

**Shih Wei Navigation Co., Ltd. and  
Subsidiaries**

**Consolidated Financial Statements for the  
Six Months Ended June 30, 2009 and 2008 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Shih Wei Navigation Co., Ltd.

We have audited the accompanying consolidated balance sheet of Shih Wei Navigation Co., Ltd. (the "Corporation") and its subsidiaries as of June 30, 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Corporation and subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Corporation and its subsidiaries for the six months ended June 30, 2008 were audited by other auditors whose report, dated August 15, 2008, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Shih Wei Navigation Co., Ltd and its subsidiaries as of June 30, 2009, and the results of their operations and their cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

*Deloitte & Touche*

August 11, 2009

### Notice to Readers

*The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with 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 consolidated financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2009 AND 2008

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2009		2008		LIABILITIES AND STOCKHOLDERS' EQUITY		2009		2008	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>										
Cash (Note 4)	\$ 4,301,813	21	\$ 2,068,106	15	\$ 340,785	2	\$ 297,958	2	\$ 297,958	2
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	32,418	-	108,112	1	101,228	1	101,598	1	110,138	-
Held-to-maturity financial assets - current (Notes 2 and 6)	36,210	-	-	-	274,878	1	110,138	1	117,953	1
Accounts receivable (Note 2)	7,478	-	3,382	-	120,675	1	1,736,302	8	1,684,929	12
Inventories (Note 2)	112,999	1	108,606	1	1,736,302	8	1,081,759	5	547,653	4
Pledged time deposits - current (Notes 10 and 19)	219,507	1	199,914	1	1,081,759	5	54,744	-	104,396	1
Other current assets	133,216	1	202,050	1	54,744	-	3,710,371	18	2,964,625	21
Total current assets	4,843,641	24	2,690,170	19	3,710,371	18	8,158,829	40	4,767,395	34
<b>INVESTMENTS</b>										
Financial assets at fair value through profit or loss - noncurrent (Notes 2 and 5)	-	-	80,580	1	-	-	17,514	-	17,652	-
A available-for-sale financial assets - noncurrent (Notes 2 and 7)	-	-	30,290	-	-	-	25,105	-	155	-
Held-to-maturity financial assets - noncurrent (Notes 2 and 6)	16,380	-	36,210	-	-	-	423,154	2	171,000	2
Financial assets carried at cost - noncurrent (Notes 2 and 8)	39,011	-	37,330	1	-	-	465,773	2	188,807	2
Total investments	55,391	-	184,410	2	-	-	12,334,973	60	7,920,827	57
<b>PROPERTY AND EQUIPMENT (Notes 2, 9, 11 and 19)</b>										
Cost										
Land	910,749	5	79,937	-	3,472,603	17	90,897	-	102,746	1
Buildings	30,906	-	28,956	-	3,563,500	17	3,563,500	17	3,472,603	25
Transportation equipment	6,460	-	6,460	86	-	-	-	-	-	-
Vessel equipment	15,068,887	73	12,007,665	86	-	-	-	-	-	-
Office equipment	3,386	-	3,712	-	-	-	-	-	-	-
Leasehold improvements	5,675	-	103	-	-	-	-	-	-	-
Total cost	16,026,063	78	12,126,833	86	-	-	371,904	2	371,904	2
Accumulated depreciation	(2,961,526)	(15)	(2,532,778)	(18)	-	-	12,918	-	-	-
Prepayments for equipment	2,230,110	11	1,346,440	10	-	-	777,205	4	764,287	5
Net property and equipment	15,294,647	74	10,940,495	78	-	-	1,027,300	5	626,207	5
<b>INTANGIBLE ASSETS</b>										
Deferred pension cost (Note 2)	35	-	697	-	-	-	-	-	51,463	-
<b>OTHER ASSETS</b>										
Refundable deposits - noncurrent	29,999	-	48,465	-	-	-	2,736,757	13	1,561,683	11
Deferred charges (Note 2)	92,861	1	126,094	1	-	-	3,764,057	18	2,239,353	16
Pledged time deposits - noncurrent (Notes 11 and 19)	219,492	1	-	-	-	-	104,621	1	(398,713)	(3)
Total other assets	342,352	2	174,559	1	-	-	(8,290)	-	(406,739)	(3)
<b>TOTAL</b>	\$20,536,066	100	\$13,990,331	100	\$20,536,066	100	\$13,990,331	100	\$13,990,331	100

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

(With Deloitte & Touche audit report dated August 11, 2009)

# SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Amount	%	Amount	%
OPERATING REVENUES (Note 2)	\$ 1,978,659	100	\$ 2,195,892	100
OPERATING COSTS (Note 15)	<u>1,113,059</u>	<u>56</u>	<u>1,009,267</u>	<u>46</u>
GROSS PROFIT	865,600	44	1,186,625	54
OPERATING EXPENSES (Note 15)	<u>86,264</u>	<u>4</u>	<u>96,769</u>	<u>4</u>
OPERATING INCOME	<u>779,336</u>	<u>40</u>	<u>1,089,856</u>	<u>50</u>
NONOPERATING INCOME AND GAINS				
Interest income	19,834	1	41,784	2
Dividend income	41,959	2	19,340	1
Gain on disposal of property and equipment (Note 2)	-	-	575,230	26
Gain on sale of investments, net (Notes 2 and 5)	480	-	-	-
Exchange gain, net (Notes 2 and 5)	125,979	6	72,954	3
Gain on valuation of financial liabilities, net (Notes 2 and 5)	510	-	-	-
Miscellaneous income (Notes 17 and 18)	<u>150,929</u>	<u>8</u>	<u>19,310</u>	<u>1</u>
Total nonoperating income and gains	<u>339,691</u>	<u>17</u>	<u>728,618</u>	<u>33</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	88,846	5	117,153	5
Loss on valuation of financial assets, net (Notes 2 and 5)	1,149	-	1,400	-
Loss on valuation of financial liabilities, net (Notes 2 and 5)	-	-	6,235	-
Miscellaneous expense	<u>2,216</u>	<u>-</u>	<u>12,476</u>	<u>1</u>
Total nonoperating expenses and losses	<u>92,211</u>	<u>5</u>	<u>137,264</u>	<u>6</u>
INCOME BEFORE INCOME TAX	1,026,816	52	1,681,210	77
INCOME TAX (Notes 2 and 14)	<u>309,339</u>	<u>16</u>	<u>300,619</u>	<u>14</u>
CONSOLIDATED NET INCOME	<u>\$ 717,477</u>	<u>36</u>	<u>\$ 1,380,591</u>	<u>63</u>
ATTRIBUTABLE TO:				
Stockholders of the parent	\$ 717,477	36	\$ 1,380,591	63
Minority interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 717,477</u>	<u>36</u>	<u>\$ 1,380,591</u>	<u>63</u>

(Continued)

# SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

---

	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic earnings per share	\$ 2.88	\$ 2.02	\$ 4.72	\$ 3.88

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

(With Deloitte & Touche audit report dated August 11, 2009)

(Concluded)

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
SIX MONTHS ENDED JUNE 30, 2009 AND 2008  
(In Thousands of New Taiwan Dollars, Except Cash and Stock Dividends Per Share)**

	Capital Stock Issued and Outstanding		Stock Dividends to be Distributed (Note 13)	Capital Surplus (Note 13)	Retained Earnings (Note 13)		Unappropriated Earnings	Other Equity		Total Stockholders' Equity
	Shares (Thousands)	Amount			Legal Reserve	Special Reserve		Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	
BALANCE, JANUARY 1, 2009	347,260	\$ 3,472,603	\$ -	\$ 764,287	\$ 626,207	\$ 51,463	\$ 4,192,027	\$ 107,784	\$ (8,290)	\$ 9,206,081
Appropriation of the 2008 earnings (Note)										
Legal reserve	-	-	-	-	401,093	-	(401,093)	-	-	-
Reversal of special reserve	-	-	-	-	-	(51,463)	51,463	-	-	-
Cash dividends - NT\$5.00 per share	-	-	-	-	-	-	(1,736,302)	-	-	(1,736,302)
Stock dividends - NT\$0.25 per share	-	-	86,815	-	-	-	(86,815)	-	-	-
Stock bonus to employees	-	-	4,082	12,918	-	-	-	-	-	17,000
Consolidated net income for the six months ended June 30, 2009	-	-	-	-	-	-	717,477	-	-	717,477
Translation adjustments on long-term equity method investments	-	-	-	-	-	-	-	(3,163)	-	(3,163)
BALANCE, JUNE 30, 2009	<u>347,260</u>	<u>\$ 3,472,603</u>	<u>\$ 90,897</u>	<u>\$ 777,205</u>	<u>\$ 1,027,300</u>	<u>\$ -</u>	<u>\$ 2,736,757</u>	<u>\$ 104,621</u>	<u>\$ (8,290)</u>	<u>\$ 8,201,093</u>
BALANCE, JANUARY 1, 2008	336,986	\$ 3,369,857	\$ -	\$ 764,287	\$ 443,788	\$ -	\$ 2,231,149	\$ (43,437)	\$ (8,026)	\$ 6,757,618
Appropriation of the 2007 earnings										
Legal reserve	-	-	-	-	182,419	-	(182,419)	-	-	-
Special reserve	-	-	-	-	-	51,463	(51,463)	-	-	-
Cash dividends - NT\$5.00 per share	-	-	-	-	-	-	(1,684,929)	-	-	(1,684,929)
Stock dividends - NT\$0.25 per share	-	-	84,246	-	-	-	(84,246)	-	-	-
Bonus to employees	-	-	18,500	-	-	-	(37,000)	-	-	(18,500)
Remuneration to directors and supervisors	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Consolidated net income for the six months ended June 30, 2008	-	-	-	-	-	-	1,380,591	-	-	1,380,591
Translation adjustments on long-term equity method investments	-	-	-	-	-	-	-	(355,276)	-	(355,276)
BALANCE, JUNE 30, 2008	<u>336,986</u>	<u>\$ 3,369,857</u>	<u>\$ 102,746</u>	<u>\$ 764,287</u>	<u>\$ 626,207</u>	<u>\$ 51,463</u>	<u>\$ 1,561,683</u>	<u>\$ (398,713)</u>	<u>\$ (8,026)</u>	<u>\$ 6,069,504</u>

Note: Bonus to employees of NT\$38,500 thousand and remuneration to directors and supervisors of NT\$10,000 thousand were charged against the 2008 earnings.

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

(With Deloitte & Touche audit report dated August 11, 2009)

# SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 717,477	\$ 1,380,591
Depreciation	345,148	269,617
Amortization	34,070	37,487
Gain on disposal of property and equipment	-	(575,230)
Gain on sale of investments, net	(480)	-
Deferred income tax	33,959	190,518
Loss on valuation of financial assets, net	1,149	1,400
Loss on valuation of financial liabilities, net	-	6,235
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	63,690	50,542
Accounts receivable	5,473	8,744
Inventories	(19,984)	(2,468)
Other current assets	(1,050)	34,870
Notes and accounts payable	(8,702)	32,218
Income tax payable	133,190	100,175
Accrued expenses	5,891	43,396
Other current liabilities	(32,850)	(27,054)
Accrued pension cost	-	266
	<u>-</u>	<u>266</u>
Net cash provided by operating activities	<u>1,276,981</u>	<u>1,551,307</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of held-to-maturity financial assets	(16,769)	-
Acquisition of available-for-sale financial assets	-	(30,980)
Proceeds from disposal of property and equipment, and deferred charges	-	924,756
Acquisition of property and equipment	(2,424,853)	(2,599,351)
Decrease in refundable deposits	-	1,573
Increase in deferred charges	(46,520)	(63,368)
Decrease(increase) in pledged time deposits	<u>(8,853)</u>	<u>183,405</u>
Net cash used in investing activities	<u>(2,496,995)</u>	<u>(1,583,965)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term bank loans	42,490	(197,193)
Increase in long-term bank loans	1,380,289	78,834
Increase (decrease) in guarantee deposits received	<u>24,945</u>	<u>(1)</u>
Net cash provided by (used in) financing activities	<u>1,447,724</u>	<u>(118,360)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(7,143)</u>	<u>(157,492)</u>
		(Continued)

# SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

---

	2009	2008
NET INCREASE (DECREASE) IN CASH	\$ 220,567	\$ (308,510)
CASH, BEGINNING OF PERIOD	<u>4,081,246</u>	<u>2,376,616</u>
CASH, END OF PERIOD	<u>\$4,301,813</u>	<u>\$2,068,106</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 95,279	\$ 127,900
Income tax paid	<u>\$ 142,190</u>	<u>\$ 9,926</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term bank loans	<u>\$1,081,759</u>	<u>\$ 547,653</u>
Dividend payable	<u>\$1,736,302</u>	<u>\$1,684,929</u>
Compensation payable to directors and supervisors	<u>\$ -</u>	<u>\$ 10,000</u>
Stock bonuses payable to employees	<u>\$ 17,000</u>	<u>\$ 18,500</u>

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

(With Deloitte & Touche audit report dated August 11, 2009)

(Concluded)

# SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

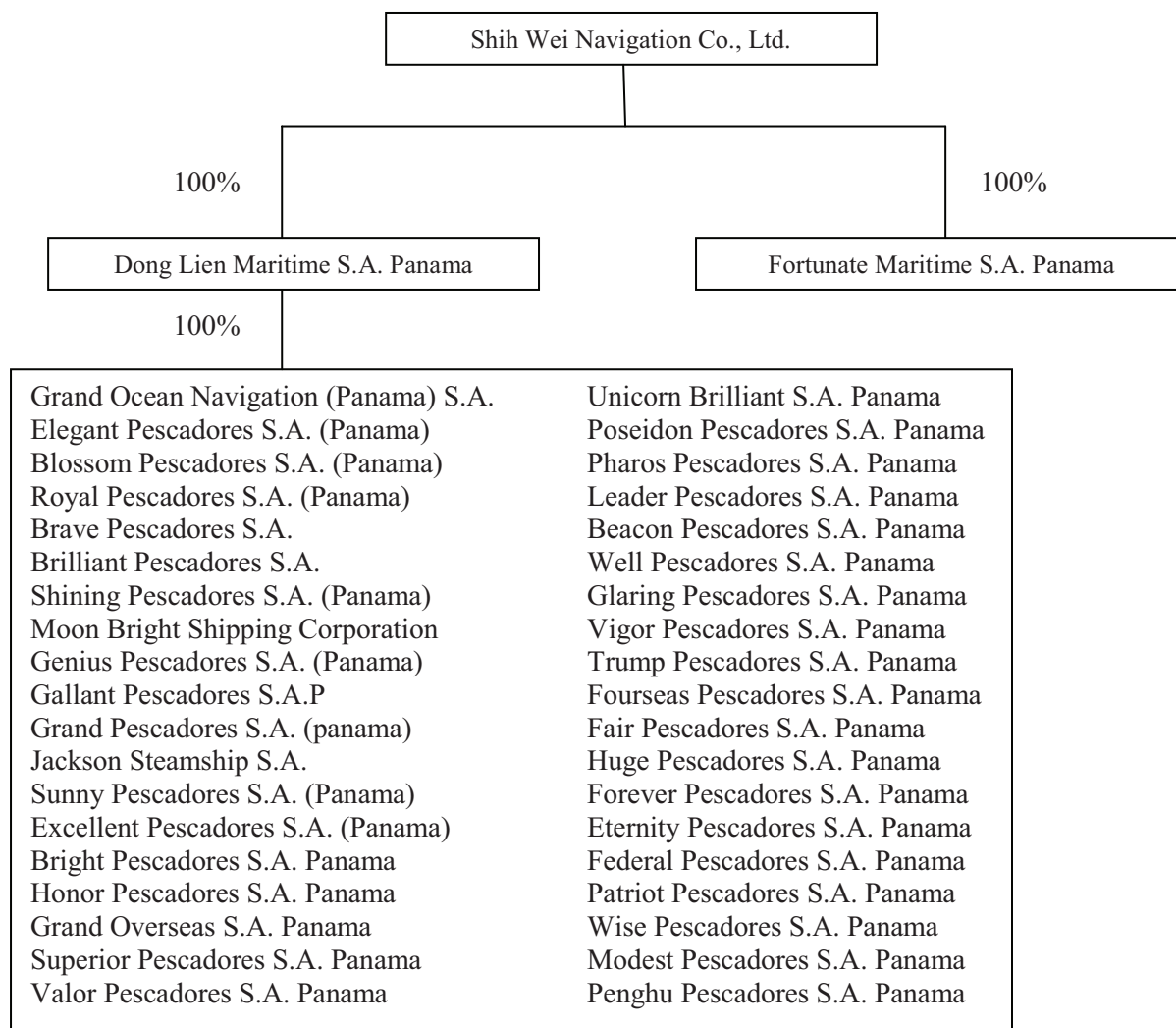
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

### 1. ORGANIZATION AND OPERATIONS

Shih Wei Navigation Co., Ltd. (the "Corporation") was incorporated in March 1985 under the Company Act of the Republic of China. The Corporation mainly provides cargo shipping services, shipping agency, and sells and leases ships.

The Corporation's shares began to be traded on the Taiwan GreTai Securities Market in July 2001 and then became listed on the Taiwan Stock Exchange in August 2003.

The Corporation and its subsidiaries' investment relationship and percentage of ownerships as of June 30, 2009 and 2008 were as follows.



Subsidiaries mainly engage in providing cargo shipping services, shipping agency, and sell, lease and build ships and their spare parts.

As of June 30, 2009 and 2008, the Corporation and its subsidiaries had 753 and 692 employees, respectively.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Corporation and its subsidiaries are required to make reasonable estimates and assumptions that affect the amounts of allowance for doubtful accounts; provision for loss on inventories; depreciation on property and equipment; amortization of deferred charges; impairment loss on assets; valuation of accrued pension cost; income tax; bonuses to employees, directors and supervisors; etc. Actual results could differ from these estimates.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include the English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB) for their oversight purposes.

The significant accounting policies of the Corporation and its subsidiaries are summarized as follows:

### **Basis of Consolidation**

The consolidated companies are the Corporation's direct or indirect subsidiaries of which the Corporation holds more than 50% of their respective common shares and all other direct or indirect investees over which the Corporation has substantive control. All significant intercompany transactions or balances were eliminated during the consolidation.

### **Translation of Subsidiaries' Financial Statements**

The subsidiaries' financial statements expressed in foreign currencies have been translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - year-end spot rate; stockholders' equity - historical exchange rate; and income statement accounts - current year's average rate. Differences resulting from the above translation are recorded as "cumulative translation adjustments" under the stockholders' equity.

### **Current and Noncurrent Assets and Liabilities**

Current assets included cash and those held primarily for trading purpose or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property and equipment, and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

## **Financial Instruments at Fair Value Through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Corporation and its subsidiaries recognize a financial asset or a financial liability on its balance sheet when the Corporation and its subsidiaries become parties to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation and its subsidiaries have lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: open-end mutual funds - at net asset values; financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques; and derivatives - at values calculated using bank-quoted prices.

## **Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts**

Revenue is recognized when the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. The related cost is recognized at the same time. The revenues from management services and vessel leases are recognized over the contract periods. Cargo revenues are recognized when the cargos are transported to the port of discharge.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Corporation and its subsidiaries and the customers for service rendered in the normal course of business. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectability of accounts receivable. The Corporation and its subsidiaries assess the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables, prior years' collectability of receivables and economic situation.

## **Inventories**

Inventory is vessel fuel. Before January 1, 2009, vessel fuel was stated at the lower of cost or market value. Any write-down was made on a total-inventory basis. Market value meant replacement cost. As stated in Note 3 to the financial statements, effective January 1, 2009, vessel fuel is stated at the lower of cost or net realizable value. Inventory write-downs are made by item.

### **Held-to-maturity Financial Assets**

Held-to-maturity financial assets are carried at amortized cost. Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

### **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition, and derecognition bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Available-for-sale financial assets consist of derivatives, and their fair values at the balance sheet date are determined at their quoted prices in an active market or, if they have no quoted market prices, at estimates made through certain valuation techniques.

### **Financial Assets Carried at Cost**

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks, are measured at their original cost. Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of property and equipment are capitalized as part of the cost of those assets. Major additions, replacements and betterments are capitalized, while maintenance and repairs are expensed currently.

Depreciation is provided on a straight-line basis over the estimated useful lives as follows: buildings, 50 years; transportation equipment, 5 years; vessel equipment, 3 to 25 years; office equipment, 3 to 8 years; leasehold improvements, lease terms. Property and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

The related cost and accumulated depreciation of property and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the period of disposal.

### **Deferred Charges**

Deferred charges, mainly the costs of vessel overhaul and golf club memberships, are initially recorded at cost and amortized using the straight-line method over 2 to 3 years and over 20 years, respectively.

### **Impairment of Assets**

If the recoverable amount of an asset (mainly property and equipment and deferred charges) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings.

### **Pension**

Under the defined benefit pension plan, pension cost is recognized on the basis of actuarial calculation. Unrecognized net transition obligation and the unrecognized net actuarial gain or loss are amortized using the straight-line method over the average remaining service years of employees.

Under the defined benefit pension plan, the minimum amount of pension liability should be recognized in the balance sheet. If the accrued pension liability already shown in the book is less than the minimum amount, the difference should be recognized as additional pension liability. If the additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net assets or net benefit obligation, the deferred pension cost account should be charged. Deferred pension cost is classified as an intangible asset. If the additional liability exceeds this sum, the excess should be charged to the net loss not yet recognized as net pension cost account, which is classified as a reduction of stockholders' equity.

Under the defined contribution plan, the required monthly contributions to employees' individual pension accounts are recognized as pension cost.

### **Income Tax**

The Corporation applies inter-year allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred income tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

### Foreign-currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets that are carried at cost continue to be stated at exchange rates at trade dates.

### Reclassifications

Certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2008 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the six months ended June 30, 2009.

## 3. ACCOUNTING CHANGES

### Accounting for Inventories

On January 1, 2009, the Corporation and its subsidiaries adopted the newly revised Statement of Financial Accounting Standards No. 10 - "Inventories." The main revisions are inventories are stated at the lower of cost or net realizable value and are written down to net realizable value by item, except when the grouping of similar or related items is appropriate and write-downs of inventories; and any reversal of write-downs is recorded as cost of goods sold for the period. This accounting change had no material effect on these consolidated financial statements for the six months ended June 30, 2009.

### Accounting for Bonuses to Employees, Directors and Supervisors

On January 1, 2008, the Corporation and its subsidiaries adopted Interpretation 2007-052 issued by the Accounting Research and Development Foundation in March 2007, which requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors. These bonuses were previously recorded as appropriations from earnings. This accounting change resulted in decreases of NT\$20,000 thousand in consolidated net income before income tax, NT\$15,000 thousand in consolidated net income and NT\$0.04 in after income tax basic earnings per share for the six months ended June 30, 2008.

## 4. CASH

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
Cash on hand	\$ 318	\$ 161
Checking accounts and demand deposits	223,019	234,131
Time deposits	<u>4,078,476</u>	<u>1,833,814</u>
	<u>\$ 4,301,813</u>	<u>\$ 2,068,106</u>

## 5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>June 30</u>	
	2009	2008
Financial assets held for trading - current		
Mutual funds	\$ 32,418	\$ 105,000
Domestic convertible bonds	-	3,058
Overseas listed shares	<u>-</u>	<u>54</u>
Financial assets at FVTPL - current	<u>\$ 32,418</u>	<u>\$ 108,112</u>
Financial assets held for trading - noncurrent		
Mutual funds	\$ -	\$ 20,000
Financial assets designated as at FVTPL - noncurrent		
Structured notes	<u>-</u>	<u>60,580</u>
Financial assets at FVTPL - noncurrent	<u>\$ -</u>	<u>\$ 80,580</u>
Financial liabilities held for trading - current (classified under other current liabilities)		
Currency option contracts	<u>\$ 437</u>	<u>\$ 227</u>

The Corporation and its subsidiaries used currency option contracts in the six months ended June 30, 2009 and 2008 to manage exposures due to exchange rate fluctuations. These contracts were classified as financial assets held for trading and were measured at fair value because the hedge accounting requirement does not apply to them.

Outstanding currency option contracts as of June 30, 2009 and 2008 were as follows:

	<b>Contract Amount (In Thousands)</b>	<b>Exercise Price</b>	<b>Maturity Date</b>
<u>June 30, 2009</u>			
Sell USD call option	USD1,000	NTD33.3/USD1	2009.07.02
Sell USD call option	USD1,000	NTD33.5/USD1	2009.07.02
Sell USD call option	USD1,000	NTD33.3/USD1	2009.07.02
Sell USD call option	USD2,000	NTD33.3/USD1	2009.07.07
Sell USD call option	USD1,000	NTD33.3/USD1	2009.07.07
Sell USD call option	USD1,000	JPY99/USD1	2009.07.06
Sell USD call option	USD1,000	JPY99/USD1	2009.07.06
<u>June 30, 2008</u>			
Sell USD call option	USD1,500	NTD30.5/USD1	2008.07.01
Sell USD call option	USD2,300	NTD30.55/USD1	2008.07.07

On financial assets held for trading, there were net gains of NT\$3,254 thousand and net losses of NT\$1,400 thousand in the six months ended June 30, 2009 and 2008, respectively. Net gains on financial liabilities held for trading for the six months ended June 30, 2009 and 2008 were NT\$2,844 thousand and NT\$14,425 thousand, respectively.

Net loss on financial assets designated as at FVTPL was NT\$3,923 thousand in the six months ended June 30, 2009.

## 6. HELD-TO-MATURITY FINANCIAL ASSETS

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
Bond investments - Deutsche Bank Aktiengesellschaft	\$ 49,590	\$ 33,210
Bond investments - HSBC	<u>3,000</u>	<u>3,000</u>
	52,590	36,210
Less: Current portion	<u>36,210</u>	<u>-</u>
	<u>\$ 16,380</u>	<u>\$ 36,210</u>

- a. The Corporation and its subsidiaries bought three-year corporate bonds issued by Deutsche Bank Aktiengesellschaft, with face values of NT\$33,210 thousand (US\$1,000 thousand) on November 1, 2006 and NT\$16,380 thousand (US\$500 thousand) on June 4, 2009, with coupon interest rates of 4.85% and 3%, respectively. Interest is calculated annually. The principal is fully repayable on the maturity date.
- b. On September 1, 2004, the Corporation bought five-year financial bonds issued by HSBC (originally, the Chinese Bank), with face value of NT\$3,000 thousand. The interest rate is floating and is calculated every six months. The principal is fully repayable on the maturity date.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
Structured notes - USD 10Y NC6m Callable CMS Range Accrual Note	<u>\$ -</u>	<u>\$ 30,290</u>

## 8. FINANCIAL ASSETS CARRIED AT COST

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
Overseas unlisted common stocks		
Harmony Success S.A. (original investment cost: US\$654 thousand)	\$ 21,412	\$ 19,797
K/S Danred I (original investment cost: US\$519 thousand)	16,721	16,721
Lando Co., Ltd. (original investment cost: ¥3,000 thousand)	<u>878</u>	<u>812</u>
	<u>\$ 39,011</u>	<u>\$ 37,330</u>

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

## 9. PROPERTY AND EQUIPMENT

Accumulated depreciation consisted of:

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
Buildings	\$ 5,552	\$ 4,481
Transportation equipment	3,715	2,639
Vessel equipment	2,948,736	2,523,627
Office equipment	2,212	2,023
Leasehold improvements	<u>1,311</u>	<u>8</u>
	<u>\$ 2,961,526</u>	<u>\$ 2,532,778</u>

Information on capitalized interest was as follows:

	<u>Six Months Ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Capitalized interest	\$ 7,020	\$ 18,146
Capitalization rates	1.21%-1.80%	3.31%-6.06%

## 10. SHORT-TERM BANK LOANS

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
Bank credit loans: US\$3,290 thousand; due in November 2009, 1.41% interest per annum in 2009; due in November 2008, 3.40% interest per annum in 2008	\$ 107,795	\$ 99,668
Secured bank loans: Due in July 2009, 1.1184%-2.40% interest per annum	104,000	-
Bank credit loans: Due in July 2009, 1.01%-1.5877% interest per annum	81,000	-
Secured bank loans: ¥140,000 thousand; due in April 2010, 1.275% interests per annum	47,990	-
Secured bank loans: US\$6,546 thousand; due in April 2009, 3.15% interest per annum	<u>-</u>	<u>198,290</u>
	<u>\$ 340,785</u>	<u>\$ 297,958</u>

U.S. certificates of deposit were used as collaterals for the above secured bank loans.

## 11. LONG-TERM BANK LOANS

	<u>June 30</u>	
	2009	2008
a. Eight-year secured bank loans: US\$153,091 thousand and ¥631,928 thousand in 2009 and US\$106,451 thousand and ¥1,733,200 thousand in 2008, with interest from 1.34% to 2.74% and from 1.73% to 4.42%, respectively; repayable in 32 quarterly installments between August 2011 and March 2017	\$ 5,231,865	\$ 3,713,570
b. Ten-year secured bank loans: US\$24,165 thousand; interest rate at 1.51% to 1.94%; repayable in 40 quarterly installments until December 2018	791,645	-
c. Secured bank loans: US\$17,439 thousand and ¥436,250 thousand in 2009 and US\$11,602 thousand in 2008, with interest from 1.21% to 1.33% and of 3.51%, respectively; repayable in 32 quarterly installments from the date on which the final loan is granted	720,857	351,429
d. Two-year secured bank loans: 1.40% to 1.85% interest; one-time repayment in October 2010	580,000	-
e. Seven-year secured bank loans: US\$10,421 thousand and US\$21,194 thousand in 2009 and 2008, with interest from 1.80% to 2.20% and from 3.64% to 4.31%, respectively; repayable in 28 quarterly installments from March 2011 to May 2012	341,392	641,959
f. Three-year credit bank loans: 1.25% to 2.05% interest; repayable in 36 monthly installments until August 2011	338,136	-
g. Seven-year secured bank loans: US\$9,357 thousand; 1.31% interest; repayable in 28 quarterly installments until August 2015	306,540	-
h. Three-year secured bank loans: US\$4,250 thousand and ¥ 203,929 thousand; 1.26% to 1.46% interest; repayable in 12 quarterly installments from September 2011 to November 2011	209,134	-
i. Three-year secured bank loans: 1.29% to 2.05% interest; repayable in 36 monthly installments until August 2011	203,088	-
j. Fifteen-quarter secured bank loans: US\$5,269 thousand in 2009 and US\$5,964 thousand in 2008, with interest of 2.10% and 4.31%, respectively; repayable in 15 quarterly installments until September 2011	172,625	180,656
k. Five-year secured bank loans: US\$3,998 thousand in 2009 and US\$4,908 thousand in 2008, with interest of 1.41% and of 3.43% to 3.64%, respectively; repayable in 20 quarterly installments until August 2011	130,958	148,648
l. Four-year secured bank loans: US\$3,704 thousand in 2009 and US\$5,836 thousand in 2008, with interest from 1.30% to 1.93% and from 3.39% to 3.62%, respectively; repayable in 16 quarterly installments from April 2010 to November 2011	121,348	176,786
m. Eight-year secured bank loans: Interest of 1.57% in 2009 and 3.11% in 2008; repayable in 32 quarterly installments until June 2014	93,000	102,000
Less: Current portion	<u>(1,081,759)</u>	<u>(547,653)</u>
	<u>\$ 8,158,829</u>	<u>\$ 4,767,395</u>

Vessel equipment and the common stock of Valor Pescadores S.A. Panama were used as collaterals for the above loan (b); land, for loan (d); vessel equipment and the common stock of Grand Overseas S.A. Panama, for loan (e); U.S. certificate of deposit, land and buildings, for loan (i); and vessel equipment, for other secured bank loans.

## 12. PENSION PLANS

The pension plan adopted by the Corporation under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$1,199 thousand and NT\$1,491 thousand for the six months ended June 30, 2009 and 2008, respectively.

Based on the defined benefit plan adopted by the Corporation under the Labor Standards Law are calculated on the length of services and average basic pay of the six months before retirement. The employee earns two base units each year for the first 15 years of service, and one base unit for each additional year thereafter, but not more than 45 base units in total.

The Corporation contributes amounts equal to 4.3% of total monthly salaries and wages (2% from November 1992 to April 1997) to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name.

Other information on the defined benefit plan of the Corporation was as follows:

	<u>Six Months Ended June 30</u>	
	<u>2009</u>	<u>2008</u>
a. Movement of the pension fund		
Balance, beginning of period	\$ 8,632	\$ 6,581
Contributions	881	890
Interest	<u>-</u>	<u>94</u>
Balance, end of period	<u>\$ 9,513</u>	<u>\$ 7,565</u>
b. Movement of accrued pension cost		
Balance, beginning of period	\$ 17,514	\$ 17,386
Accruals	881	1,156
Contributions	<u>(881)</u>	<u>(890)</u>
Balance, end of period	<u>\$ 17,514</u>	<u>\$ 17,652</u>

## 13. STOCKHOLDERS' EQUITY

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par may be capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital.

The Corporation's Articles of Incorporation provide that the annual net income (less any deficit) after the allocation of 10% as legal reserve should be appropriated in accordance with the earnings distribution proposed by the board of directors for approval at the stockholders' meeting, of which employee bonuses cannot be less than 2% and remuneration to directors and supervisors cannot exceed 5%. Dividends may be distributed after a special reserve is appropriated.

The dividend policy of the Corporation is based on the prudence principle, which considers the Corporation's long-term financing structure and operation. Thus, when earnings and funds become sufficient for operating and expanding, then cash dividends or stock dividends will be distributed. The most recent dividend policy provides for the distribution of stock dividends at up to 50% of earnings and cash dividends of at least 50%.

For the six months ended June 30, 2009 and 2008, earnings appropriations and related percentages were as follows: The bonuses to employees were NT\$12,000 thousand (2.18%) and NT\$15,753 thousand (2.04%), respectively, and the remunerations to directors and supervisors were NT\$3,000 thousand (0.55%) and NT\$4,247 thousand (0.55%), respectively. Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted for also in the following year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Based on a directive issued by the Securities and Futures Bureau (SFB), an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, and cumulative translation adjustments) should be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Corporation's paid-in capital, up to 50% thereof may be transferred to paid-in capital.

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident stockholders are allowed a tax credit for their proportionate share of the income tax paid on earnings generated since January 1, 1998.

The appropriations of earnings for 2008 and 2007 had been approved in the stockholders' meetings on June 19, 2009 and June 13, 2008, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share</u> (NT\$)	
	<u>For</u> <u>Year 2008</u>	<u>For</u> <u>Year 2007</u>	<u>For</u> <u>Year 2008</u>	<u>For</u> <u>Year 2007</u>
Legal reserve	\$ 401,093	\$ 182,419	\$ -	\$ -
Appropriation to (reversal of) special reserve	(51,463)	51,463	-	-
Cash dividends	1,736,302	1,684,929	5.00	5.00
Stock dividends	86,815	84,246	0.25	0.25
Bonus to employees - cash	-	18,500	-	-
Bonus to employees - stock	-	18,500	-	-
Remuneration to directors and supervisors - cash	-	10,000	-	-
	<u>\$ 2,172,747</u>	<u>\$ 2,050,057</u>	<u>\$ 5.25</u>	<u>\$ 5.25</u>

The bonus to employees of NT\$38,500 thousand and the remuneration to directors and supervisors of NT\$10,000 thousand for 2008 were approved in the stockholders' meeting on June 19, 2009. The bonus to employees included a cash bonus of NT\$21,500 thousand and a share bonus of NT\$17,000. The number of shares of 408 thousand was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting. The approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of NT\$39,382 thousand and NT\$10,618 thousand, respectively, reflected in the financial statements for the year ended December 31, 2008, and the differences of NT\$882 thousand and NT\$618 thousand, respectively, had been adjusted in profit and loss for the six months ended June 30, 2009.

The stockholders' meeting of the Corporation in 2009 resolved the transfer of NT\$86,815 thousand of unappropriated earnings and NT\$4,082 thousand of share bonus to employees to paid in capital. This capital increase was approved by the SFB and the board of directors approved August 3, 2009 as the distribution date.

Information on the bonus to employees, directors and supervisors is available on the Market Observation Post System web site of the Taiwan Stock Exchange.

#### 14. INCOME TAX

- a. A reconciliation of income tax expense based on income before income tax at the 25% statutory rate and income tax expense was as follows:

	<b>Six Months Ended June 30</b>	
	<b>2009</b>	<b>2008</b>
Income tax expense at the 25% statutory rate	\$ 256,694	\$ 420,293
Tax effect on adjusting items:		
Permanent differences	(109,693)	(119,605)
Temporary differences	(55,744)	(190,517)
Additional 10% income tax on unappropriated earnings	<u>183,819</u>	<u>-</u>
Current income tax expense	275,076	110,171
Deferred income tax expense		
Temporary differences	55,744	190,518
Effect of tax law changes on deferred income tax	(21,785)	-
Adjustments for prior years' tax	<u>304</u>	<u>(70)</u>
Income tax expense	<u>\$ 309,339</u>	<u>\$ 300,619</u>

Income tax payables as of June 30, 2009 and 2008 were net of prepaid income taxes of NT\$198 thousand and NT\$33 thousand, respectively.

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. The Corporation recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense.

- b. Deferred income tax assets (liabilities) were as follows:

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Current		
Allowance for doubtful accounts	\$ 360	\$ 450
Unrealized exchange gains	<u>(2,683)</u>	<u>(9,074)</u>
Deferred income tax liabilities (classified under other current liabilities)	<u>\$ (2,323)</u>	<u>\$ (8,624)</u>
Noncurrent		
Accrued pension cost	\$ 1,796	\$ 2,311
Estimated cash dividend income - equity method	(398,794)	(306,215)
Cumulative translation adjustments	<u>(26,156)</u>	<u>132,904</u>
Deferred income tax liabilities	<u>\$ (423,154)</u>	<u>\$ (171,000)</u>



## 16. EARNINGS PER SHARE

The numerators and denominators used in calculating basic EPS were as follows:

	<u>Amounts (Numerator)</u>		<u>Shares (Denominator) (in Thousands)</u>	<u>EPS (NT\$)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Six months ended June 30, 2009</u>					
Basic EPS					
Income attributable to common stockholders	<u>\$ 1,026,816</u>	<u>\$ 717,477</u>	<u>355,969</u>	<u>\$ 2.88</u>	<u>\$ 2.02</u>
<u>Six months ended June 30, 2008</u>					
Basic EPS					
Income attributable to common stockholders	<u>\$ 1,681,210</u>	<u>\$ 1,380,591</u>	<u>355,942</u>	<u>\$ 4.72</u>	<u>\$ 3.88</u>

The Accounting Research and Development Foundation (ARDF) issued Interpretation 2007-052, which requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares, and, if the shares have a dilutive effect, the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year. If the Corporation settles the entire amount of the bonus in shares for the six months ended June 30, 2009 and 2008, the dilutive effect of potential shares would be 648 thousand and 279 thousand shares, respectively. These potential shares do not have a material effect on diluted EPS.

The weighted average number of shares outstanding for EPS calculation was retroactively adjusted for the issuance of stock dividends. This adjustment caused the basic after income tax EPS for the six months ended June 30, 2008 to decrease from NT\$3.98 to NT\$3.88.

## 17. INDEMNIFICATION INCOME

The subsidiaries entered into vessel leasing agreements with other companies and collected rental revenue. Since these companies canceled the agreements, subsidiaries collected indemnification income and recognized it as miscellaneous income for the six months ended June 30, 2009.

## 18. RELATED-PARTY TRANSACTIONS

- a. Related parties and their relationships with the Corporation

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
Harmony Success S.A. Panama ("Harmony")	Chairman is a second-degree relative of the Corporation's chairman
Luo Pan Investments Co., Ltd. ("Luo Pan")	Chairman is an immediate relative of the Corporation's chairman
Huo Da Investments Co., Ltd. ("Huo Da")	Chairman is an immediate relative of the Corporation's chairman
Huan Shin Investments Co., Ltd. ("Huan Shin")	Chairman is an immediate relative of the Corporation's chairman
Greendance Barony Co., Ltd. ("Greendance")	Chairman is the spouse of the Corporation's chairman

b. Significant related-party transactions (in addition to those disclosed in Note 20)

	<b>Six Months Ended June 30</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Amount</b>	<b>% to Total</b>	<b>Amount</b>	<b>% to Total</b>
Rental revenue (classified under miscellaneous income)				
Luo Pan	\$ 14	-	\$ 12	-
Huo Da	14	-	12	-
Greendance	14	-	6	-
Huan Shin	<u>7</u>	<u>-</u>	<u>6</u>	<u>-</u>
	<u>\$ 49</u>	<u>-</u>	<u>\$ 36</u>	<u>-</u>

The rental revenue is obtained from leasing parts of the office.

	<b>June 30</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Amount</b>	<b>% to Total</b>	<b>Amount</b>	<b>% to Total</b>
Other payables (classified under other current liabilities)				
Harmony	<u>\$ -</u>	<u>-</u>	<u>\$ 1,481</u>	<u>-</u>

The collection and payment terms for transactions with related parties were similar to those for third parties. The term is 30 to 90 days.

## 19. MORTGAGED OR PLEDGED ASSETS

The following assets had been mortgaged or pledged as collateral for bank guarantee and loans:

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Pledged time deposits	\$ 438,999	\$ 199,914
Property and equipment		
Land	910,749	79,937
Building, net	25,354	24,475
Vessel equipment, net	10,973,596	7,920,112
Prepayment for equipment	<u>1,228,376</u>	<u>506,753</u>
	<u>\$ 13,577,074</u>	<u>\$ 8,731,191</u>

## 20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Corporation and its subsidiaries as of June 30, 2009 were as follows:

- a. The Corporation entered into a joint construction contract with Wang Tai Construction Co., Ltd. ("Wang Tai") on February 12, 2009. Under the contract, the Corporation provides land in the Chang-an section in Taipei and Wang Tai provides the construction fund. After the completion of construction, the Corporation and Wang Tai will own 61 percent and 39 percent of the entire land and building, respectively.

- b. The subsidiaries and some shipbuilding companies entered into vessel construction contracts amounting to ¥39,947,700 thousand and US\$26,000 thousand. As of June 30, 2009, ¥7,175,330 thousand and US\$1,600 thousand have been paid.

## 21. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments

	June 30			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative instruments</u>				
Assets				
Financial assets at fair value through profit or loss - current	\$ 32,418	\$ 32,418	\$ 108,112	\$ 108,112
Held-to-maturity financial assets - current	36,210	36,210	-	-
Financial assets at fair value through profit or loss - noncurrent	-	-	20,000	20,247
Financial asset carried at cost - noncurrent	39,011	-	37,330	-
Held-to-maturity financial assets - noncurrent	16,380	16,380	36,210	37,102
Refundable deposits	29,999	29,999	48,465	48,465
Pledged time deposits - noncurrent	219,492	219,492	-	-
Liabilities				
Long-term bank loans (including current portion)	9,240,588	9,240,588	5,315,048	5,315,048
Guarantee deposits received	25,105	25,105	155	155
<u>Derivative instruments</u>				
Assets				
Forward contract	-	-	-	46
Structured notes (classified as financial assets at FVTPL - noncurrent and available-for-sale financial assets)	-	-	90,870	89,485
Liabilities				
Equity-linked notes	-	-	-	565
Currency options contract	437	49	227	179

- b. Methods and assumptions used in determining fair values of financial instruments

- 1) The balance sheet carrying amounts of cash, accounts receivable, pledged time deposits - current, short-term bank loans, notes and accounts payable, accrued expenses, and dividend payable, which were not included in the assets mentioned above, approximate fair value because of their short maturities.

- 2) For financial instruments at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets with an active market, the fair value is based on quoted market prices. For those financial instruments without an active market, the fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with those generally used by other market participants for instrument pricing.
  - 3) For financial assets carried at cost, the fair value cannot be estimated because related stocks have no active market and a reliable determination of their fair value entails an unreasonably high cost; thus, their fair value is not presented.
  - 4) For refundable deposits, pledged time deposits - noncurrent and guarantee deposits received, their future receipt, settlement or payment terms are uncertain; thus, their fair value is their book value.
  - 5) For long-term bank loans, their fair value is estimated using the present value of future cash flows discounted at interest rates the Corporation and its subsidiaries may obtain for similar loans (e.g., similar maturities).
- c. As of June 30, 2009 and 2008, financial assets exposed to fair value interest rate risk amounted to NT\$49,590 thousand and NT\$96,848 thousand, respectively; financial liabilities exposed to fair value interest rate risk amounted to NT\$182,795 thousand and NT\$99,668 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$3,000 thousand and NT\$33,290 thousand, respectively; and financial liabilities exposed to cash flow interest rate risk amounted to NT\$9,398,578 thousand and NT\$5,513,338 thousand, respectively.

d. Financial risks

1) Market risk

Financial instruments at fair value through profit or loss are held by the Corporation and its subsidiaries for trading in active markets. Hence, the Corporation and its subsidiaries are exposed to market risks as a result of price fluctuations. The Corporation and its subsidiaries run a control system to mitigate this risk, and management does not anticipate any material loss due to this risk.

The Corporation and its subsidiaries also hold foreign-currency assets, liabilities and currency option contracts. Hence, the Corporation and its subsidiaries are exposed to market risks as a result of exchange rate fluctuations. The Corporation and its subsidiaries run a control system and monitor the exchange rate fluctuations to reduce market risks.

2) Credit risk

The Corporation and its subsidiaries are exposed to credit risk on counter-parties' default on contracts. However, the amount of the Corporation and its subsidiaries' maximum exposure to credit risk on its financial instruments is equal to the book value. In addition, the Corporation and its subsidiaries transact only with selected financial institutions and corporations with good credit ratings. Thus, management does not anticipate any material losses on default on contracts.

3) Liquidity risk

The Corporation and its subsidiaries' operating funds are deemed sufficient to meet their cash flow demand; thus, liquidity risk is not considered significant.

In addition, the Corporation and its subsidiaries' financial instruments at fair value through profit or loss are publicly traded in an active market and can readily be sold in the market at their approximate fair values. However, because they also have financial assets that are carried at cost, they have significant liquidity risks because these assets do not have quoted market prices in an active market.

4) Cash flow interest rate risk

The Corporation and its subsidiaries' short-term and long-term loans are floating-rate loans. Effective interest rates and future cash flows of the Corporation and its subsidiaries will fluctuate as a result of changes in market interest rate.