaction will influence the net gain or loss, the above-mentioned gain or loss recognized in stockholders' equity will be reclassified as current gain or loss in the accompanying consolidated statement of income.
- c. Foreign operation investment hedging: The gain or loss on hedging items will be recognized as an adjustment of stockholders' equity, and it will be reclassified as current gain or loss when disposing of the foreign operation.

(9) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based upon the collectibility of notes and accounts receivable and of other receivables. Bad debt expense depends on the Company's past collection experience, aging analysis, and consideration of internal control.

(10) Inventories

Inventories relate to the fuel for ships and are stated at the lower of cost or market value at year-end. When comparing the cost with the market value, the lump-sum method is adopted and replacement cost is used as the market value. Under transportation industry practice and the operating procedures of the Company, the physical stock-taking of year-end inventory is only performed for ships in harbor. For those ships which are not in harbor, the ship captains are responsible for the physical inventory observation.

(11) Long-term equity investments

Long-term equity investments in which the Company has over 20% ownership of voting shares, or less than 20% but has significant influence, are accounted for by the equity method.

The difference between selling price and carrying value is recorded as gain or loss on disposal of long-term equity investments. If there was capital surplus generated by long-term equity investments, it should be directly recorded as current gain or loss in proportion to the amount sold.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The Company not only assesses the value of investee companies using the equity method, but includes the financial statements of subsidiaries when preparing consolidated financial statements on June 30 and December 31 for every accounting year.

(12) Property and equipment, depreciation, and disposal gain (loss)

Property and equipment are stated at cost or cost plus incremental value from revaluation. Major additions, betterments and renewals, including related interest incurred up to the point when the fixed assets can be placed into service, are capitalized.

Depreciation of property and equipment is calculated by the straight-line method over the estimated useful lives as stipulated by the Navigation & Aviation Authorities in the following schedule.

Vessel equipment	3 to 25 years
Leasehold improvements	5 years

For property and equipment still in use after full depreciation, estimated salvage values may continue to be depreciated over their estimated remaining service lives.

Gains or losses on disposal of fixed assets are included in current income.

(13) Deferred charges

Deferred charges consist of unamortized major renovation costs and construction supervision costs of vessel equipment stated at cost, and are amortized using the straight-line method over a period of two to five years.

(14) Revenue recognition

Revenue is generally recognized when the earnings process is completed or virtually completed and revenue is realized or realizable and measurable. The relevant costs are recognized when the revenue is recognized.

(15) Earnings per share of common stock

The computation of basic earnings per share is based on the weighted-average number of outstanding ordinary shares. Stock dividends and new common stock issued through retained earnings, capital surplus, and employees' bonuses are included in the computation of outstanding shares retroactively.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES**

Starting from January 1, 2006, the Company adopted the newly released ROC Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments", and adopted ROC SFAS No. 36, "Disclosure and Presentation of Financial Instruments". Such change in accounting principle had no effect on the consolidated income and earnings per share for the first half of 2006. Please refer to Notes 4(2) and 8.

**4. SUMMARY OF SIGNIFICANT ACCOUNTS**

(1) Cash and cash equivalents

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
	\$	
Cash advance	453,723	369,215
Bank deposits		
Savings accounts	996,377	3,949,514
Checking accounts	23,614	42,919
Foreign currency deposits	724,532	1,066,340
Time deposits	24,002,110	8,000,000
<b>Total</b>	<b>\$ 26,200,356</b>	<b>13,427,988</b>

(2) Financial assets

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Re-Purchase Bond Fund issued by Polaris Bank	\$ -	3,029,152
Re-Purchase Bond Fund issued by Bank SinoPac	-	500,000
Beneficiary certificates – Franklin Templeton		
Global Bond fund	1,000,000	1,000,000
<b>Total</b>	<b>\$ 1,000,000</b>	<b>4,529,152</b>

Financial assets carried at cost – noncurrent

Investment in stock – ETERNAL		
PESCADORES S.A. (PANAMA)	\$ 461,290	461,290
Investment in stock – HARMONY		
SUCCESS S.A. (PANAMA)	653,600	451,430
Investment in stock – LANDO CO., LTD.		
(original investment cost JPY 3,000,000)	26,798	-

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Total	<b>\$ 1,141,688</b>	<b>912,720</b>
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- a. In accordance with interpretation (94) No. 16 of the ROC Accounting Research and Development Foundation, accounts of the Company's financial report for the first half of 2006 have been renamed in accordance with ROC Statement of Financial Accounting Standards No. 34 "Accounting for Financial Instruments". As of June 30, 2005, the originally accounted for short-term investment of \$4,529,152 was reclassified as financial assets at fair value through profit or loss – current of \$4,529,152, and the long-term investment under the cost method of \$912,720 was reclassified as financial assets carried at cost – noncurrent of \$912,720.
- b. The Company invested in ETERNAL PESCADORES S.A. (PANAMA) during 2002. This company was established for the purpose of owning a newly built vessel – Pescadores Bulker. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. In March 2004, the vessel construction was completed. As of June 30, 2006, the Company had 19% ownership and had paid \$461,290. During the first half of 2006 and 2005, the Company received cash dividends of \$34,200 and \$28,500, respectively, from the investee company.
- c. The Company invested in HARMONY SUCCESS S.A. (PANAMA) during May 2003. The Company had 19% ownership. The main purpose of establishing the company was to own a newly built vessel – Golden Kiku. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. In September 2005, the vessel construction was completed, and the Company had paid a total of \$653,600 as of June 30, 2006. During the first half of 2006 and 2005, the Company received cash dividends of \$232,180 and zero, respectively, from the investee company.
- d. The Company invested in LANDO CO., LTD. during August 2005. As of June 30, 2006, the Company had 18.75% ownership and had paid \$26,798 (JPY 3,000,000).

(3) Long-term equity investments

	Share	Amount	Ownership
<b>June 30, 2006</b>			
Under the Equity Method			
EUROASIA II INC., PANAMA (original investment cost \$1,022,173)	45	\$ 2,156,271	45%
<b>June 30, 2005</b>			
Under the Equity Method			
EUROASIA II INC., PANAMA (original investment cost \$1,353,493)	45	\$ 2,024,123	45%
EUROASIA III INC., PANAMA	45	6,180	45%

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(original investment cost \$3,089)

Total

\$ 2,030,303

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

The Company invested in EUROASIA II INC., PANAMA and EUROASIA III INC., PANAMA in 2003. The companies were established for the purpose of owning two newly built vessels – Bianco Pescadores and Hull No. 10369. The payments for the vessels' construction and related expenses were made in installments according to the shareholding percentages of both investee companies, but EUROASIA III INC., PANAMA transferred all of the assets and liabilities and equity accounts to EUROASIA II INC., PANAMA during July 2005. As of June 30, 2006, the Company had a 45% and 0% shareholding of EUROASIA II INC., PANAMA and EUROASIA III INC., PANAMA, respectively, and had paid \$1,022,173 for EUROASIA II INC., PANAMA and \$0 for EUROASIA III INC., PANAMA. Investment gain recognized for the first half of 2006 and 2005 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors is detailed below:

<b>Investee company</b>	<b>January 1 ~ June 30</b>	
	<b>2006</b>	<b>2005</b>
	<b>Investment gain</b>	<b>Investment gain</b>
EUROASIA II INC., PANAMA	\$ 219,693	276,036
EUROASIA III INC., PANAMA	-	4,180
Total	<b>\$ 219,693</b>	<b>280,144</b>

Note: The Company received repayment of long-term investments of \$337,500 from EUROASIA II INC., PANAMA's decrease in capital in 2005.

(4) Property and equipment

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Amount</b>
<b>June 30, 2006</b>			
Vessel equipment	\$ 304,279,245	72,814,532	231,464,713
Leasehold improvements	101,791	45,679	56,112
Prepayments for business facilities	10,959,355	-	10,959,355
Total	\$		
	<b>315,240,391</b>	<b>72,860,211</b>	<b>242,480,180</b>
<b>June 30, 2005</b>			
Vessel equipment	\$ 291,592,576	61,599,654	222,992,922
Leasehold improvements	171,652	138,827	32,825
Prepayments for business facilities	5,124,001	-	5,124,001
Total	\$		
	<b>61,738,481</b>	<b>61,738,481</b>	<b>235,149,748</b>

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

296,888,229

- a. As of June 30, 2006 and 2005, the total insurance coverage for the above fixed assets amounted to \$289,820,000 and \$275,140,000, respectively.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

b. The Company's subsidiary GALLANT PESCADORES S.A. disposed of the vessel GALLANT and its equipment to SHIH WEI NAVIGATION CO., LTD. at a sales price of \$5,406,741 in April 2006, and the gain on disposal of the vessel and its equipment was \$0. As of June 30, 2006, \$3,406,741 of the sales price had not yet been received (recorded as other accounts receivable—related party).

(5) Long-term loans/Current portion of long-term loans

	June 30	
	2006	2005
Secured loans	\$ 137,023,451	148,881,233
Less: Current portion	( 15,877,967 )	( 20,434,864 )
Net amount	\$ 121,145,484	128,446,369

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 0.862% ~ 7.876% and 1.125% ~ 4.971% for the first half of 2006 and 2005, respectively.

(6) Capital stock

The Company was established on September 28, 1979, with registered capital of \$1,600,000. In 1997 and 1998, capital increase for cash amounted to \$19,000,000 and \$17,000,000, respectively. In 2000, 2002 and 2004, capital was increased by issuance of additional stock to offset payables to related party of \$12,754,296 and \$3,597,096 and for cash amounting to \$6,900,000, respectively.

As of June 30, 2006 and 2005, 60,851,392 shares were issued and outstanding, with par value of \$1 per share.

(7) Earnings per share

Earnings per share are calculated based on the weighted-average number of shares outstanding during each period. The weighted-average number of shares outstanding for the half years ended June 30, 2006 and 2005, was 60,851,392 shares.

**5. RELATED-PARTY TRANSACTIONS**

(1) Related-party accounts

Name of related party	Relationship with the Company
SHIH WEI NAVIGATION CO., LTD.	Parent company
HARMONY SUCCESS S.A. (PANAMA)	The company's president was an immediate family member of the Company's chairman

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Significant transactions with related parties

a. Purchases

Name of related party	January 1 ~ June 30			
	2006		2005	
	Amount	%	Amount	%
	\$			
SHIH WEI NAVIGATION CO., LTD.	2,002,529	7	2,089,897	8

b. Other accounts receivable — related party

Name of related party	June 30			
	2006		2005	
	Amount	%	Amount	%
SHIH WEI NAVIGATION CO., LTD.	\$ 3,406,741	100	-	-

c. Prepayments and other current assets

Name of related party	June 30			
	2006		2005	
	Amount	%	Amount	%
	\$			
SHIH WEI NAVIGATION CO., LTD.	807,997	43	-	-

d. Agency current accounts (current asset account)

Name of related party	June 30			
	2006		2005	
	Amount	%	Amount	%
	\$			
SHIH WEI NAVIGATION CO., LTD.	9,291,922	100	5,887,005	100

e. Agency current accounts (current liability account)

Name of related party	June 30			
	2006		2005	
	Amount	%	Amount	%
SHIH WEI NAVIGATION CO., LTD.	\$ 609,840	100	677,636	100

f. Operating expenses

Name of related party	January 1 ~ June 30			
	2006		2005	
	Amount	%	Amount	%

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

<u>SHIH WEI NAVIGATION CO., LTD.</u>	<u>\$</u>	<u>69,574</u>	<u>13</u>	<u>-</u>	<u>-</u>
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**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

g. Other accounts payable — related party (recorded as other current liabilities)

Name of related party	June 30			
	2006		2005	
	Amount	%	Amount	%
HARMONY SUCCESS S.A. (PANAMA)	\$ 48,894	3	-	-

h. The Company's subsidiary GALLANT PESCADORES S.A. (PANAMA) disposed of the vessel GALLANT and its equipment to SHIH WEI NAVIGATION CO., LTD. at a sales price of \$5,406,741 in April 2006, and the gain on disposal of the vessel and its equipment was \$0. As of June 30, 2006, \$3,406,741 of the sales price had not yet been received (recorded as other accounts receivable — related party).

**6. PLEDGED ASSETS**

The following is a summary of the assets provided by the Company as collateral to financial institutions for secured loans as of June 30, 2006 and 2005:

	June 30	
	2006	2005
Vessel equipment (net book value)	\$ 219,910,566	229,046,168
Restricted assets	-	491,667
Total	\$ 219,910,566	229,537,835

**7. COMMITMENTS AND CONTINGENCIES**

(1) The construction and purchase agreements for vessels signed by the subsidiaries of the Company amounted to JPY 17,845,000 thousand as of June 30, 2006, and JPY 9,987,400 thousand as of June 30, 2005. They had paid JPY 1,230,175 thousand as of June 30, 2006, and JPY 558,100 thousand as of June 30, 2005 (recorded as prepayments for business facilities).

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (2) As of June 30, 2006 and 2005, the Company had signed significant operating lease contracts for cargo transportation as follows:

<b>June 30, 2006</b>			<b>Deposits-out</b>
<b>Vessel Name</b>	<b>Contracting Party</b>	<b>Period Covered</b>	<b>amount</b>
FODAS	FODAS MARITIME S.A.	2002 ~ 2010	\$ 1,200,000
MAJESTIC	MAJESTIC PESCADORES S.A.	2002 ~ 2010	1,200,000
ID COMMANDER	ID SHIPPING A/S	No expiration date after 2005; should notify 60 day prior to contract termination	600,000
Total			<b>\$ 3,000,000</b>
<b>June 30, 2005</b>			<b>Deposits-out</b>
<b>Vessel Name</b>	<b>Contracting Party</b>	<b>Period Covered</b>	<b>amount</b>
FODAS	FODAS MARITIME S.A.	2002 ~ 2010	\$ 1,200,000
MAJESTIC	MAJESTIC PESCADORES S.A.	2002 ~ 2010	1,200,000
MERCY	MERCY MARINE LINES S.A.	2003 ~ 2011	600,000
GLARING	FORTUNATE TRANSPORT S.A.	2003 ~ 2008	1,848,507
ID COMMANDER	ID SHIPPING A/S	2002 ~ 2005	750,000
Total			<b>\$ 5,548,507</b>

The above rental expenses of operating lease contracts for cargo transportation were valued daily (365 days in a year) and paid monthly.

- (3) An employee named Shau-ching Tsai of the Company's subsidiary BRIGHT PESCADORES S.A. (PANAMA) was careless in maintaining a crane. Consequently, a cable of the machine broke because of long-term abrasion and caused a steel plate to drop. It struck and killed the victim, Yun-yu Wu. On November 21, 2005, the victim's mother filed a claim in the Keelung District Court that the Company's parent company SHIH WEI NAVIGATION CO., LTD. should pay compensation of NT\$4,447 thousand. The Keelung District Court adjudged that Shau-Ching Tsai was careless in causing Yun-yu Wu's death, and because the Company's subsidiary was the employer of Shau-ching Tsai, the Company's parent company should pay compensation of NT\$3,437 thousand. However, the Company's parent company disagreed with the ruling of the Keelung District Court and decided to appeal to the Taiwan High Court. In this case, the Company's parent company had bought insurance from the PNI insurance company. If the Court still adjudges that the Company's parent company has responsibility for compensation, the parent company can apply to PNI to pay the insurance compensation.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(4) The Company entered into an agreement to purchase the vessel Well to be constructed for its business operation, and at the same time it signed the construction and purchase agreement, it sold the vessel to MAN SHIPPING LP for the same price. The Company also entered into a long-term vessel-leasing contract with MAN SHIPPING LP for the same vessel for a guaranteed minimum lease term of 5 years. Upon expiration of the 5-year lease term, the subsidiary had the right to renew the lease for another 10 years, or to purchase the vessel at the agreed-upon price according to the contract (at no bargain purchase price). The Company leased the vessel according to the contract and made deposits-out amounting to US\$4,697,500. In May 2005, the Company purchased the vessel Well for US\$15,537,679.

**8. FINANCIAL INSTRUMENTS**

(1) Derivative financial instruments:

a. As of June 30, 2006 and 2005, the Company's derivative financial instruments were as detailed below:

Financial Assets	June 30			
	2006		2005	
	Contract Amount	Credit Risk	Contract Amount	Credit Risk
Derivative Financial Investments				
Nontrading – The Company's purchase forward contracts	-	-	-	-
– Equity-linked notes	-	-	-	-

The above-mentioned derivative financial assets were recorded as financial assets at fair value through profit or loss.

The aforementioned amount of credit risk refers to contracts with positive fair value on the balance sheet date, taking into account that net settlement of all contracts offsets one contract against another yet still remains positive. Credit risk indicates the Company and its subsidiaries' possible loss in the event of nonperformance by the counter-party to the financial instrument. Since parties to transactions with the Company and its subsidiaries are all reputable banks, default is not expected, and credit risk is remote.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

a. Market risk

Most derivative financial instrument transactions hedge against risks of assets or liabilities in foreign currency. Gain/loss resulting from exchange rate fluctuations is netted with the hedged items; consequently, market risk is relatively insignificant.

b. Liquidity risk, cash flow risk, and future demand for cash

Foreign exchange forward contracts are to hedge against risks from exchange rate fluctuations which affect identifiable foreign currency assets or liabilities for transactions in foreign currency. No additional cash outflow is expected. Consequently, given that exchange rates are specified in forward contracts, there would be no significant cash flow risk.

c. Types and purpose of financial derivatives held

Financial derivatives held by the Company and its subsidiaries are nontrading forward contracts. Given that the purpose is to hedge against the great majority of market risks, nontrading contracts are held to hedge against risks from fluctuations in exchange rates which affect foreign currency assets or liabilities. The Company and its subsidiaries used derivatives for hedging, and their purpose is hedging market price risk. Hedging instruments exhibit negative correlation with hedged items and are evaluated periodically.

d. Presentation of financial derivatives in financial statements

The foreign exchange forward contracts resulted in an exchange loss of \$182 thousand and \$130 thousand on June 30, 2006 and 2005, respectively. Foreign exchange forward contracts receivable and payable are netted. There were no foreign exchange forward contracts receivable or payable as of June 30, 2006 and 2005.

A Company subsidiary bought 14-day equity-linked notes with an assured rate in U.S. dollars from Hua Nan Bank, Jih Sun International Bank and Mega International Commercial Bank. If the current rate (according to Reuters TKFE) is higher than (or equal to) the contract rate at the option expiration rate, then the contract amount in US dollars will be converted to JPY, and the Company can receive the revenue at the contract rate. The realized interest revenue and the exchange gain of the Company's subsidiary were \$16 thousand and \$1 thousand, respectively, for the first half of 2006.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Fair value of financial instruments

As of June 30, 2006 and 2005, the fair value information on the Company's financial assets and liabilities was as detailed below:

	June 30			
	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 26,200,356	26,200,356	13,427,988	13,427,988
Financial assets at fair value through profit or loss	1,000,000	1,028,681	4,529,152	4,502,675
Accounts receivable, net	127,055	127,055	709,400	709,400
Other accounts receivable—related party	3,406,741	3,406,741	-	-
Agency current accounts (debit)	9,291,922	9,291,922	5,877,005	5,877,005
Other financial assets—current	672,098	672,098	1,440,842	1,440,842
Restricted assets	-	-	491,667	491,667
Financial assets carried at cost—noncurrent	1,141,688	-	912,720	-
Deposit out	3,000,000	3,000,000	5,548,507	5,548,507
<b>Financial liabilities</b>				
Accounts payable	1,564,706	1,564,706	1,561,435	1,561,435
Accrued expenses	1,448,799	1,448,799	1,614,875	1,614,875
Agency current accounts (credit)	609,840	609,840	677,636	677,636
Other current liabilities	48,894	48,894	64,511	64,511
Long-term loans	137,023,451	137,023,451	148,881,233	148,881,233

(3) Methods and assumptions used by the Company and its subsidiaries for determination of the fair value of financial instruments are as follows:

- a. The fair value of financial instruments is estimated based upon their face value stated on the balance sheet. Because such financial instruments will become due shortly, their face value should be a reasonable basis for estimating their fair value. This method is applicable to cash and cash equivalents, accounts receivable, other accounts receivable—related party, agency current accounts (debit), other financial assets—current, restricted assets, financial assets carried at cost—noncurrent, deposit-out, accounts payable, accrued expenses, agency current account (credit), and other current liabilities.
- b. Financial assets at fair value through profit or loss—current: If available, market prices are the fair value of marketable securities; otherwise, financial or other information is used to estimate fair value. As of June 30, 2006 and 2005, the fair value decided in an open market was \$1,028,681 and \$4,502,675, respectively.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- c. Financial assets carried at cost—noncurrent: Because the market value of the financial assets carried at cost—noncurrent is not available, it is impossible to estimate their fair values.
  - d. Long-term loans: Interest expenses of long-term loans are computed using annual floating rates. And book value of the long-term loans is equal to their fair value.
- (4) For the financial assets provided by the Company as collateral as of June 30, 2005, please refer to Note 6.
- (5) Financial risk
- a. Market risk  
The Company's bond investments (recorded as held-to-maturity financial assets — noncurrent) were computed using annual floating rates. Therefore, the fair value changed along with the market rate.
  - b. Credit risk  
The Company's major clients are the owners of a large amount of commodities, agencies for long-term leasing of vessels, and the Company's subsidiaries. In order to reduce credit risk, the Company regularly evaluates its customers' financial position. However, the Company usually does not require collateral from its customers.
  - c. Liquidity risk  
The capital and operating funds of the Company are sufficient to perform all current contract obligations; therefore, there is no liquidity risk.
  - d. Cash flow risk arising from interest rate change  
The Company's long-term loan carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Company's future cash flow. If the market interest rises 1%, the Company's cash outflow would increase \$1,370,235 in the future.

**9. SIGNIFICANT SUBSEQUENT EVENTS**

On July 13, 2006, the parent company's board of directors approved a resolution to return a portion of the paid-in capital of the Company. Therefore, the Company decided on July 14, 2006, to return capital of \$20,000,000 to its parent company, and it estimated it would remit back that amount in the third quarter of 2006. After the decrease, the capital of the Company was \$40,851,392, and the Company finished the registration of the change in capital on August 2, 2006.

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**10. OTHERS**

(1) Summary of expenses for employees, depreciation, depletion and amortization

	<u>January 1 ~ June 30, 2006</u>			<u>January 1 ~ June 30, 2005</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee expense						
Payroll	\$ 3,843,390	-	3,843,390	3,128,614	-	3,128,614
Insurance	-	-	-	-	-	-
Retirement	-	-	-	-	-	-
Others	1,254,159	-	1,254,159	1,164,908	-	1,164,908
Depreciation	7,429,831	-	7,429,831	6,418,262	-	6,418,262
Depletion	-	-	-	-	-	-
Amortization	939,029	-	939,029	678,133	-	678,133

(2) Current analysis of assets and liabilities: None.