

CHINESE MARITIME TRANSPORT LTD.

Financial Statements

December 31, 2008 and 2007

(With Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Chinese Maritime Transport Ltd.:

We have audited the accompanying balance sheets of Chinese Maritime Transport Ltd. as of December 31, 2008 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The long-term equity investments in the financial statements accounted for using the equity method amounting to NT\$6,247,260,000 and NT\$5,692,135,000 as of December 31, 2008 and 2007, respectively, and related investment income of NT\$1,162,427,000 and NT\$495,165,000, respectively, for the years then ended were recognized based on the investees' financial statements, which were audited by other auditors.

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

In our opinion, based on our audits and the aforementioned reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Chinese Maritime Transport Ltd. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China.

As stated in note 3 to the financial statements, Chinese Maritime Transport Ltd. adopted Republic of China Statement of Financial Accounting Standards No. 39 “Share-based Payment” effective January 1, 2008, and Interpretation (96) 052 issued by the Accounting Research and Development Foundation. Accordingly, the Company recognized the amount of employee bonuses and directors’ and supervisors’ remuneration for the year ended December 31, 2008, and the net income and basic earnings per share were decreased by NT\$117,210,000 and NT\$0.46, respectively.

Taipei, Taiwan (Republic of China)
February 27, 2009

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

CHINESE MARITIME TRANSPORT LTD.

Statements of Income

For the years ended December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars, except earnings per share,
which is expressed in New Taiwan dollars)

	2008		2007	
	Amount	%	Amount	%
Operating revenue (note 17):				
Freight revenue – container hauling, net	\$ 1,832,185	96	1,757,043	97
Freight revenue – airline agent and others	<u>83,002</u>	<u>4</u>	<u>56,771</u>	<u>3</u>
	1,915,187	100	1,813,814	100
Operating cost (notes 17 and 20)	<u>1,518,382</u>	<u>79</u>	<u>1,428,590</u>	<u>79</u>
Gross profit	396,805	21	385,224	21
Operating expenses (notes 17 and 20)	<u>318,034</u>	<u>17</u>	<u>204,682</u>	<u>11</u>
Operating income	<u>78,771</u>	<u>4</u>	<u>180,542</u>	<u>10</u>
Non-operating income and gains:				
Interest income (note 17)	40,809	2	27,334	1
Investment income under equity method, net (note 7)	4,363,497	228	2,259,861	125
Foreign exchange gain, net	40,975	2	-	-
Rental income (note 8)	7,687	1	11,335	1
Others	<u>15,616</u>	<u>1</u>	<u>6,328</u>	<u>-</u>
	<u>4,468,584</u>	<u>234</u>	<u>2,304,858</u>	<u>127</u>
Non-operating expenses and losses:				
Interest expense	130,750	7	89,460	5
Impairment loss (note 7)	38,619	2	-	-
Loss on valuation of financial assets (note 5)	57,339	3	-	-
Others	<u>349</u>	<u>-</u>	<u>510</u>	<u>-</u>
	<u>227,057</u>	<u>12</u>	<u>89,970</u>	<u>5</u>
Income before tax	4,320,298	226	2,395,430	132
Income tax expense (note 14)	<u>71,969</u>	<u>4</u>	<u>83,897</u>	<u>5</u>
Net income	<u>\$ 4,248,329</u>	<u>222</u>	<u>2,311,533</u>	<u>127</u>
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Basic earnings per share (note 15)	<u>\$ 16.84</u>	<u>16.56</u>	<u>9.34</u>	<u>9.01</u>
Diluted earnings per share (note 15)	<u>\$ 16.74</u>	<u>16.46</u>		

See accompanying notes to financial statements.

CHINESE MARITIME TRANSPORT LTD.

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(expressed in thousands of New Taiwan dollars)

	2008	2007
Cash flows from operating activities:		
Net income	\$ 4,248,329	2,311,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,992	22,693
Impairment loss	38,619	-
Decrease (increase) in financial assets at fair value through profit or loss – current	(24,877)	23,085
Investment income under the equity method, net	(4,363,497)	(2,259,861)
Cash dividends from investee companies accounted for under the equity method	602,741	368,851
Decrease (increase) in notes and accounts receivable	75,172	(28,810)
Decrease (increase) in other current assets	8,489	(8,147)
Increase in other current financial assets	(534)	(1,987)
Increase (decrease) in notes and accounts payable	(28,675)	14,418
Increase in accrued expenses and other current liabilities	61,472	62,981
Decrease in prepaid pension and deferred pension cost	9,306	3,230
Others	(7,350)	(589)
Net cash provided by operating activities	<u>647,187</u>	<u>507,397</u>
Cash flows from investing activities:		
Capital refund from investee company	575,243	-
Increase in long-term equity investments	(651,395)	(398,447)
Proceeds from sale of long-term equity investments	134,861	-
Additions to property and equipment and rental assets	(50,985)	(29,630)
Additions to intangible assets	(3,205)	-
Proceeds from sale of property and equipment	1,512	1,088
Decrease (increase) in other receivables – related parties	556,500	(1,064,000)
Decrease (increase) in refundable deposits	540,755	(544,485)
Net cash provided by (used in) investing activities	<u>1,103,286</u>	<u>(2,035,474)</u>
Cash flows from financing activities:		
Decrease in short-term loans	(139,064)	(140,543)
Increase in long-term loans	870,000	2,829,220
Decrease in long-term loans	(984,500)	(658,000)
Increase in bonds payable	1,000,000	-
Cash dividends	(1,538,841)	(466,315)
Employees' bonuses and directors' and supervisors' remuneration	(62,608)	(37,847)
Others	(447)	-
Net cash provided by (used in) financing activities	<u>(855,460)</u>	<u>1,526,515</u>
Net increase (decrease) in cash and cash equivalents	895,013	(1,562)
Cash and cash equivalents at beginning of year	304,776	306,338
Cash and cash equivalents at end of year	<u>\$ 1,199,789</u>	<u>304,776</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>126,199</u>	<u>85,871</u>
Income tax	\$ <u>89,335</u>	<u>58,261</u>
Investing and financing activities not affecting current cash flows:		
Current portion of long-term receivables – related parties	\$ <u>48,500</u>	<u>54,500</u>
Current portion of long-term loans	\$ <u>1,708,466</u>	<u>435,222</u>

See accompanying notes to financial statements.

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

December 31, 2008 and 2007

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

(1) Organization

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

As of December 31, 2008 and 2007, the number of employees hired by the Company was approximately 126 and 121, respectively.

(2) Summary of Significant Accounting Policies

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

(a) Foreign currency transactions and translation

The Company's reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting unrealized exchange gain (loss) from such translations is reflected in the accompanying consolidated statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gain (loss) from such translations is reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gain (loss) from such translations is recorded as a separate component of stockholders' equity.

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

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

(b) Accounting estimates

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

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

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

(d) Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(e) Cash equivalents

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

(f) Financial assets

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

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

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

(g) Allowance for doubtful accounts

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

(h) Long-term investments under equity method

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

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

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

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

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

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

(i) Property and equipment, rental assets and depreciation

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

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

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

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

(j) Intangible assets

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

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

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

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

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

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

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

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

(l) Revenue and cost recognition

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

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

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

(n) Income tax

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

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

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

(o) Earnings per share

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

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

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(3) Changes in Accounting Policy

- (a) Effective from January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 39 (SFAS No. 39) and Interpretation (96) 052 issued by the ARDF. In accordance with SFAS No. 39 and the above Interpretation, the Company classified, measured, recognized and disclosed the share-based payment transactions, employees' bonuses, and directors' and supervisors' remuneration. Accordingly, net income decreased by \$117,210 (including \$361 for domestic subsidiaries) and earnings per share by 0.46 New Taiwan dollar. In accordance with the Interpretation issued by the ARDF, the new shares issued as employees' bonuses in 2008 and later years are no longer retroactively adjusted when calculating basic earnings per share and diluted earnings per share. If the employees' bonuses that may be distributed in the form of stock have a dilution effect, they should be considered in the current year when calculating diluted earnings per share.
- (b) Effective from January 1, 2007, the Company adopted the newly pronounced Statement of Financial Accounting Standards No. 37 (SFAS No. 37) "Intangible Assets". In accordance with SFAS No. 37, the Company reevaluated the useful lives and the amortization method used for recognized intangible assets at the beginning of the financial year, and there was no need to change the useful lives or the amortization method. The net income for 2007 is not affected by this accounting change.

(4) Cash and Cash Equivalents

	December 31, 2008	December 31, 2007
Petty cash, checking accounts and demand deposits	\$ 199,465	116,213
Time deposits	711,833	8,108
Cash equivalent – commercial paper	<u>288,491</u>	<u>180,455</u>
	\$ <u>1,199,789</u>	<u>304,776</u>

(5) Financial Instruments

The Company did not invest in any derivative financial instruments during 2008 and 2007. The non-derivative financial instruments held by the Company as of December 31, 2008 and 2007, were as follows:

	December 31, 2008	December 31, 2007
Financial assets measured at fair value through profit or loss:		
Financial assets held for trading:		
Listed stocks	\$ <u>24,877</u>	<u>-</u>

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

As of December 31, 2008 and 2007, the unrealized gain on financial assets measured at fair value through profit or loss from changes in fair value amounted to \$6,513 and \$0, respectively.

(6) Notes and Accounts Receivable – Third Parties

	December 31, 2008	December 31, 2007
Notes receivable	\$ 7,030	5,279
Accounts receivable	69,185	140,505
Less: allowance for doubtful accounts	<u>(1,790)</u>	<u>(1,790)</u>
	\$ <u>74,425</u>	<u>143,994</u>

(7) Long-term Equity Investments

	December 31, 2008		December 31, 2007	
	%	Amount	%	Amount
Under the equity method:				
Chinese Maritime Transport (Hong Kong) Ltd. (CMT HK)	100.00	\$ 6,368,682	100.00	3,182,092
Chinese Maritime Transport (S) Pte. Ltd. (CMTS)	100.00	1,085,505	100.00	1,689,562
Hope Investment Ltd. (HIL)	100.00	1,091,775	100.00	759,224
Taiwan Navigation Co., Ltd. (Taiwan Navigation)	5.45	842,117	2.45	298,926
CMT Logistics Co., Ltd. (CMTL)	100.00	692,799	100.00	726,400
AGM Investment Ltd. (AGM)	100.00	640,231	100.00	448,248
Mo Hsin Investment Ltd. (MHI)	100.00	624,097	100.00	471,581
Associated Transport Inc. (ATI)	100.00	211,828	100.00	31,631
Chang Shun Transport Co., Ltd. (CST)	-	-	100.00	43,532
Huang Yuen Transport Co., Ltd. (HYT)	-	-	100.00	24,377
Mao Hua Transport Ltd. (MHT)	-	-	100.00	30,507
AG Prosperity Transport Ltd. (APT)	-	-	100.00	30,132
Others		<u>15,054</u>		<u>10,120</u>
		11,572,088		7,746,332
Less: accumulated impairment losses		(38,619)		-
Credit balance of long-term equity investment		-		346
		\$ <u>11,533,469</u>		<u>7,746,678</u>

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

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

Due to the excess of working capital, CMTS decreased its capital and refunded \$575,243 (US\$20,150,000) to the shareholders in 2008. The investment income of CMT HK increased because the business of bulk-carrier transportation was profitable.

- (b) In order to extend bulk-carrier transportation, the Company invested in Taiwan Navigation by itself and through its subsidiaries AGM, MHI, HIL, Fortune Marine Investment Ltd. (FMI), and Fortune King Investment Ltd. (FKI) during 2006 and 2008. As of December 31, 2008 and 2007, the percentage of ownership held by the Company and its subsidiaries was 40.498% and 37.496%, respectively. Total market price of the shares based on the closing price of December 31, 2008 and 2007, amounted to \$6,818,914 and \$8,872,765, respectively. As of December 31, 2008 and 2007, the long-term equity investment in Taiwan Navigation was as follows:

Company	December 31, 2008		December 31, 2007	
	Carrying value	%	Carrying value	%
The Company	\$ 842,117	5.452	298,926	2.450
HIL	2,235,107	17.149	1,948,428	17.149
MHI	1,048,496	7.897	918,384	7.897
AGM	1,025,587	9.990	826,618	9.990
FMI	849	0.005	810	0.005
FKI	849	0.005	810	0.005
	\$ <u>5,153,005</u>	<u>40.498</u>	<u>3,993,976</u>	<u>37.496</u>

- (c) Because of the operating change of CMTL, the Company assessed that the recoverable amount of CMTL was lower than its carrying value, and recognized an impairment loss of \$38,619 in 2008.
- (d) In order to integrate business resources, in November 2008, the Company adjusted the investment framework and sold the shares of CST, HYT, MHT and APT to ATI. The transfer price was \$134,861, and the total price has been collected. The book value of \$140,169 in excess of the transfer price of \$134,861 amounting to \$5,308 is presumed to be increasing investment in ATI by the Company.
- (e) Net investment income on long-term equity investments accounted for under the equity method for the years ended December 31, 2008 and 2007, amounted to \$4,363,497 and \$2,259,861, respectively, and was recognized based on the investees' audited financial statements.
- (f) The Company received cash dividends in 2008 and 2007 amounting to \$602,741 and \$368,851, respectively, stated as deduction from long-term equity investments.

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(8) Property and Equipment / Rental Assets

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

	December 31, 2008	December 31, 2007
Revaluation:		
Property and equipment	\$ 211,473	202,449
Rental assets	<u>18,312</u>	<u>27,336</u>
Revaluation increment, gross	229,785	229,785
Less: provision for land value increment tax	<u>(69,000)</u>	<u>(69,000)</u>
Revaluation increment, net	<u>\$ 160,785</u>	<u>160,785</u>

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

	December 31, 2008	December 31, 2007
Land	\$ 46,479	69,879
Buildings and improvements	15,375	42,007
Revaluation increment – land	<u>18,312</u>	<u>27,336</u>
Cost and revaluation increment	80,166	139,222
Less: accumulated depreciation	<u>(5,236)</u>	<u>(12,876)</u>
Rental assets, net	<u>\$ 74,930</u>	<u>126,346</u>

Rental income was received in accordance with the rental contracts, which were renewed periodically. The rental income (net of the depreciation expense) in 2008 and 2007 amounted to \$7,687 and \$11,335, respectively. According to the existing rental contracts, the expected rental income to be received in future years is as follows:

Period	Amount
2009.1.1~2009.12.31	\$ 5,314
2010.1.1~2010.12.31	1,440
2011.1.1~2011.10.31	<u>1,115</u>
	<u>\$ 7,869</u>

- (c) The pledge information is summarized in note 18.

(Continued)

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(9) Short-term Loans and Commercial Paper Payable

	December 31, 2008	December 31, 2007
Unsecured loans	\$ 400,000	-
Commercial paper payable	-	540,000
Less: discount on commercial paper payable	-	(936)
	<u>\$ 400,000</u>	<u>539,064</u>
Unused credit lines	<u>\$ 730,000</u>	<u>880,000</u>
Range of interest rates during the year	2.66%~2.85%	1.70%~3.30%

The Company did not provide any pledged asset for the above-mentioned loans as of December 31, 2008. The Company's commercial paper payable was endorsed and guaranteed with time deposits by CMTS as of December 31, 2007, as summarized in note 17(b).

(10) Long-term Loans

Bank	Usage and redemption period	December 31, 2008	December 31, 2007
China Development Industrial Bank and seven other participating banks	Working capital (nine installments, quarterly, 2008.9~2010.9)(note)	\$ 445,000	730,000
China Development Industrial Bank and seven other participating banks	Working capital (seven installments, quarterly, 2009.3~2010.9)	650,000	500,000
China Development Industrial Bank and seven other participating banks	Working capital (repay principal in full in 2010.9)	349,736	199,350
China Development Industrial Bank	Working capital (repay principal in full in 2010.5)	300,000	300,000
China Development Industrial Bank	Working capital (repay principal in full in 2009.8)	200,000	200,000
Mega International Commercial Bank	Working capital (five installments, quarterly, 2010.6~2011.9)	400,000	-
Mega International Commercial Bank	Working capital (five installments, quarterly, 2009.11~2011.2) (note)	320,000	300,000
Standard Chartered Bank (formerly Hsinchu International Bank)	Working capital (repay principal in full in 2009.5)	150,000	150,000
Standard Chartered Bank (formerly Hsinchu International Bank)	Working capital (ten installments, quarterly, 2007.9~2009.12)	60,000	120,000
Industrial Bank of Taiwan	Working capital (seven installments, semi-annually, 2008.11~2011.11) (note)	93,500	200,000
Industrial Bank of Taiwan	Working capital (seven installments, semi-annually, 2007.8~2010.8)	55,000	85,000

(Continued)

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

Bank	Usage and redemption period	December 31, 2008	December 31, 2007
Industrial Bank of Taiwan	Working capital (seven installments, semi-annually, 2006.11~2009.11)	30,000	58,000
Shin Kong Bank	Working capital (repay principal in full in 2009.6)	199,223	199,974
Far Eastern International Bank	Working capital (four installments, quarterly, 2009.4~2010.1)	199,814	199,896
Taipei Fubon Bank	Working capital (eight installments, quarterly, 2008.5~2010.2) (note)	-	200,000
Cathay United Bank	Working capital (twelve installments, quarterly, 2007.8~2010.5) (note)	-	125,000
		3,452,273	3,567,220
Less: current portion		(1,708,466)	(435,222)
		\$ 1,743,807	3,131,998
Range of interest rates during the year		<u>2.58%~3.13%</u>	<u>1.70%~3.29%</u>

(note): The Company repaid part of loans in advance due to operating capital management in 2008.

- (a) During 2004 to 2008, the Company entered into long-term loan agreements with China Development Industrial Bank, Taipei Fubon Bank, Far Eastern International Bank and Hsinchu International Bank (now Standard Chartered Bank) to obtain credit lines amounting to \$910,000 in total. Based on the agreements, the Company committed to maintaining specific financial ratios and to providing audited financial statements at the end of each half and full fiscal year.
- (b) During 2007, the Company entered into a long-term loan agreement with China Development Industrial Bank (lead bank) and seven other participating banks to obtain a credit line amounting to \$1,445,000. Based on the agreement, the Company committed to maintaining specific financial ratios and to providing audited or reviewed financial statements quarterly. The Company also committed to holding all the shares of CMTS and CMT HK during the loan period, and the shares of Taiwan Navigation directly owned by the Company will not be provided as a pledge.
- (c) The Company issued commercial promissory notes to Far Eastern International Bank, China Development Industrial Bank, and Shin Kong Bank amounting to \$750,000. The commercial paper payable will expire within one year, but the underwriter's agreements were over one year. The Company intended to refinance the commercial paper payable to extend loan period to over one year in the future, and the Company is also able to refinance according to the terms stated in the agreements and related documents. Therefore, the commercial paper payable was recorded under long-term loans.

(Continued)

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(d) The assets pledged in 2008 and 2007 to secure long-term loans were land and buildings, as summarized in note 18.

(e) As of December 31, 2008, the repayment schedule for the long-term loans (excluding discount on commercial paper payable) was as follows:

Period	Amount
2009.1.1~2009.12.31	\$ 1,709,429
2010.1.1~2010.12.31	1,476,571
2011.1.1~2011.12.31	<u>267,500</u>
	\$ <u>3,453,500</u>

(11) Bonds Payable

The Company issued secured bonds with a face value of \$1,000,000 on September 19, 2008. The interest is calculated and paid annually from the date of issuance. The duration of the bonds is five years, and the principal is redeemable at the end of the five years after the date of issuance. The bonds payable on December 31, 2008, were as follows:

	<u>Guarantee bank</u>	<u>Interest rate</u>	<u>Issuance date</u>	<u>Duration</u>	<u>December 31, 2008</u>
The first secured bonds payable	Shanghai Commercial Bank	2.90%	September 2008	Redeemable at end of five years after date of issuance	\$ <u>1,000,000</u>

(12) Pension

(a) The Company made an actuarial valuation of its pension plan using December 31, 2008 and 2007, as the measurement dates. According to the actuarial reports, the reconciliation of the funded status and prepaid pension (accrued pension liability) was as follows:

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

	December 31, 2008	December 31, 2007
Benefit obligations:		
Vested benefit obligation	\$ (80,829)	(117,442)
Non-vested benefit obligation	<u>(23,092)</u>	<u>(14,469)</u>
Accumulated benefit obligation	(103,921)	(131,911)
Additional benefits based on future salary increase	<u>(35,310)</u>	<u>(32,707)</u>
Projected benefit obligation	(139,231)	(164,618)
Fair value of plan assets	<u>109,016</u>	<u>130,930</u>
Funded status	(30,215)	(33,688)
Unrecognized pension loss	37,224	44,290
Net unrecognized transition obligation	9,460	14,192
Additional minimum pension liability	<u>-</u>	<u>(25,775)</u>
Prepaid pension cost (accrued pension liability)	<u>\$ 16,469</u>	<u>(981)</u>

(b) The net periodic pension costs were as follows:

	2008	2007
Service cost	\$ 4,902	5,374
Interest cost	4,426	3,986
Actual return on plan assets	(4,795)	(3,658)
Amortization and deferral	<u>8,740</u>	<u>8,170</u>
Net pension costs of defined benefit pension plan	<u>\$ 13,273</u>	<u>13,872</u>
Net pension costs of defined contribution pension plan	<u>\$ 2,777</u>	<u>1,213</u>

(c) Actuarial assumptions were as follows:

	2008	2007
Discount rate	2.50%	2.75%
Future salary increase rate	3.00%	3.00%
Expected long-term rate of return on plan assets	2.50%	2.75%

(d) As of December 31, 2008 and 2007, the vested benefit amounted to \$115,481 and \$143,980, respectively.

(Continued)

CHINESE MARITIME TRANSPORT LTD.**Notes to Financial Statements****(13) Stockholders' Equity**

(a) Common stock

Based on a resolution of the stockholders' meeting held on June 28, 2007, the Company increased its capital through the issuance of stock dividends by transferring retained earnings amounting to \$233,158, and also decreased its authorized capital to \$2,331,578 and then increased its authorized capital to \$3,600,000. The registration procedure related to this issuance was completed.

As of December 31, 2008 and 2007, the authorized capital was \$3,600,000, at par value of \$10 (New Taiwan dollars) per share.

(b) Reserve and appropriation of retained earnings

(i) Capital surplus

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

(ii) Appropriation of retained earnings and dividend policy

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

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

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

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

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

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

The Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation in preparing these for the interim financial statements. In 2008, the Company recognized employees' bonuses and directors' and supervisors' remuneration amounting to \$118,835, which were 2% and 1%, respectively, of net income after deducting the legal reserve. The number of shares of the dividend distribution will be based on the closing price of the day before the shareholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in 2009.

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

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

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

(14) Income Tax

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

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

- (b) The income tax rate of the Company is 25%. The Company is also subject to the "Income Basic Tax Act" and has to compute basic income tax. The Company's income tax expenses for 2008 and 2007 were as follows:

	2008	2007
Current income tax expense	\$ 21,207	32,433
10% surtax on unappropriated earnings	47,893	52,504
Deferred tax expense (benefit):		
Decrease in deferred pension cost and prepaid pension and others	<u>2,869</u>	<u>(1,040)</u>
Income tax expense	<u>\$ 71,969</u>	<u>83,897</u>

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

	2008	2007
"Expected" income tax	\$ 1,080,065	598,848
10% surtax on unappropriated earnings	47,893	52,504
The amount of basic income tax in excess of the regular income tax	6,470	3,195
Tax effect of tax exemption for long-term investment income under the equity method	(1,090,874)	(564,965)
Non-deductible securities trading loss (securities trading gain)	20,024	(240)
Unrealized loss (gain) on financial instruments and other	<u>8,391</u>	<u>(5,445)</u>
Income tax expense	<u>\$ 71,969</u>	<u>83,897</u>

- (d) As of December 31, 2008 and 2007, deferred income tax liabilities were as follows:

	December 31, 2008	December 31, 2007
Deferred income tax liabilities:		
Reserve for overseas investment losses	\$ (19,525)	(24,539)
Foreign currency translation adjustments	(64,174)	(41,358)
Prepaid pension and deferred pension cost and other	<u>(5,713)</u>	<u>(6,166)</u>
Deferred income tax liabilities – net	<u>\$ (89,412)</u>	<u>(72,063)</u>

(Continued)

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

The deferred tax liabilities stated above were classified as follows:

	December 31, 2008	December 31, 2007
Deferred income tax liabilities – noncurrent	\$ <u>(89,412)</u>	<u>(72,063)</u>

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

(f) Information on imputation credit account (ICA)

	December 31, 2008	December 31, 2007
Unappropriated earnings retained after January 1, 1998	\$ <u>5,347,735</u>	<u>2,932,008</u>
ICA balance	\$ <u>102,972</u>	<u>30,046</u>

	2008	2007
Creditable ratio for earnings distribution to resident shareholders in the ROC	<u>2.93%</u> (estimated)	<u>6.95%</u> (actual)

(15) Earnings per Share

	2008		2007	
	Before income tax	After income tax	Before income tax	After income tax
Basic earnings per share:				
Net income	\$ <u>4,320,298</u>	<u>4,248,329</u>	<u>2,395,430</u>	<u>2,311,533</u>
Weighted-average number of shares outstanding (thousands)	<u>256,474</u>	<u>256,474</u>	<u>256,474</u>	<u>256,474</u>
Basic earnings per share	\$ <u><u>16.84</u></u>	<u><u>16.56</u></u>	<u><u>9.34</u></u>	<u><u>9.01</u></u>
Diluted earnings per share:				
Net income	\$ <u>4,320,298</u>	<u>4,248,329</u>		
Weighted-average number of shares outstanding (thousands)	256,474	256,474		
Effect of dilutive potential common stock:				
Employees' stock bonuses	<u>1,566</u>	<u>1,566</u>		
	<u><u>258,040</u></u>	<u><u>258,040</u></u>		
Diluted earnings per share	\$ <u><u>16.74</u></u>	<u><u>16.46</u></u>		

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(16) Information about Financial Instruments

- (a) The Company did not invest in derivative financial instruments during 2008 and 2007. The book values of non-derivative financial instruments with a short maturity approximate their fair values. As of December 31, 2008 and 2007, the fair values of other non-derivative financial instruments were as follows:

Non-derivative financial instruments	December 31, 2008		December 31, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Financial assets measured at fair value through profit or loss – current	\$ 24,877	24,877	-	-
Other non-current financial assets	584,000	584,000	1,134,500	1,134,500
Financial liabilities:				
Long-term loans	3,452,273	3,452,273	3,567,220	3,567,220
Bonds payable	1,000,000	999,916	-	-
Off-balance-sheet financial instruments:				
Guarantee for bank loans	-	1,775,498	-	620,920

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

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

- (iv) The fair values of bonds payable are based on quoted market prices. However, the fair values are not expected to equal future cash outflow.
- (v) The fair values of bank loan guarantees are based on the loan contracts.
- (c) The fair value of the financial instruments evaluated by the Company under public quoting or an assessment method is summarized as follows:

	December 31, 2008		December 31, 2007	
	Public quote value	Assessment value	Public quote value	Assessment value
Financial assets:				
Cash and cash equivalents	\$ 1,199,789	-	304,776	-
Financial assets measured at fair value through profit or loss – current	24,877	-	-	-
Notes and accounts receivable (including related parties)	-	138,630	-	213,802
Other current financial assets	-	62,758	-	68,224
Other financial assets – non-current	-	584,000	-	1,134,500
Financial liabilities:				
Short-term loans and commercial paper payable	-	400,000	-	539,064
Notes and accounts payable (including related parties)	-	139,443	-	168,118
Accrued expenses and other payable	-	231,117	-	169,645
Long-term loans	-	3,452,273	-	3,567,220
Bonds payable	999,916	-	-	-

There were no net gains or losses resulting from an assessment method in 2008 and 2007.

- (d) Information about significant financial risk

- (i) Market risk

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

(Continued)

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

(ii) Credit risk

The primary potential credit risk is from financial instruments like cash, cash equivalents, equity securities accounted for other than equity method, and accounts receivable. The Company's cash deposits are maintained with different financial institutions. Cash equivalents represent investments in commercial paper with a maturity of three months or less from the date of investment. Equity securities accounted for other than equity method were funds and listed stock issued by companies with good credit ratings. The Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk of cash and cash equivalents. The aggregation of sales to the Company's major customers exceeding 10% of the Company's total sales accounted for 89% and 82% of the total net sales for the years ended December 31, 2008 and 2007, respectively. In order to reduce credit risk, the Company assesses the financial status of the customers and the possibility of collection of receivables in order to estimate an adequate allowance for doubtful accounts on a regular basis. The customers have had a good credit and profit record. The Company has never suffered a significant credit loss.

(iii) Liquidity risk

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

(iv) Cash flow risk from changes in interest rates

The bonds payable are fixed-rate debts. Changes in market interest rates have no effect on future cash flow.

The Company's short-term and long-term loans are both based on floating interest rates. Changes in the prevailing market rate will affect the interest on short-term and long-term loans and cause future cash flows to fluctuate. The Company will increase its cash outflow by \$9,631 in the following year for every 0.25% increase in the market rate.

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(17) Related-party Transactions

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

Related Party	Relationship
CMTS	Subsidiary company
CMT HK	"
HIL	"
AGM	"
MHI	"
Associated Transport Inc. (ATI)	"
Chang Shun Transport Co., Ltd. (CST)	Subsidiary company of ATI (subsidiary company of the Company before November 12, 2008)
Huang Yuen Transport Co., Ltd. (HYT)	"
Mao Hua Transport Ltd. (MHT)	"
AG Prosperity Transport Ltd. (APT)	"
China Peace Shipping Ltd. (CPE)	Subsidiary company of CMT HK
China Pioneer Shipping Ltd. (CPN)	"
China Pride Shipping Ltd. (CPD)	"
Orient Overseas Container Line (Taiwan) Limited (OTWL)	Related party in essence
Associated International Inc. (AII)	AII's chairman of the board of directors is the same as the Company's, and AII also is a director of the Company
CMT Land Development Inc. (CMD)	Subsidiary company of AII
The directors, supervisors, chief executive officer, and executive vice president	The Company's main management

(b) Summary of significant transactions with related parties

(i) Freight revenue

	2008		2007	
	Amount	% of freight revenue	Amount	% of freight revenue
OTWL	\$ 818,689	43	690,943	38
Other	92	-	-	-
	<u>\$ 818,781</u>	<u>43</u>	<u>690,943</u>	<u>38</u>

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

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

Accounts receivable resulting from the above transactions were as follows:

	December 31, 2008		December 31, 2007	
	Amount	%	Amount	%
OTWL	\$ 64,201	46	69,808	33
Other	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>64,205</u>	<u>46</u>	<u>69,808</u>	<u>33</u>

(ii) Freight expense

	2008		2007	
	Amount	% of freight expense	Amount	% of freight expense
ATI	\$ 107,005	11	69,439	7
HYT	105,920	10	97,309	10
CST	94,958	9	82,666	8
APT	70,627	7	51,974	5
MHT	<u>69,649</u>	<u>7</u>	<u>46,677</u>	<u>5</u>
	\$ <u>448,159</u>	<u>44</u>	<u>348,065</u>	<u>35</u>

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

Accounts payable resulting from the above transactions were as follows:

	December 31, 2008		December 31, 2007	
	Amount	%	Amount	%
ATI	\$ 8,429	6	10,901	6
HYT	8,201	6	10,485	6
CST	12,888	9	14,241	9
APT	7,549	5	6,530	4
MHT	<u>4,802</u>	<u>4</u>	<u>7,162</u>	<u>4</u>
	\$ <u>41,869</u>	<u>30</u>	<u>49,319</u>	<u>29</u>

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(iii) Ship management, temporary debits and temporary credits

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

Ship management fee	2008	2007
CMTS	\$ 7,730	7,866
CMT HK	<u>11,643</u>	<u>11,826</u>
	\$ <u>19,373</u>	<u>19,692</u>
Commission income	2008	2007
CMTS	\$ -	13,273
CMT HK	<u>35,888</u>	<u>5,720</u>
	\$ <u>35,888</u>	<u>18,993</u>

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

	December 31, 2008	December 31, 2007
CMTS	\$ 3,053	3,015
CMT HK	<u>15,511</u>	<u>3,608</u>
	\$ <u>18,564</u>	<u>6,623</u>

(iv) Operating expenses

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

	2008		2007	
	Amount	% of operating expenses	Amount	% of operating expenses
CMD	\$ 4,123	1	5,520	3
AII	<u>3,724</u>	<u>1</u>	<u>3,724</u>	<u>2</u>
	\$ <u>7,847</u>	<u>2</u>	<u>9,244</u>	<u>5</u>

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CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(v) Property transaction

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

(vi) Stock transaction

In order to integrate business resources, on November 12, 2008, the Company adjusted the investment framework and sold the shares of CST, HYT, MHT and APT to ATI for \$44,642, \$28,932, \$30,568 and \$30,719, respectively. The total price has been collected. The book value of \$140,169 in excess of the transfer price of \$134,861 amounting to \$5,308 is presumed to be the increasing investment in ATI by the Company.

(vii) Financing

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

		2008			
	Maximum balance	Ending balance	Interest rate	Interest income	Interest receivable
HIL	\$ 900,000	490,000	2.7%	19,977	-
MHI	260,000	80,000	2.7%	3,644	-
ATI	38,000	30,000	2.7%	775	-
APT	27,500	21,000	2.7%	375	-
MHT	16,750	7,500	2.7%	276	-
HYT	20,000	4,000	2.7%	349	-
		\$ 632,500		25,396	-
		2007			
	Maximum balance	Ending balance	Interest rate	Interest income	Interest receivable
HIL	\$ 900,000	900,000	2.50%	10,492	1,763
MHI	300,000	210,000	2.50%	3,987	357
AGM	50,000	-	2.50%	200	-
ATI	35,000	32,000	2.50%	275	-
APT	16,500	13,500	2.50%	240	-
MHT	18,000	13,500	2.50%	113	-
HYT	40,000	20,000	2.50%	634	-
		\$ 1,189,000		15,941	2,120

(Continued)

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

The interest charged on the loans has been agreed with subsidiaries. As of December 31, 2008 and 2007, the long-term loans due within one year amounting to \$48,500 and \$54,500, respectively, were recorded as other current financial assets, with the remaining balance amounting to \$584,000 and \$1,134,500, respectively, recorded as other non-current financial assets.

For operating needs, the Company received interest-free financing from CMT HK and CPE in 2008 amounting to \$492,000 (US\$15,000,000) and \$328,000 (US\$10,000,000), respectively. The financing had been fully repaid as of December 31, 2008.

(viii) Guarantees

The Company provided the following guarantees for related parties:

Guarantee	Subject	December 31, 2008	December 31, 2007
CPD	Guarantee for payment of bulk-carrier construction	\$ 688,800	-
CPE	Bank loans	561,898	620,920
CPN	Guarantee for payment of bulk-carrier construction	<u>524,800</u>	<u>-</u>
		\$ <u>1,775,498</u>	<u>620,920</u>

As of December 31, 2007, a related party had provided a guarantee in the form of a time deposit of \$565,255 (US\$17,430,000) for part of the Company's bank loans as follows:

Guarantor	Bank	Purpose	December 31, 2007
CMTS	Shanghai Commercial Bank Ltd.	Guarantee for short-term loans	\$ <u>565,255</u>

(ix) Salaries and remuneration of main management

The Company paid salaries and remuneration to the directors, supervisors, chief executive officer, and executive vice president in 2008 and 2007 as follows:

	2008	2007
Salaries	\$ 49,224	30,396
Incentives	979	2,739
Special compensation	130	150
Employees' bonus	7,922	4,322

(note) The employees' bonus for 2008 was an estimate.

(Continued)

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(18) Pledged Assets

Assets	Subject	December 31, 2008	December 31, 2007
Refundable deposits	Guarantee for letters of credit and others	\$ 16,559	13,614
Refundable deposits – negotiable time deposits	Guarantee for provisional injunction against Taiwan Navigation (note)	-	543,700
Property and equipment – land and buildings	Short-term and long-term loans	252,651	205,711
Rental assets – land and buildings	Short-term and long-term loans	<u>5,451</u>	<u>53,565</u>
		\$ <u>274,661</u>	<u>816,590</u>

(note) The deposit for provisional injunction against Taiwan Navigation was collected back on October 2, 2008. Please see note 20(c).

(19) Commitments and Contingent Liabilities

- (a) See note 17(b)(viii) for guarantees provided for related parties.
- (b) In order to extend business scale, subsidiaries of CMT HK took over two bulk-carrier construction contracts from third parties on September 28, 2007, and May 8, 2008. The related information as of December 31, 2008, was as follows:

<u>Purchaser</u>	<u>Date of contract</u>	<u>Total price</u>	<u>Estimated delivery</u>	<u>Price paid</u>
CPN	September 28, 2007	2,624,000 (US\$80,000,000)	June 2011	1,047,993 (US\$31,951,000)
CPD	May 8, 2008	3,444,000 (US\$105,000,000)	October 2009	1,697,302 (US\$51,747,000)

- (c) The Company had issued guarantee paper amounting to \$1,029,000 as of December 31, 2008, for bonds payable.

(Continued)

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(20) Others

(a) Reserve for loss on outward investment

The Company has provided a reserve for loss on outward investment, in accordance with the “Statute for Upgrading Industries”. The amount was computed at 20% of the total amount of outward investment, which is the limit stipulated by the “Statute for Upgrading Industries”. The statute also stipulates that if there are no actual losses in the five years after the initial provision for the reserve, the loss reserve should be reversed and recognized as income in the fifth year. However, as provision of such reserve is not in accordance with generally accepted accounting principles, the loss reserve is reversed during the preparation of the financial statements, but in accordance with tax regulations, the Company does not adjust the books. Accordingly, the net income and retained earnings on the Company’s books are increased (decreased) by the following amounts:

	2008	2007
Increase in net income	\$ 20,058	-
Decrease in retained earnings	(78,100)	(98,158)

(b) Employee expenses, depreciation expenses, and amortization expenses for the years ended December 31, 2008 and 2007, were as follows:

	Operating cost	2008 Operating expenses	Total
Employee expenses			
Salaries and wages	\$ 1,556	203,218	204,774
Labor and health insurance	120	6,289	6,409
Pension expense	123	15,927	16,050
Other	203	4,076	4,279
Depreciation expenses (note)	15,662	9,262	24,924
Amortization expenses	-	1,625	1,625
	Operating cost	2007 Operating expenses	Total
Employee expenses			
Salaries and wages	\$ 2,035	91,489	93,524
Labor and health insurance	134	6,173	6,307
Pension expense	133	14,952	15,085
Other	215	3,903	4,118
Depreciation expenses (note)	9,528	10,021	19,549
Amortization expenses	-	1,554	1,554

(Continued)

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

Note: excluding the amount recorded as a deduction from rental income of \$1,443 in 2008 and \$1,590 in 2007.

(c) Status of lawsuits with Taiwan Navigation

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

Lawsuit	The Status of the Lawsuit
(i) Resolution of Taiwan Navigation's directors' meeting about exchanging shares with Yang Ming Marine Transport Corp.	Taiwan Navigation withdrew the application to exchange shares with Yang Ming Marine Transport Corp. from the Securities and Futures Bureau on December 12, 2007. Therefore, the Company canceled its appeal regarding the exchange of shares resolution approved by Taiwan Navigation's board meeting on December 20, 2007. During January 2008, the Company withdrew the provisional injunction against Taiwan Navigation's directors, and also applied for the returning of a negotiable time deposit of \$543,700 as a guarantee for provisional injunction. The refundable deposit was received on October 2, 2008.
(ii) Petition about Taiwan Navigation's delay in holding a stockholders' meeting	The Appeal Committee of the Executive Yuan dismissed the case on December 4, 2007.
(iii) Application for termination of the Ministry of Economic Affairs' approval of Taiwan Navigation's delay in holding a stockholders' meeting	The Taiwan Supreme Administrative Court declared the Company's appeal dismissed on August 16, 2007.
(iv) Civil action regarding Taiwan Navigation's 2007 stockholders' meeting resolution	The Company had initiated a civil action demanding that the resolution of Taiwan Navigation's stockholders' meeting in 2007 be declared null and void. The Company withdrew the action on August 4, 2008, as conditions had changed.

(Continued)

CHINESE MARITIME TRANSPORT LTD.

Notes to Financial Statements

(21) Segment Information

(a) Industrial information

The Company's major segment revenues, segment income, and identifiable assets are over 90% of the total revenues, income, and assets, respectively; thus, no industrial information is provided.

(b) Regional information

The Company has no overseas operating units.

(c) Export information

All revenue of the Company arises from domestic operations.

(d) Major customers

Freight revenue from individual customers representing over 10% of the total revenue in the income statements is summarized as follows:

		2008		2007	
	Nature of services	Amount	%	Amount	%
A Company	Container transportation	\$ 818,689	43	690,943	38
C Company	Container transportation	474,057	25	398,315	22
B Company	Container transportation	<u>396,777</u>	<u>21</u>	<u>394,616</u>	<u>22</u>
		<u>\$ 1,689,523</u>	<u>89</u>	<u>1,483,874</u>	<u>82</u>

CHINESE MARITIME TRANSPORT LTD.

Balance Sheets

December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars)

Assets	2008 Amount	%	2007 Amount	%	Liabilities and Stockholders' Equity	2008 Amount	%	2007 Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4)	\$ 1,199,789	8	304,776	3	Short-term loans and commercial paper payable (note 9)	\$ 400,000	3	539,064	5
Financial assets measured at fair value through profit or loss – current (note 5)	24,877	-	-	-	Notes and accounts payable	97,574	1	118,799	1
Notes and accounts receivable (note 6)	74,425	1	143,994	1	Accounts payable – related parties (note 17)	41,869	-	49,319	-
Accounts receivable – related parties (note 17)	64,205	-	69,808	1	Accrued expenses and other current liabilities (note 17)	231,117	1	169,645	2
Other current financial assets (note 17)	62,758	-	68,224	1	Current portion of long-term loans (note 10)	<u>1,708,466</u>	<u>12</u>	<u>435,222</u>	<u>4</u>
Other current assets	<u>2,561</u>	<u>-</u>	<u>11,050</u>	<u>-</u>		<u>2,479,026</u>	<u>17</u>	<u>1,312,049</u>	<u>12</u>
	<u>1,428,615</u>	<u>9</u>	<u>597,852</u>	<u>6</u>	Long-term liabilities:				
Investments:					Bonds payable (note 11)	1,000,000	7	-	-
Long-term investments under equity method (note 7)	11,533,469	82	7,746,678	73	Long-term loans (note 10)	1,743,807	13	3,131,998	30
Other non-current financial assets (note 17)	<u>584,000</u>	<u>4</u>	<u>1,134,500</u>	<u>11</u>	Provision for land value increment tax (note 8)	69,000	-	69,000	-
	<u>12,117,469</u>	<u>86</u>	<u>8,881,178</u>	<u>84</u>		<u>2,812,807</u>	<u>20</u>	<u>3,200,998</u>	<u>30</u>
Property and equipment (notes 8 and 18):					Other liabilities:				
Land	154,837	1	128,112	1	Deferred income tax liabilities and others (notes 12 and 14)	89,891	1	73,870	1
Buildings	75,830	1	46,874	-	Total liabilities	<u>5,381,724</u>	<u>38</u>	<u>4,586,917</u>	<u>43</u>
Transportation equipment	144,329	1	149,808	2	Common stock (note 13)	<u>2,564,736</u>	<u>18</u>	<u>2,564,736</u>	<u>24</u>
Furniture, fixtures and other equipment	113,726	1	87,878	1	Capital surplus	<u>42,503</u>	<u>-</u>	<u>42,503</u>	<u>-</u>
Land revaluation increment	<u>211,473</u>	<u>1</u>	<u>202,449</u>	<u>2</u>	Retained earnings (note 13):				
	700,195	5	615,121	6	Legal reserve	480,427	3	249,274	3
Less: accumulated depreciation	(203,069)	(1)	(194,515)	(2)	Unappropriated earnings	<u>5,347,735</u>	<u>38</u>	<u>2,932,008</u>	<u>28</u>
Prepayment for purchase of equipment	<u>-</u>	<u>-</u>	<u>1,097</u>	<u>-</u>		<u>5,828,162</u>	<u>41</u>	<u>3,181,282</u>	<u>31</u>
	<u>497,126</u>	<u>4</u>	<u>421,703</u>	<u>4</u>	Equity adjustments:				
Intangible assets:					Cumulative translation adjustments	219,376	2	92,666	1
Computer software	5,248	-	3,668	-	Net loss not recognized as pension cost	-	-	(11,583)	-
Deferred pension cost (note 12)	<u>-</u>	<u>-</u>	<u>14,192</u>	<u>-</u>	Unrealized gains on financial instruments	18,424	-	44,241	-
	<u>5,248</u>	<u>-</u>	<u>17,860</u>	<u>-</u>	Unrealized land revaluation increment (note 8)	<u>101,491</u>	<u>1</u>	<u>101,491</u>	<u>1</u>
Other assets:						<u>339,291</u>	<u>3</u>	<u>226,815</u>	<u>2</u>
Rental assets (notes 8 and 18)	74,930	1	126,346	1	Total stockholders' equity	8,774,692	62	6,015,336	57
Refundable deposits (note 18)	16,559	-	557,314	5	Commitments and contingencies (note 19)				
Prepaid pension (note 12)	<u>16,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	Total liabilities and stockholders' equity	<u>\$ 14,156,416</u>	<u>100</u>	<u>10,602,253</u>	<u>100</u>
	<u>107,958</u>	<u>1</u>	<u>683,660</u>	<u>6</u>					
Total assets	<u>\$ 14,156,416</u>	<u>100</u>	<u>10,602,253</u>	<u>100</u>					

See accompanying notes to financial statements.

CHINESE MARITIME TRANSPORT LTD.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained earnings Legal reserve	Unappropriated earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gains on financial instruments	Unrealized land revaluation increment	Total
Balance as of December 31, 2006	\$ 2,331,578	42,503	109,012	1,498,057	150,820	-	328	101,491	4,233,789
Appropriations:									
Legal reserve	-	-	140,262	(140,262)	-	-	-	-	-
Employees' bonuses and directors' and supervisors' remuneration	-	-	-	(37,847)	-	-	-	-	(37,847)
Dividends (including cash and stock)	233,158	-	-	(699,473)	-	-	-	-	(466,315)
Net income for 2007	-	-	-	2,311,533	-	-	-	-	2,311,533
Unrealized gain on financial instruments – long-term investment under the equity method	-	-	-	-	-	-	43,913	-	43,913
Net loss not recognized as pension cost	-	-	-	-	-	(11,583)	-	-	(11,583)
Foreign currency translation adjustments	-	-	-	-	(58,154)	-	-	-	(58,154)
Balance as of December 31, 2007	<u>2,564,736</u>	<u>42,503</u>	<u>249,274</u>	<u>2,932,008</u>	<u>92,666</u>	<u>(11,583)</u>	<u>44,241</u>	<u>101,491</u>	<u>6,015,336</u>
Appropriations:									
Legal reserve	-	-	231,153	(231,153)	-	-	-	-	-
Employees' bonuses and directors' and supervisors' remuneration	-	-	-	(62,608)	-	-	-	-	(62,608)
Cash dividends	-	-	-	(1,538,841)	-	-	-	-	(1,538,841)
Net income for 2008	-	-	-	4,248,329	-	-	-	-	4,248,329
Unrealized loss on financial instruments – long-term investment under the equity method	-	-	-	-	-	-	(25,817)	-	(25,817)
Reversal of net loss not recognized as pension cost	-	-	-	-	-	11,583	-	-	11,583
Foreign currency translation adjustments	-	-	-	-	126,710	-	-	-	126,710
Balance as of December 31, 2008	<u>\$ 2,564,736</u>	<u>42,503</u>	<u>480,427</u>	<u>5,347,735</u>	<u>219,376</u>	<u>-</u>	<u>18,424</u>	<u>101,491</u>	<u>8,774,692</u>

See accompanying notes to financial statements.