

**WAN HAI LINES LTD.**

**Consolidated Financial Statements**

**June 30, 2010 and 2009**

**(With Independent Auditors' Review Report Thereon)**

## **Independent Auditors' Review Report**

The Board of Directors  
Wan Hai Lines Ltd.

We have reviewed the accompanying consolidated balance sheets of Wan Hai Lines Ltd. and its subsidiaries as of June 30, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six-month periods ended June 30, 2010 and 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report on these consolidated financial statements based on our reviews. We did not review the financial statements of some subsidiaries and investee companies accounted for under the equity method, and the amounts for those subsidiaries and long-term equity investment accounted for under the equity method included in the consolidated financial statements were based on the financial statements of those investee companies audited by other auditors. Those subsidiaries' assets amounted to \$32,469,414 thousand and \$32,560,112 thousand, which represented 50.54% and 50.40% of total consolidated assets, as of June 30, 2010 and 2009, respectively. Those subsidiaries' net operating revenues amounted to \$2,174,606 thousand and \$381,284 thousand, which represented 6.99% and 1.71% of total consolidated operating revenues, for the six-month periods ended June 30, 2010 and 2009, respectively. Long-term equity investment accounted for by the equity method amounted to \$10,175 thousand and \$6,294 thousand, which represented 0.02% and 0.01% of total consolidated assets, as of June 30, 2010 and 2009, respectively, and related investment income amounted to \$8,055 thousand and \$4,331 thousand, which represented 0.29% and (0.64)% of the consolidated income (loss) before income tax, for the six-month periods ended June 30, 2010 and 2009, respectively.

Our reviews, which were made in accordance with Republic of China Statement on Auditing Standards No. 36, "The Review of Financial Statements", consist principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. They are substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews and the reports of the other auditors, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph in order for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

August 20, 2010

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

The auditors' review report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

WAN HAI LINES LTD.

Consolidated Balance Sheets

June 30, 2010 and 2009

(expressed in thousands of New Taiwan dollars, except for par value)  
(Unaudited)

	2010	2009		2010	2009
<b>Current assets:</b>			<b>Current liabilities:</b>		
Cash and cash equivalents (notes 4 and 26)	\$ 14,609,520	12,737,364	Short-term loans (notes 16 and 26)	\$ 96,834	642,980
Financial assets at fair value through profit or loss— current (notes 5, 25, and 26)	633,494	174,359	Financial liabilities at fair value through profit or loss— current (notes 17, 25 and 26)	2,703,790	4,128,931
Available-for-sale financial assets— current (notes 6 and 26)	2,749,814	3,411,371	Note payable (note 26)	2,640	-
Notes receivable (note 26)	32,703	29,849	Accounts payable (note 26)	5,820,557	3,843,698
Accounts receivable (note 26)	2,824,231	1,492,016	Accounts payable— related parties (notes 26 and 27)	305,562	341,422
Accounts receivable— related parties (notes 26 and 27)	5,538	20,756	Income tax payable (note 22)	253,209	60,723
Other receivables (note 26)	753,108	1,026,533	Accrued expenses (note 26)	606,859	490,068
Fuels (notes 7 and 27)	1,324,004	848,007	Payables for purchase of equipment (note 26)	231,233	-
Receivables from agents (notes 8, 26 and 27)	1,427,165	565,655	Current portion of bonds payable (notes 20 and 26)	3,000,000	3,000,000
Restricted assets (notes 26 and 28)	306	306	Current portion of long-term loans (notes 19, 26 and 28)	2,552,133	3,735,664
Other current assets (note 22)	721,948	1,052,767	Payables to agents (notes 8, 26 and 27)	82,007	39,834
<b>Total current assets</b>	<u>25,081,831</u>	<u>21,358,983</u>	Other current liabilities	342,421	662,268
<b>Investment:</b>			<b>Total current liabilities</b>	<u>15,997,245</u>	<u>16,945,588</u>
Long-term equity investments under equity method (note 9)	10,175	6,294	<b>Long-term liabilities:</b>		
Other long-term investments	13,760	14,214	Financial liabilities at fair value through profit or loss— non-current (notes 18 and 26)	6,957,543	5,348,157
Prepayment for long-term investments (note 9)	170,360	-	Bonds payable (notes 20 and 26)	-	3,000,000
Available-for-sale financial assets— non-current (notes 10 and 26)	334,900	438,404	Long-term loans (notes 19, 26 and 28)	11,611,767	11,273,536
Financial assets measured at cost— non-current (notes 11 and 26)	648,438	507,813	<b>Total long-term liabilities</b>	<u>18,569,310</u>	<u>19,621,693</u>
Bond portfolios with inactive market— non-current (notes 12 and 26)	1,291,177	1,312,787	<b>Other liabilities:</b>		
<b>Long-term investments— net</b>	<u>2,468,810</u>	<u>2,279,512</u>	Unrealized gain on sale and leaseback	762,699	970,147
<b>Fixed assets (notes 13, 28 and 29):</b>			Accrued pension liability (note 21)	304,345	205,004
Cost:			Guarantee deposits received (note 26)	1,729	4,548
Land	339,081	339,781	Deferred income tax liabilities— non-current (note 22)	415,746	-
Buildings	986,174	856,896	<b>Total other liabilities</b>	<u>1,484,519</u>	<u>1,179,699</u>
Containers	13,896,402	13,512,926	<b>Total liabilities</b>	<u>36,051,074</u>	<u>37,746,980</u>
Computer and communication equipment	224,191	322,732	<b>Stockholders' equity (notes 6, 10, 13, 22, 23 and 24):</b>		
Vessels	46,149,251	46,860,765	Common stock— \$10 par value per share; 2,500,000 thousand shares authorized in 2010 and 2009;		
Privileged wharf equipment	1,075,727	1,158,611	2,112,664 thousand shares and 2,175,333 thousand shares issued as of June 30, 2010 and 2009,	21,126,643	21,175,333
Leasehold improvement	70,666	62,009	respectively	<u>2,446,570</u>	<u>2,446,080</u>
Furniture and fixtures	129,706	113,923	Capital surplus		
Leased assets	377,550	-	Retained earnings:		
Revaluation increments	1,527	1,527	Legal reserve	4,700,716	4,700,716
Cost and revaluation	63,250,275	63,229,170	Special reserve	797,610	797,610
Less: accumulated depreciation	29,634,946	26,204,502	Unappropriated earnings (accumulated deficit)	(73,070)	(1,293,670)
Prepayments for equipment	2,184,418	2,767,095	Total retained earnings	<u>5,425,256</u>	<u>4,204,656</u>
<b>Net fixed assets</b>	<u>35,799,747</u>	<u>39,791,763</u>	Other adjustments to stockholders' equity:		
<b>Intangible assets</b>	<u>12,189</u>	<u>18,427</u>	Cumulative translation adjustments	(146,247)	8,784
<b>Other assets:</b>			Net loss not recognized as pension cost	(234,241)	(137,305)
Refundable deposits (notes 14, 26, 28 and 29)	253,937	219,106	Unrealized gain (loss) on financial instruments	(591,032)	(920,128)
Deferred charges (note 15)	626,431	722,986	Unrealized revaluation increment	1,527	1,527
Deferred income tax assets— non-current (note 22)	-	213,204	Total other adjustments to stockholders' equity	<u>(969,993)</u>	<u>(1,047,122)</u>
Other assets	500	461	Treasury stock	-	(66,532)
<b>Total other assets</b>	<u>880,868</u>	<u>1,155,757</u>	Minority interest	163,895	145,047
<b>Total assets</b>	<u>\$ 64,243,445</u>	<u>64,604,442</u>	<b>Total stockholders' equity</b>	<u>28,192,371</u>	<u>26,857,462</u>
			<b>Commitments and contingencies (notes 19, 21 and 29)</b>		
			<b>Total liabilities and stockholders' equity</b>	<u>\$ 64,243,445</u>	<u>64,604,442</u>

See accompanying notes to consolidated financial statements.

WAN HAI LINES LTD.

Consolidated Statements of Income

For the six-month periods ended June 30, 2010 and 2009  
(expressed in thousands of New Taiwan dollars, except for earnings per share)  
(Unaudited)

	2010	2009		
Net operating revenue (note 27)	\$ 31,108,711	22,344,657		
Operating cost (notes 21, 26 and 30)	<u>25,064,553</u>	<u>22,084,778</u>		
Gross profit	6,044,158	259,879		
Operating expenses (notes 21, 26 and 30)	<u>1,807,349</u>	<u>1,400,229</u>		
Operating income (loss)	<u>4,236,809</u>	<u>(1,140,350)</u>		
Nonoperating income and gains:				
Interest income	33,979	46,133		
Investment income under the equity method (note 9)	8,055	4,331		
Gain on disposal of fixed assets	86,687	407,193		
Foreign exchange income, net	-	111,532		
Valuation gain on financial assets (note 26)	841,066	3,206,094		
Other income	<u>109,370</u>	<u>66,690</u>		
	<u>1,079,157</u>	<u>3,841,973</u>		
Nonoperating expenses and losses:				
Interest expenses (excluding capitalized interest) (note 13)	306,659	554,168		
Loss on disposal of fixed assets	-	115		
Loss on disposal of investment, net (note 26)	29,515	-		
Foreign exchange loss, net	56,471	-		
Valuation loss on financial liabilities (notes 25 and 26)	2,109,530	2,813,195		
Other losses	<u>63,398</u>	<u>8,223</u>		
	<u>2,565,573</u>	<u>3,375,701</u>		
Net income (loss) before income tax	2,750,393	(674,078)		
Income tax expenses (note 22)	<u>1,074,974</u>	<u>529,409</u>		
Net income (loss)	<u>\$ 1,675,419</u>	<u>(1,203,487)</u>		
Attributable to				
Parent company	\$ 1,663,141	(1,204,977)		
Minority interest	<u>12,278</u>	<u>1,490</u>		
	<u>\$ 1,675,419</u>	<u>(1,203,487)</u>		
	Before tax	After tax	Before tax	After tax
Basic earnings (loss) per share (dollars) (note 24)	<u>\$ 1.28</u>	<u>0.79</u>	<u>(0.33)</u>	<u>(0.57)</u>

See accompanying notes to consolidated financial statements.

WAN HAI LINES LTD.

Consolidated Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2010 and 2009  
(expressed in thousands of New Taiwan dollars)  
(Unaudited)

	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock	Minority Interest	Total
<b>Balance on January 1, 2009</b>	\$ 21,557,513	2,495,565	4,700,187	573,514	224,624	(1,643)	(137,305)	(1,661,376)	1,527	(125,499)	143,776	27,770,883
Treasury stock transactions (note 25)	-	-	-	-	-	-	-	-	-	(461,390)	-	(461,390)
Treasury stock retired (note 25)	(382,180)	(49,485)	-	-	(88,692)	-	-	-	-	520,357	-	-
Net loss for the six-month period ended June 30, 2009	-	-	-	-	(1,204,977)	-	-	-	-	-	1,490	(1,203,487)
Appropriations of retained earnings (note 25):												
Legal reserve	-	-	529	-	(529)	-	-	-	-	-	-	-
Special reserve	-	-	-	224,096	(224,096)	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-	-	-	-	-	(42,265)	(42,265)
Valuation adjustment of available-for-sale financial assets (notes 6 and 11)	-	-	-	-	-	-	-	741,248	-	-	-	741,248
Cumulative translation adjustments	-	-	-	-	-	10,427	-	-	-	-	42,046	52,473
<b>Balance on June 30, 2009</b>	<u>\$ 21,175,333</u>	<u>2,446,080</u>	<u>4,700,716</u>	<u>797,610</u>	<u>(1,293,670)</u>	<u>8,784</u>	<u>(137,305)</u>	<u>(920,128)</u>	<u>1,527</u>	<u>(66,532)</u>	<u>145,047</u>	<u>26,857,462</u>
<b>Balance on January 1, 2010</b>	\$ 21,126,643	2,440,478	4,700,716	797,610	(1,736,211)	(231,331)	(235,682)	(576,399)	1,527	-	147,768	26,435,119
Net loss not recognized as pension cost	-	-	-	-	-	-	1,441	-	-	-	-	1,441
Minority interest	-	-	-	-	-	-	-	-	-	-	(254)	(254)
Net income for the six-month period ended June 30, 2010	-	-	-	-	1,663,141	-	-	-	-	-	12,278	1,675,419
Valuation adjustment of available-for-sale financial assets (notes 6 and 10)	-	-	-	-	-	-	-	(14,633)	-	-	-	(14,633)
Cumulative translation adjustments	-	-	-	-	-	85,084	-	-	-	-	4,103	89,187
Additional paid-in capital from long-term investments under the equity method	-	6,092	-	-	-	-	-	-	-	-	-	6,092
<b>Balance on June 30, 2010</b>	<u>\$ 21,126,643</u>	<u>2,446,570</u>	<u>4,700,716</u>	<u>797,610</u>	<u>(73,070)</u>	<u>(146,247)</u>	<u>(234,241)</u>	<u>(591,032)</u>	<u>1,527</u>	<u>-</u>	<u>163,895</u>	<u>28,192,371</u>

See accompanying notes to consolidated financial statements.

WAN HAI LINES LTD.

Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2010 and 2009  
(expressed in thousands of New Taiwan dollars)  
(Unaudited)

	2010	2009
<b>Cash flows from operating activities:</b>		
<b>Net income (loss)</b>	\$ 1,675,419	(1,203,487)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
Depreciation	2,316,591	2,526,845
Amortization	42,177	38,428
Investment income under the equity method	(8,055)	(4,331)
Gain on disposal of fixed assets, net	(179,235)	(407,078)
Impairment	-	2,406
Gain on disposal of available-for-sale assets	29,515	(2,388)
Deferred income tax expenses (benefit)	959,096	386,971
<b>Changes in assets:</b>		
Financial assets at fair value through profit or loss	(263,142)	313,737
Notes receivable	250	(1,165)
Accounts receivable	(851,676)	448,763
Account receivable—related parties	8,753	(17,791)
Other receivables	(229,445)	374,032
Fuels	(296,147)	(163,516)
Other current assets	326,144	261,778
Receivables from agents	(436,181)	283,124
<b>Changes in liabilities:</b>		
Financial liabilities at fair value through profit or loss, net	355,938	(2,667,357)
Notes payable	2,640	-
Accounts payable	1,409,686	(819,426)
Accounts payable—related parties	10,472	140,947
Income tax payable	30,797	(352)
Accrued expenses	4,661	53,038
Other current liabilities	(255,861)	(354,347)
Accrued pension liability	7,935	(343)
Payables to agents	58,548	35,677
<b>Net cash provided by (used in) operating activities</b>	<u>4,718,880</u>	<u>(775,835)</u>
<b>Cash flows from investing activities:</b>		
Increase in available-for-sale financial assets	(47,659)	(575,000)
Proceeds from sale of available-for-sale financial assets	823,883	477,484
Available-for-sale financial assets — proceeds from capital reduction	2,450	-
Increase in financial assets measured at cost — non-current	-	(7,813)
Proceeds from sale of bond portfolios with inactive market	-	494,580
Increase in long-term investment under the equity method	6,092	-
Increase (decrease) in prepayment for long-term investment	(105,664)	-
Payments for acquisition of fixed assets	(617,664)	(1,612,912)
Proceeds from sale of fixed assets	70,201	209,654
Decrease (increase) in refundable deposits	(52,930)	7,281
Payment for deferred charges	(11,143)	-
Payment for intangible assets	(257)	(952)
Decrease (increase) in other assets	(7)	12
<b>Net cash provided by (used in) investing activities</b>	<u>67,302</u>	<u>(1,007,666)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term loans	(529,304)	423,129
Decrease in bonds payable	(3,000,000)	(3,000,000)
Increase in long-term loans	1,359,061	4,448,965
Repayment of long-term loans	(1,599,171)	(2,219,864)
Decrease in guarantee deposits	(2,489)	(7,407)
Treasury stock transactions	-	(461,390)
Cash dividends paid to minority interest	(254)	(42,265)
<b>Net cash used in financing activities</b>	<u>(3,772,157)</u>	<u>(858,832)</u>
Effect of exchange rate changes	(48,442)	67,442
<b>Net increase (decrease) in cash and cash equivalents</b>	965,583	(2,574,891)
<b>Cash and cash equivalents at beginning of year</b>	13,643,937	15,312,255
<b>Cash and cash equivalents at end of period</b>	<u>\$ 14,609,520</u>	<u>12,737,364</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest (excluding capitalized interest)	\$ 293,398	557,960
Cash paid for income tax	\$ 88,117	46,255
<b>Investing and financing activities not affecting cash flows:</b>		
Current portion of long-term loans due within one year	\$ 2,552,133	3,735,664
Current portion of bonds payable due within one year	\$ 3,000,000	3,000,000
Valuation adjustments of available-for-sale financial assets	\$ (14,633)	741,248
accumulated translation adjustment	\$ 85,084	10,427
Cash dividends declared by subsidiaries	\$ 9,083	40,526
<b>Investment activity affecting both cash and non-cash items:</b>		
Increase in payables for purchase of equipment	\$ 231,233	-
Increase in other receivables — sale of fixed assets	\$ (5,487)	(552,680)
<b>Others:</b>		

See accompanying notes to consolidated financial statements.

**WAN HAI LINES LTD.**

**Notes to Consolidated Financial Statements**

**June 30, 2010 and 2009**

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

**(1) Organization**

Wan Hai Lines Ltd. (the Company) was incorporated as a company limited by shares on February 24, 1965. The Company is primarily involved in the business of international sea transportation, shipping agencies, container storage service, and the sale and rental of vessels and containers.

The Company set up branches in Taiwan (Keelung, Kaohsiung and Taichung) to function as shipping agencies and container freight stations.

The Company was approved by the former Securities and Futures Commission (now the Securities and Futures Bureau (SFB)) to have its stock publicly listed on the Taiwan Stock Exchange in May, 1996.

As of June 30, 2010 and 2009, the names of the Company's subsidiaries were as follows:

Investing company	Name of subsidiary	Activities	Directly or indirectly held percentage	
			2010	2009
The Company	Wan Hai Lines (Singapore) Pte Ltd (WHL-Singapore)	International freight transportation, acting as agent for transport affairs, vessel leaseings, and container chartering	100.00	100.00
The Company	Wan Hai Lines (America) Ltd. (WHL-America)	International freight transportation and acting as agent for transport affairs	100.00	100.00
The Company	T.K. Logistics International Co., Ltd. (TK)	Managing container terminals and storage facilities	55.00	55.00
The Company	k.k. WH Corporation (WH Corporation)	Operating and managing of container yard and vessel leasing	100.00	100.00
The Company	Wan Hai Lines (Germany) GmbH (WHL-Germany)	International freight transportation and acting as agent for transport affairs	100.00	100.00
The Company	Bao Sheng Shipping Agency Co., Ltd. (BS)	Maritime transportation and shipping agency services	70.01	-

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**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

<b>Investing company</b>	<b>Name of subsidiary</b>	<b>Activities</b>	<b>Directly or indirectly held percentage</b>	
			<b>2010</b>	<b>2009</b>
WHL-Singapore	Wan Hai Line (M) Sdn. Bhd. (WHL-Malaysia)	International freight transportation and acting as agent for transport affairs	100.00	100.00
WHL-Singapore	Wan Hai Lines (H K) Limited (WHL-Hongkong)	International freight transportation and acting as agent for transport affairs	100.00	100.00
WHL-Singapore	Wan Hai Lines (Phils.), Inc. (WHL-Phils.)	International freight transportation and acting as agent for transport affairs	100.00	100.00
WHL-Singapore	Wan Hai Lines (Korea) Ltd. (WHL-Korea)	Acting as agent for transport affairs	100.00	100.00
WHL-Singapore	Wan Hai International Pte Ltd. (WHL-INTL.)	International freight transportation and acting as agent for transport affairs	100.00	100.00
WHL-Singapore	Yi Chun Shipping Agencies Sdn. Bhd. (Yi Chun)	International freight transportation and acting as agent for transport affairs	100.00	100.00
WHL-Singapore	Wan Hai Lines (Thailand) Limited (WHL-Thailand)	International freight transportation and acting as agent for transport affairs	49.00	49.00
WHL-INTL.	Wan Hai Lines (India) PVT Ltd. (WHL-India)	International freight transportation and acting as agent for transport affairs	100.00	100.00
WHL-Hongkong	Guangzhou Wan Hai I.T. and Network Ltd. (GWHIN)	Information software service	100.00	100.00
WHL-Hongkong	Dawin Logistics (International) Ltd. (DL)	Freight transportation, acting as agent for transport affairs, and investment	100.00	100.00

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Investing company	Name of subsidiary	Activities	Directly or indirectly held percentage	
			2010	2009
Dawin	Shenzhen Uniwin International Logistics (SUIL)	International freight transportation and acting as agent for transport affairs	90.00	90.00
Dawin	Shenzhen Asia World Logistics Ltd. (SAWL)	International freight transportation and acting as agent for transport affairs	100.00	100.00
Shenzhen Uniwin	Shanghai Clipper International Shipping Agency Ltd. (SCSA)	International freight transportation and acting as agent for transport affairs	90.00	45.90
Dawin	Blue Ocean Logistics (Shanghai) Ltd. (BOL)	International freight transportation and acting as agent for transport affairs	100.00	100.00

As of June 30, 2010 and 2009, the Company and its subsidiaries (the Consolidated Company) had 2,537 and 2,288 employees, respectively.

## (2) Summary of Significant Accounting Policies

The consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The Company prepared the accompanying consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China. Significant accounting policies and the measuring basis were as follows:

### 1) Basis of preparation of consolidated financial statements

The companies in which the Consolidated Company owns more than 50% of the voting stock or which the Consolidated Company has the power to control are classified as subsidiaries. All above subsidiaries were included in the consolidated financial statements.

All material inter-company transactions have been eliminated in the consolidated financial statements.

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**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

## 2) Use of estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

## 3) Foreign currency transactions

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 into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying 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 that are measured at fair value in a foreign currency are translated into the reporting currency at the foreign exchange rates at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are 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 gains or losses from such translation are recorded as a separate component of stockholders' equity.

The Company's reporting currency is the New Taiwan dollar. For subsidiaries, if the local currency is not the functional currency, a remeasurement of the financial statements into the functional currency is performed first, and the remeasuring differences are accounted for as exchange gains or losses in the statements of income.

## 4) Principles of classifying assets and liabilities as current and non-current

Cash or cash equivalents, and assets that will be held primarily for the purpose of trading or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets shall be classified as non-current.

Liabilities that will be held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities shall be classified as non-current.

## 5) Impairment of assets

The Consolidated Company does not have goodwill. The Consolidated Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the Consolidated Company estimates the recoverable amount of the asset. The Consolidated Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

(Continued)

**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

The Consolidated 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.

6) Cash equivalents

All highly liquid investments with a maturity of three months or less at the date of purchase that can be timely converted into a fixed amount of cash and for which a change in interest rate would not materially affect their value are considered to be cash equivalents, including bonds purchased under the agreement to resell and commercial paper maturing within 3 months of the investment date.

7) Financial instrument measurement on initial recognition

At initial recognition, a financial instrument is recognized at fair value plus, in the case of a financial instrument not at fair value through profit or loss, directly attributable transaction costs. A regular way purchase or sale of financial assets is recognized and derecognized using the trade date.

8) Financial assets

The Consolidated Company accounts for financial assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 34 "Financial Instruments: Recognition and Measurement", which classifies financial assets into one of the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, financial assets carried at cost, and bond portfolios with inactive market.

1. Financial instruments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or liabilities at fair value through profit or loss. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial instruments with fair value changes recognized in profit or loss should be measured at fair value. The fair value of an asset is the amount at which the asset could be purchased or sold in a current arm's-length transaction between willing parties. A quoted market price, if available, in an active market is the best evidence of fair value; however, if a quoted market price is not available, fair value should be estimated using the best information available in the circumstances or estimated using pricing models. Estimation of fair value is usually based on recent trading prices of such financial instruments and supplemented by related valuation techniques available.

(Continued)

**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

The realized and unrealized gain or loss on financial instruments whose changes in fair value are recognized in earnings should be recognized in current year's net income or loss. Interest income (expense) received (paid) during the holding period are recorded under "interest income (expense)" and "gain (loss) on financial instruments at fair value through profit or loss", respectively. Financial instruments for trading purposes are acquired or issued principally for the purpose of selling or repurchasing them in the short term. Derivative financial instruments can only be reclassified to this category if they are not designated and effective hedging instruments.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognized in the income statement.

2. Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. If, in a subsequent period, the amount of the impairment loss decreases, then for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

3. Financial assets measured at cost

Financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

4. Bond portfolios with inactive market

Bond portfolios with inactive market are those that do not have public quotes in an active market and are recorded at amortized cost. When there is objective evidence which indicates that bond investments are impaired, impairment loss should be recognized. However, if there is any indication that the impairment loss recognized has decreased in a subsequent period, it should be reversed and recognized in current year's income. After reversal, the book value should not be greater than unamortized cost.

(Continued)

**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

## 9) Derivative instruments and hedging activities

The Consolidated Company designates derivatives as hedges of operating, financing and investment risk. Pursuant to the policy, the Consolidated Company does not hold or issue derivatives for trading purposes. The Consolidated Company accounts for financial assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement"; derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

## 10) Allowance for doubtful accounts

Allowance for doubtful accounts is determined based on the estimated collectability of receivables and analysis of the aging of receivables.

## 11) Fuels

Starting from January 1, 2009, fuels are initially recorded at cost, which is determined by the FIFO method, and subsequently measured at the lower of cost or net realizable value at each individual item level with the replacement cost representing net realizable value.

## 12) Equity investments under equity method

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

When a long-term investment under the equity method is sold, the difference between the cost and the selling price at the disposal date is recognized as gain (loss) from disposal of long-term equity investment. If there is any capital surplus resulting from long-term investments, the Consolidated Company recognizes it as current income (loss) by the percentage sold.

Unrealized inter-affiliate profits or losses resulting from transactions between the Consolidated Companies 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; other deferred gains or losses are recognized in the realized year.

If an investor company has significant influence but not control over an investee company, and if an investor company's share of an investee company's losses equals or exceeds the carrying amount of an investment accounted for under the equity method, plus advances made by an investor company, then the recognized investment losses shall be limited to the extent that makes the book value of a long-term investment and advances equal to zero. However, if any of the following conditions is met, the investor company shall continue to recognize investment losses in proportion to its stock ownership percentage:

1. The investor company intends to continue its support for the investee company, or
2. The investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations in the near future.

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

The resulting credit balance of the book value of a long-term equity investment and advances shall be treated as a liability on the balance sheet. If an investee company subsequently reports net income, an investor company shall resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

For investees over which the Company has control ability, the Company recognized fully investment losses when the equity in net assets of such investees is negative and the Company has a binding obligation to, and is able to, make good the losses. The investor company should recognize the losses of the investee; once the investee company starts to earn a profit, the profit should be recognized by the investor company under the equity method.

## 13) Fixed assets and related depreciation

Land is stated at acquisition cost, which can be revaluated in accordance with related laws. Reserve for land appreciation tax is allocated and recorded as other liabilities. During a land transfer, both land revaluation increments and the reserves for land revaluation increment tax should be transferred with the acquisition cost of such land.

Fixed assets, except for land, are stated at acquisition cost, including capitalization of interest and certain expenses which were incurred in connection with the construction of a plant and the installation of machinery and equipment. Major renewals, additions and improvements are capitalized, while maintenance and repairs are expensed. Fixed assets without use value or left unused should be reclassified as idle assets, where the cost, cumulative depreciation and cumulative impairment of such assets are all transferred to depreciation of idle assets.

Effective November 20, 2008, the Company adopted Interpretation No. 340 of the Accounting Research and Development Foundation of the Republic of China, under which the cost of a fixed asset includes the estimated costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for a purpose other than to produce inventories during that period. Every component of the fixed asset that is significant in relating to its cost should be depreciated individually. The Company assesses the remaining useful lives, depreciation method and residual value at least annually. Any changes in the above assumptions are accounted for as changes in accounting estimates.

Apart from land, useful lives of fixed assets were as follows:

<b>Assets</b>	<b>The Company</b>	<b>Subsidiaries</b>
Buildings	43~56 years	30 years
Containers	3~8 years	2~16 years
Computer and communication equipment	3 years	3~10 years
Vessels	15~18 years	2~16 years
Privileged wharf equipment	3~5 years	3~15 years
Leasehold improvement	5 years	3~10 years
Furniture and fixtures	2~7 years	3~13 years
Leased assets	-	3~30 years

(Continued)

**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

For operating lease under sale-leaseback, the gain or loss resulting from the sale of leased property is deferred and recorded as unrealized gain or loss on sale-leaseback and amortized over the leasing period.

## 14) Intangible assets

The Consolidated Company adopted Statement of Financial Accounting Standards (SFAS) No. 37, "Intangible Assets". In accordance with SFAS No. 37, 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 related laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of an intangible asset is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

<b>Assets</b>	<b>Useful lives</b>
Computer software	3 years

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each fiscal year-end. Any changes shall be accounted for as changes in accounting estimates.

## 15) Deferred charges

The cost of privileged wharf construction having future economic benefit is capitalized and amortized using the straight-line method over three to sixteen years.

## 16) Financial liabilities

The Consolidated Company adopted Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement".

Financial liabilities for trading purposes or whose changes in fair value are charged to profit or loss are recorded in financial liabilities at fair value through profit or loss. Financial liabilities should be classified as current and non-current. Financial liabilities for trading purposes are derivatives contracts that are hedging instruments but are not applicable to hedge accounting.

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**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

## 17) Pension

The Company set up an employee retirement plan in January 1981 covering all its regular employees (exclusive of crewmembers, certain contract employees, and temporary contract employees). Under this plan, all employees contributed 4% of their salaries to the employees' pension fund, and the Company deposited the same amount. After the Labor Standards Law was promulgated in August 1984, employees stopped contributing, and the part of the fund contributed by employees was returned to the employees. The part of the fund contributed by the Company will be paid to employees based on years of service before 1984 when they retire.

Under the defined benefit pension scheme under the Labor Standards Law, the employees' pensions are calculated based on the employees' years of service and average monthly salaries or wages during the year before retirement.

In accordance with the requirements of the ROC Labor Standards Law, the Company has contributed monthly payments of 15% of salaries and wages to a retirement fund maintained with Bank of Taiwan.

The R.O.C. Labor Pension Act ("the Act"), effective from July 1, 2005, adopts a defined contribution pension plan. In accordance with the Act, employees of the Company who were hired before July 1, 2005, may elect to be subject to either the Act and maintain their service years before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. Employees who are hired by the Company after July 1, 2005, are required to be covered by the pension plan as defined by the Act. For employees subject to this Act, the Company is required to make monthly cash contributions to the employees' individual pension accounts at the rate of not less than 6% of the employees' monthly wages and to deposit the contribution in a personal retirement benefit account.

Pursuant to the Act, the Company contributed cash at the rate of 6% of gross salary of each employee to the Council of Labor Affairs. This contribution is recognized as pension expenses for the current period when the contribution is actually made.

For the defined benefit pension plan, the end of the fiscal year is the measurement date of the actuarial report. When the accumulated benefit obligation exceeds the fair value of plan assets, the difference is recognized as a minimum pension liability. Net periodic pension cost recognized includes the current service cost, net transition asset or obligation, prior service cost, and unrecognized gain (loss) on the pension plan, which is amortized on a straight-line basis over the expected average remaining service period.

In accordance with the R.O.C. Maritime Act, the vessel owners will pay to a crewmember a lump sum at the time of retirement. For a crewmember retiring at or after the age of 60 with minimum 10 years of service, the amount paid will equal fifteen months of salary. For each additional year of service, one and half months of salary will be added. According to the Maritime Act, if the member is 55 years of age and has 10 years of service, the owners will pay to the crewmember eighty-five percent of the full amount. After the R.O.C. Seafarer Act came into effect in 1999, the disbursement of a crewmember's retirement fund was calculated following the R.O.C. Labor Standards Act and is subject to the pension scheme under the R.O.C. Labor Pension Act adopted by the Company on July 1, 2005.

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**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

For preparing the interim financial report, the Company adopted SFAS No. 23, "Interim Financial Reporting", instead of adopting SFAS No. 18, "Accounting for Pensions".

In accordance with local law and regulations, the employee pension plans of the consolidated subsidiaries are defined contribution pension plans, and the consolidated subsidiaries make contributions at the rate required.

**18) Treasury stock**

When the Consolidated Company buys back issued stock, it applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 30 "Accounting for Treasury Stock" to debit the treasury stock account in the amount of cost paid. When the disposal price of treasury stock is higher than the cost, the difference is credited to capital surplus—treasury stock; otherwise, the cost in excess of the price is debited to capital surplus generated from the same type of treasury stock transactions. If the capital surplus—treasury stock account is insufficient to cover the cost in excess of the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average cost and is calculated by each group according to the reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus generated from the same type of treasury stock transactions. If the capital surplus—treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus generated from similar treasury stock transactions.

**19) Bonus to employees and remuneration to directors and supervisors**

Employees' bonuses and directors' and supervisors' remuneration are accounted for by Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Consolidated Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes 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 current profit or loss.

**20) Revenue and cost recognition**

Before freight arrives, revenues should be recognized as the estimated recoverable amount of cost incurred (zero-profit method). Unrecognized revenue will be recognized after freight arrives.

**21) Income tax**

Income tax is estimated based on the accounting income. Deferred tax liabilities are recognized for the tax consequences of taxable temporary differences by applying enacted statutory tax rates, and deferred tax assets are recognized for the tax consequences of deductible temporary differences, operating loss carryforwards, and tax credits. The allowance for deferred tax assets is based on the possibility of deferred tax assets being realized in future years.

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Deferred income tax assets and liabilities are classified as current or non-current in accordance with the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or non-current according to the expected period of realization.

The 10% surtax on undistributed retained earnings is recognized as current expense in the reporting period of the stockholders' meeting resolution.

Tax expenses of the consolidated subsidiaries are according to the local tax law of each of the consolidated subsidiaries. Tax expense of the Consolidated Company is the sum of tax expenses of the consolidated entities.

## 22) Earnings per share

Basic earnings per share are calculated based on the weighted-average number of common shares outstanding during the year. The effect on earnings per share from an increase in stock through stock dividends distributed from unappropriated earnings or capital surplus is computed retroactively.

Convertible corporate bonds and estimated bonus to employees are regarded as potential common stock. If potential common stock would dilute earnings per share, the Company has to disclose basic earnings per share and diluted earnings per share. The calculation of diluted earnings per share should consider the effect on net income and outstanding common stock from the potential common stock.

## (3) Reason for and Effect of Changes in Accounting Principle

Starting from January 1, 2009, the Consolidated Company adopted the amendment of ROC Statement of Financial Accounting Standards (SFAS) No. 10, "Inventories". The change in accounting principle did not have significant effect on the consolidated financial statements as of and for the six-month period ended June 30, 2009.

## (4) Cash and Cash Equivalents

	June 30, 2010	June 30, 2009
Cash on hand	\$ 30,218	46,322
Demand deposits	254,782	110,309
Checking accounts	24,580	39,184
Time deposits	830,000	201,900
Foreign currency deposits – demand deposits	4,279,667	1,804,250
Foreign currency deposits – time deposits	9,176,485	9,887,441
Cash equivalents – securities with resale agreement	5,456	641,578
Cash equivalents – money market deposit accounts – foreign currency	8,332	6,380
Total	<u>\$ 14,609,520</u>	<u>12,737,364</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## (5) Financial Assets at Fair Value through Profit or Loss—Current

As of June 30, 2010 and 2009, financial assets held for trading purposes were as follows:

	2010	2009
Structural instruments	\$ 623,419	-
Add: valuation adjustment	<u>4,944</u>	<u>-</u>
	<u>628,363</u>	<u>-</u>
Oil swap options	-	1,868
Foreign exchange options	5,131	71,560
Interest rate swaps	<u>-</u>	<u>100,931</u>
	<u>\$ 633,494</u>	<u>174,359</u>

The above derivative financial instruments involving oil, foreign currency and interest rates are held for hedging, but hedge accounting is not applied.

## (6) Available-for-sale Financial Assets—Current

	Cost	June 30, 2010 Valuation adjustment	Fair value
Domestic listed stocks	\$ 2,278,421	(390,684)	1,887,737
Domestic equity funds	193,358	(68,416)	124,942
Domestic balanced funds	65,077	(10,963)	54,114
Domestic bond funds	641,108	5,206	646,314
Foreign equity funds	<u>96,318</u>	<u>(59,611)</u>	<u>36,707</u>
	<u>\$ 3,274,282</u>	<u>(524,468)</u>	<u>2,749,814</u>
	Cost	June 30, 2009 Valuation adjustment	Fair value
Domestic listed stocks	\$ 2,369,227	(701,582)	1,667,645
Domestic equity funds	397,204	(124,593)	272,611
Domestic balanced funds	286,981	(24,195)	262,786
Domestic bond funds	995,003	8,472	1,003,475
Domestic ETF funds	20,000	(4,528)	15,472
REITs funds	120,000	(54,850)	65,150
Domestic private placement funds	18,904	1,322	20,226
Foreign bond funds	64,802	(8,826)	55,976
Foreign equity funds	<u>96,318</u>	<u>(48,288)</u>	<u>48,030</u>
	<u>\$ 4,368,439</u>	<u>(957,068)</u>	<u>3,411,371</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

The details of movement of unrealized gain (loss) on available-for-sale financial assets – current were as follows:

	2010	2009
Beginning balance	\$ (606,294)	(1,363,958)
Recognized in the period	<u>81,826</u>	<u>406,890</u>
Ending balance	<u>\$ (524,468)</u>	<u>(957,068)</u>

**(7) Fuels**

	June 30, 2010	June 30, 2009
Marine diesel oil	\$ 122,195	85,249
Marine residual fuel oil	1,188,422	753,333
Fresh lubricating oil	<u>13,387</u>	<u>9,425</u>
Total	<u>\$ 1,324,004</u>	<u>848,007</u>

**(8) Receivables from and Payables to Agents**

The Consolidated Company operates its main businesses in Northeast Asia, Southeast Asia, the Middle East, India, China, the Americas and Europe, where agents were established to collect freight on behalf of the Company and disburse various expenses. As of June 30, 2010 and 2009, the balances of current accounts with agents were as follows:

	2010	2009
Receivables from agents:		
Agents in Netherlands	\$ 163,115	2,744
Agents in Pakistan	10,253	11,947
Agents in Belgium	36,369	-
Agents in Dubai – WHL-UAE	4,312	-
Agents in India – OMEGA	19,251	8,331
Agents in East Malaysia	156	816
Agents in Indonesia – BBN	7,949	2,083
Agents in Indonesia – WHL-JKT	93,281	77,708
Agents in Indonesia – TMS	21,005	15,810
Agents in Qatar	11,086	10,422
Agents in Bahrain – ONYX	1,370	102
Agents in Iran	2,319	3,253
Agents in Egypt – EG	1,486	3,850
Agents in Japan – WHL-Japan	761,627	313,282
Agents in Saudi Arabia	-	542
Agents in Cambodia – STRAITS	1,374	6,313

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

	2010	2009
Agents in United States – STRACHAN	\$ 65,246	48,516
Agents in Oman	1,788	163
Agents in Germany	21,120	-
Agents in Jordan	-	22
Agents in Myanmar	395	-
Agents in Vietnam – Phoenix	36,466	42,133
Agents in Romania	35,292	6,529
Agents in Turkey – TR	41,383	1,245
Agents in Ukraine	14,984	6,746
Agents in Kuwait	-	2,406
Agents in Iraq	-	692
Agents in Brazil	36,264	-
Agents in Kenya	12,109	-
Agents in Tanzania	956	-
Agents in Oruguay	477	-
Agent in South Africa	13,174	-
Agents in Argentina	12,558	-
	<u>\$ 1,427,165</u>	<u>565,655</u>
	<b>2010</b>	<b>2009</b>
Payables to agents:		
Agents in Bangladesh	\$ 1,642	4,652
Agents in Dubai – WHL-UAE	-	11,558
Agents in Kuwait	396	-
Agents in Belgium	-	611
Agents in Iraq	545	-
Agents in Sri Lanka	10,252	3,488
Agents in Saudi Arabia	7,311	-
Agents in Germany	-	634
Agents in Turkey – T1	202	126
Agents in Myanmar	-	422
Agents in Egypt – E2	61,659	18,343
	<u>\$ 82,007</u>	<u>39,834</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

**(9) Long-term Equity Investments under the Equity Method**

As of June 30, 2010 and 2009, equity investments under the equity method were as follows:

	Percentage of ownership	2010		Percentage of ownership	2009	
		Investment cost	Amount		Investment cost	Amount
Wan Hai Lines (UAE) LLC.	49.00	\$ <u>12,609</u>	<u>10,175</u>	49.00	<u>12,609</u>	<u>6,294</u>

The above equity investments had not been provided as guarantee or pledge.

For the six-month periods ended June 30, 2010 and 2009, the investment gain from long-term equity investments was as follows:

	2010	2009
Wan Hai Lines (UAE) LLC.	\$ <u>8,055</u>	<u>4,331</u>

Wan Hai Lines (UAE) LLC. declared distribution of cash dividends of \$9,083 thousand (AED1,034 thousand) and \$40,526 thousand (AED4,527 thousand) for the six-month periods ended June 30, 2010 and 2009, respectively.

The board of directors of the Company resolved to invest USD8,320 thousand in a joint venture to establish Cai Mep Container Terminal, Vietnam. The Company owned 21.33% of its outstanding shares. As of June 30, 2010, the Company had remitted USD5,325 thousand (\$170,360 thousand), recorded in prepayment for long-term investment.

**(10) Available-for-sale Financial Assets – Non-current**

	June 30, 2010	June 30, 2009
Listed stocks	\$ 288,515	288,515
Add: valuation adjustment	<u>46,385</u>	<u>149,889</u>
	\$ <u>334,900</u>	<u>438,404</u>

For the six-month periods ended June 30, 2010 and 2009, the details of movement of unrealized gain (loss) on available-for-sale financial assets – non-current were as follows:

	2010	2009
Beginning balance	\$ 142,844	(184,469)
Changes in this period	<u>(96,459)</u>	<u>334,358</u>
Ending balance	\$ <u>46,385</u>	<u>149,889</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

**(11) Financial Assets Measured at Cost—Non-current**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Stock investments—Taipei Port Container Terminal Corp.	\$ 640,625	500,000
Stock investments—United Stevedoring Corporation	<u>7,813</u>	<u>7,813</u>
	<u><b>\$ 648,438</b></u>	<u><b>507,813</b></u>

The board of directors of Taipei Port Container Terminal Corporation resolved to increase its capital by cash injection on June 25, 2009. The date of the capital increase was designated as August 20, 2009. The amount of \$140,625 thousand was remitted by the Consolidated Company, and the related registration procedures were completed on September 7, 2009.

The Consolidated Company invested \$7,813 thousand in United Stevedoring Corporation in January 2009. The Consolidated Company's percentage of ownership was 15.625%.

**(12) Bond Portfolios with Inactive Market—Non-current**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Foreign bonds	<u><b>\$ 1,291,177</b></u>	<u><b>1,312,787</b></u>

**(13) Fixed Assets**

- 1) The Company revaluated its fixed assets (except for land) on December 31, 1976 and 1980. As of June 30, 2010 and 2009, the revaluation increments of fixed assets amounted to \$1,527 thousand.
- 2) For the six-month period ended June 30, 2009, the capitalized interest was \$34,251 thousand, and the monthly average rate of capitalized interest was 0.25%~0.31%.
- 3) For the information on the fixed assets pledged for bank loans as of June 30, 2010 and 2009, refer to note 28.

**(14) Refundable Deposits**

As of June 30, 2010 and 2009, the refundable deposits were \$253,937 thousand and \$219,106 thousand, respectively. Time deposits pledged as refundable deposits were \$133,174 thousand and \$157,717 thousand, respectively. Please refer to note 28 for details.

**(15) Deferred Charges**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Cost of route construction	\$ 3,103	30,814
Cost of equipment, privileged wharf construction and decoration	<u>623,328</u>	<u>692,172</u>
	<u><b>\$ 626,431</b></u>	<u><b>722,986</b></u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

**(16) Short-term Loans**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Credit loans	\$ 96,834	50,000
Other loans	<u>-</u>	<u>592,980</u>
	<u><b>\$ 96,834</b></u>	<u><b>642,980</b></u>

For the six-month periods ended June 30, 2010 and 2009, interest rates for the short-term loans were 0.75% and 0.45%~2.14%, respectively. Except for other loans, short-term loans were all with a maturity of one year or less.

As of June 30, 2010 and 2009, the Consolidated Company had provided promissory notes amounting to \$8,459,453 thousand and \$7,799,752 thousand, respectively, as pledges for its short-term loans.

As of June 30, 2010 and 2009, the unused lines of credit amounted to approximately \$8,259,730 thousand and \$8,158,473 thousand, respectively.

Other loans which First Marine Corporation—Japan made to WHL-HK were interest free and unsecured, and repayment is on demand. As of June 30, 2010, the loans were fully reimbursed.

**(17) Financial Liabilities at Fair Value through Profit or Loss—Current**

As of June 30, 2010 and 2009, the details of financial liabilities for trading purposes were as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Oil swap options	\$ 75,053	519,708
Exchange rate options	1,025,787	1,526,040
Exchange rate swaps	715,971	577,545
Interest rate swaps	<u>886,979</u>	<u>1,505,638</u>
	<u><b>\$ 2,703,790</b></u>	<u><b>4,128,931</b></u>

The above derivative financial liabilities were held for hedging purposes, but hedge accounting was not applied.

**(18) Financial Liabilities at Fair Value through Profit or Loss—Non-current**

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Financial liabilities designated as at fair value through profit or loss—non-current	<u><b>\$ 6,957,543</b></u>	<u><b>5,348,157</b></u>

A subsidiary issued public convertible bonds of USD325 million, which will be used as long-term working capital for purchasing vessels, on June 29, 2005.

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

The offering conditions are as follows:

## 1) Issue Amount

USD325 million.

## 2) Offering Method

Straight Bonds will be issued outside the territory of the Republic of China ("ROC") pursuant to the relevant laws and regulations in the offering place, Singapore.

## 3) Form/Denomination/Issue Price

Straight Bonds are in registered form of denominations of USD1,000 or multiples thereof. The bonds will be issued at 100% of par value.

## 4) Issue Date

June 29, 2005

## 5) Maturity Date

10 years from the Issue Date

## 6) Place of Listing

Singapore Stock Exchange

## 7) Coupon Rate

The indicative coupon for the Bonds is 5.5% (annually).

**(19) Long-term Loans and Current Portion of Long-term Loans**

Name of bank	Nature	Term	June 30, 2010	June 30, 2009
Changhwa Commercial Bank, Chi-lin Branch	Mortgage	June 26, 2009~June 26, 2014	\$ 580,000	580,000
Bank SinoPac, Banking Division	Mortgage	June 26, 2009~June 26, 2016	558,000	600,000
Bank SinoPac, Banking Division	Mortgage	Mar. 12, 2010~Mar. 12, 2017	505,000	-
First Commercial Bank, Chiencheng Branch	Mortgage	June 12, 2009~June 12, 2016	300,000	300,000
First Commercial Bank, Chiencheng Branch	Mortgage	June 26, 2009~June 12, 2016	400,000	400,000
Taiwan Cooperative Bank, Chengtung Branch	Mortgage	June 26, 2009~June 26, 2016	250,000	250,000
Taiwan Cooperative Bank, Chengtung Branch	Mortgage	Jan. 09, 2009~Jan. 09, 2014	1,613,900	1,640,900
ABN-AMRO Taipei Branch	Mortgage	Jun. 07, 2006~Jun. 07, 2010	-	218,960
ABN-AMRO Taipei Branch	Mortgage	Jul. 26, 2006~Jun. 07, 2010	-	115,616

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Name of bank	Nature	Term	June 30, 2010	June 30, 2009
Societe Generale Bank, Taipei Branch	Mortgage	Jan. 25, 2007~Jan. 25, 2012	\$ -	492,270
Mizuho Corporate Bank, Taipei Branch	Mortgage	Dec. 27, 2005~Oct. 26, 2011	154,869	262,432
Mizuho Corporate Bank, Taipei Branch	Mortgage	Aug. 11, 2005~Oct. 26, 2011	75,308	127,613
Mizuho Corporate Bank, Taipei Branch	Mortgage	Aug. 31, 2005~Oct. 26, 2011	45,512	77,122
Mizuho Corporate Bank, Taipei Branch	Mortgage	Sep. 20, 2005~Oct. 26, 2011	38,346	64,980
Mizuho Corporate Bank, Taipei Branch	Mortgage	Dec. 16, 2005~Oct. 26, 2011	228,867	387,827
Mizuho Corporate Bank, Taipei Branch	Mortgage	Feb. 07, 2006~Oct. 26, 2011	125,586	212,812
Mizuho Corporate Bank, Taipei Branch	Mortgage	Mar. 02, 2006~Oct. 26, 2011	140,494	238,075
Mizuho Corporate Bank, Taipei Branch	Mortgage	Aug. 29, 2006~Oct. 26, 2011	146,074	247,530
BNP PARIBAS, Taipei Branch	Mortgage	Dec. 26, 2007~Dec. 26, 2012	672,674	820,450
DBS	Mortgage	Jul. 17, 2002~Jul. 17, 2010	32,278	98,454
Mega International Commercial Bank, Singapore Branch	Mortgage	Jul. 07, 2004~Jul. 07, 2009	-	72,200
Mega International Commercial Bank, Singapore Branch	Mortgage	Dec. 31, 2001~Dec. 30, 2009	-	67,072
Mega International Commercial Bank, Singapore Branch	Mortgage	Oct. 26, 2006~Oct. 26, 2011	345,836	586,036
Mega International Commercial Bank, Singapore Branch	Mortgage	Sep. 22, 2009~Sep. 22, 2016	605,213	-
Syndicated loan	Mortgage	Sep. 28, 2006~Sep. 30, 2014	4,539,094	5,640,596
ING Bank N.V., Singapore Branch	Mortgage	Sep. 2, 2002~Sep. 2, 2010	70,608	215,368
Taipei Fubon Bank, Anho Branch	Mortgage	Nov. 27, 2006~Nov. 27, 2011	232,582	394,123
Sumitomo Mitsui Banking Corporation, Singapore Branch	Mortgage	May 18, 2007~May 18, 2010	-	437,572
Hua Nan Commercial Bank, Singapore Branch	Mortgage	Mar. 3, 2003~Mar. 3, 2010	-	177,217

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Name of bank	Nature	Term	June 30, 2010	June 30, 2009
Hua Nan Commercial Bank, Singapore Branch	Mortgage	Aug. 27, 2009~Aug. 27, 2016	\$ 771,444	-
Bank of Taiwan, Singapore Branch	Mortgage	Dec. 24, 2009~Dec. 24, 2014	368,292	-
Mega International Commercial Bank, Central Branch	Credit loan	Jul. 24, 2006~Jul. 24, 2016	125,695	145,035
Mega International Commercial Bank, Central Branch	Mortgage	Jul. 24, 2006~Jul. 24, 2013	38,461	49,462
Taipei Fubon Bank, Singapore Branch	Mortgage	Mar. 15, 2010~Mar. 15, 2017	578,422	-
First Commercial Bank, Singapore Branch	Mortgage	Sep. 30, 2009~Sep. 30, 2016	387,336	-
First Commercial Bank, Sao Chuan Tou Branch	Credit loan	May. 19, 2009~May. 19, 2019	132,509	89,478
First Commercial Bank, Sao Chuan Tou Branch	Mortgage	May 19, 2009~May. 19, 2019	101,500	-
			14,163,900	15,009,200
Less: current-portion of long-term loans			2,552,133	3,735,664
			<b>\$ 11,611,767</b>	<b>11,273,536</b>

Some of the above long-term loans were denominated in US dollars. As of June 30, 2010 and 2009, foreign currency debt amounted to USD346,140 thousand and USD383,790 thousand, respectively.

For the six-month periods ended June 30, 2010 and 2009, interest rates for long-term loans were 0.90%~4.43% and 1.51%~4.43%, respectively.

The restrictions of the Mega International Commercial Bank (syndication loan) were as follows:

- 1) The consolidated cash and cash equivalents cannot be less than NT\$1,000,000 thousand.
- 2) The consolidated stockholders' equity cannot be less than NT\$17,000,000 thousand.
- 3) The consolidated times interest earned ratio cannot be less than 150%.

The restrictions of the Mizuho Corporate Bank loan were as follows:

- 1) Minimum consolidated stockholders' equity of NT\$17 billion.
- 2) Maximum consolidated net debt to stockholders' equity ratio [(short-term loans + current portion of long-term loans + long-term loans + current portion of bonds payable + bonds payable – cash and cash equivalents) / stockholders' equity] of 1.2.
- 3) Minimum consolidated times interest earned ratio of 1.5.
- 4) Minimum consolidated cash and cash equivalents of NT\$1 billion.

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

The restrictions of the BNP PARIBAS loan were as follows:

- 1) Minimum consolidated stockholders' equity of NT\$17 billion.
- 2) Maximum consolidated net debt to stockholders' equity ratio [(short-term loans + current portion of long-term loans + long-term loans + current portion of bonds payable + bonds payable – cash and cash equivalents)/stockholders' equity] of 1.2.
- 3) Minimum consolidated times interest earned ratio of 1.5.
- 4) Minimum consolidated cash and cash equivalents of NT\$1 billion.

The restrictions of the Societe Generale Bank loan were as follows:

- 1) Minimum consolidated stockholders' equity of NT\$17 billion.
- 2) Maximum consolidated net debt to stockholders' equity ratio [(short-term loans + current portion of long-term loans + long-term loans + current portion of bonds payable + bonds payable – cash and cash equivalents)/stockholders' equity] of 1.2.
- 3) Minimum consolidated times interest earned ratio of 1.5.
- 4) Minimum consolidated cash and cash equivalents of NT\$1 billion.

The future repayments of long-term loans were as follows:

Year	Amount
July 2010~December 2010	\$ 2,552,133
2011	3,295,122
2012	3,398,091
2013	2,764,792
After 2014	<u>2,153,762</u>
	<u><u>\$ 14,163,900</u></u>

For details of fixed assets provided as collateral, please see note 28. As of June 30, 2010 and 2009, the Consolidated Company had provided promissory notes amounting to \$9,040,750 thousand and \$10,256,880 thousand, respectively, as pledges for its long-term loans.

#### (20) Bonds Payable

The Company's bonds payable – domestic as of June 30, 2010 and 2009, were as follows:

	June 30, 2010	June 30, 2009
Straight bonds (the Ordinary Bonds)	\$ 3,000,000	6,000,000
Less: Portion of bonds payable due within one year	<u>3,000,000</u>	<u>3,000,000</u>
	<u><u>\$ -</u></u>	<u><u>3,000,000</u></u>

(Continued)

**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

The offering conditions are as follows:

1) Issue amount

Up to NTD9,000 million. There are three series of bonds categorized by the terms, each amounting to NTD3,000 million. The three series are divided into six parts depending on the conditions and issue date, with each part amounting to NTD500 million.

2) Nominal amount

Up to NTD 10 million

3) Issuance period

The issuance dates begin from June 28~30, 2004; the maturity periods for the three components are five, six and seven years.

4) Issued price: at par value

5) Nominal interest rate

1. Bond I: 3.00%~4.35%
2. Bond II: 3.55%~4.45%
3. Bond III: 3.80%~4.31%

6) Payment of interest: payment each half a year.

7) Redemption on the Maturity Date

The Ordinary Bonds will be redeemed at par on the maturity date.

8) Bond form: coupon bonds

9) Trustee

The trustee is Mega International Commercial Bank, Trust Department.

10) Agency for payment of principal and interest:

Mega International Commercial Bank, Trust Department

11) Authorized affiliate: Mega International Commercial Bank, Trust Department

12) Announcement

The related information can be acquired from the Market Observation Post System and the newspaper.

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

**(21) Pension Fund**

As of and for the six-month periods ended June 30, 2010 and 2009, the pension details were as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Accrued pension liability	\$ <u>290,691</u>	<u>190,000</u>
Pension fund balance	\$ <u>188,493</u>	<u>155,042</u>
Pension expense:		
Defined benefit retirement plan	\$ 27,550	26,605
Defined contribution retirement plan	14,004	12,448
Retirement plan under Seafarer Act and Maritime Act	25,658	25,362
	<u>\$ 67,212</u>	<u>64,415</u>

For the six-month periods ended June 30, 2010 and 2009, the pension expense of domestic subsidiaries was \$1,282 thousand and \$944 thousand, respectively. For the six-month periods ended June 30, 2010 and 2009, the pension expense of foreign subsidiaries was \$9,540 thousand and \$7,228 thousand, respectively, and the accrued pension liabilities were \$13,654 thousand and \$15,004 thousand, respectively.

**(22) Income Tax**

Since each of the consolidated companies is an independent taxable entity, the taxable income and operating losses of each entity cannot be offset against those of the others.

The amendment of the "Income Tax Act" issued on May 27, 2009, changed the Company's maximum income tax rate from 25% to 20%. Pursuant to the amendment of the "Income Tax Act" issued on June 15, 2010, the Company will be subject a maximum income tax rate of 17% beginning in 2010. For the six-month periods ended June 30, 2010 and 2009, the Company's applicable income tax rate is 17% and 25%, respectively, and the Company adopted the "Income Basic Tax Act" to compute basic tax.

The components of income tax expense were as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Current income tax expense	\$ 115,878	142,438
Deferred income tax expense	<u>959,096</u>	<u>386,971</u>
Income tax expense	<u>\$ 1,074,974</u>	<u>529,409</u>

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

For the six-month periods ended June 30, 2010 and 2009, the differences between "expected" income tax expense (benefit) at the statutory income tax rate and income tax expense (benefit) in the accompanying financial statements were as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Expected income tax expense (benefit)	\$ 467,567	(168,520)
Tax effect of adjustments:		
Loss (gain) on disposal of investments, net	4,676	(597)
Investment gain under the equity method, net	(1,369)	(866)
Expenses exceeding the tax limit	32	250
Dividend income	(210)	(119)
Adjustments of prior year's income tax	660,343	33,645
Allowance for deferred income tax assets	(210,241)	-
Foreign income tax of consolidated subsidiaries	22,103	371,508
Unused income tax expense of overseas companies	481	93,085
Income tax effect of changes in income tax rate	132,277	201,023
Others	(685)	-
Income tax expense	<u>\$ 1,074,974</u>	<u>529,409</u>

For the six-month periods ended June 30, 2010 and 2009, deferred income tax benefit was as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Unrealized foreign exchange gain	\$ 63,783	18,276
Unrealized gain on financial assets	40,959	247,564
Realized gain on disposal of fixed assets	2,505	4,002
Allocation of expense to earnings from foreign subsidiaries	-	(7,137)
Amortization of capitalized interest	40	47
Provision for pension	(452)	-
Foreign investment gain (loss) under equity method	483,046	-
Deferred rent expense	(223)	(302)
Loss carryforward	430,586	(59,493)
Allowance for deferred income tax assets	(210,241)	-
Deferred income tax effect of changes in income tax rate	132,277	185,378
Investment tax credits	16,232	-
Others	584	(1,364)
Deferred income tax expense	<u>\$ 959,096</u>	<u>386,971</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

The deferred income tax assets (liabilities) were as follows:

	June 30, 2010	June 30, 2009
Current:		
Deferred income tax assets (recorded in other current assets)	\$ <u>379,343</u>	<u>686,554</u>
Non-current:		
Deferred income tax assets	\$ 75,274	835,648
Allowance for deferred income tax assets	<u>-</u>	<u>(584,178)</u>
Net deferred income tax assets	75,274	251,470
Deferred income tax liabilities	<u>(491,020)</u>	<u>(38,266)</u>
Net deferred income tax assets (liabilities)—non-current	\$ <u>(415,746)</u>	<u>213,204</u>
Total deferred income tax assets	\$ <u>454,617</u>	<u>1,522,202</u>
Total deferred income tax liabilities	\$ <u>491,020</u>	<u>38,266</u>
Total allowance for deferred income tax assets	\$ <u>-</u>	<u>584,178</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

The temporary differences relating to deferred income tax assets (liabilities) were as follows:

	June 30, 2010		June 30, 2009	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets (liabilities):				
Unrealized exchange loss	\$ 164,903	28,033	281,731	70,433
Amortization of capitalized interest	3,756	639	4,230	846
Provision for pension	56,391	9,587	53,755	10,751
Unrealized loss on financial assets	2,053,144	349,034	2,453,328	613,332
Deferred gain on disposal of fixed assets	206,439	35,095	236,787	47,358
Allocation of expense and earnings of foreign subsidiaries	-	-	(157,786)	(31,557)
Foreign investment gain under equity method	(2,841,448)	(483,046)	-	-
Cumulative translation adjustment	176,200	29,953	-	-
Loss carryforward	-	-	3,883,466	776,693
Deferred depreciation expense	10,785	1,833	5,671	1,418
Other—deferred income tax assets	2,588	443	5,484	1,371
Other—deferred income tax liabilities	(46,907)	(7,974)	(26,836)	(6,709)
Allowance for deferred income tax assets	-	-	(2,920,890)	(584,178)
		<u>\$ (36,403)</u>		<u>899,758</u>

The ROC income tax authorities have examined the Company's income tax returns for all fiscal years through 2007.

In regard to the examined tax return for the year 2006 approved on August 4, 2008, in accordance with the income tax law of foreign countries, the Company paid tax amounting to \$178,344 thousand, which the Company considered deductible. The ROC tax authorities considered that the income tax paid to foreign countries was nondeductible and requested the Company to pay additional tax amounting to \$178,000 thousand. The Company disagreed with the tax assessment as determined by the ROC tax authorities and filed an appeal with the Supreme Court. However, the Company accounted for the estimated amount in the statement of income for the year ended December 31, 2009.

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

The Company's income tax returns for the years 2004 to 2007 had been examined by the tax authorities. The Company considered itself eligible for treatment under the "Income Tax Act", Article 4-1, and voluntarily revised the relevant part of the income tax returns and applied for re-examination and refund in April 2010.

The tax authorities had re-examined the Company's income tax returns for the years 2004 and 2005. The foreign income within the returns had been paid to the foreign countries' tax authorities according to their tax law. The ROC tax authorities deemed that the tax paid to foreign countries was nondeductible and therefore denied the deduction of the foreign income tax. The Company filed for re-examination and accounted for the estimated amount in the statement of income for the year ended December 31, 2009.

As of June 30, 2010 and 2009, the balance of the ICA (imputation credit account) was as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Balance of ICA	\$ <u>49,313</u>	<u>15</u>
	<b>2010 (expected)</b>	<b>2009 (actual)</b>
The imputation tax credit ratio for resident stockholders in ROC	<u>-</u> %	<u>-</u> %

As of June 30, 2010 and 2009, unappropriated earnings were as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
1998 and after	\$ <u>(73,070)</u>	<u>(1,293,670)</u>

**(23) Stockholders' Equity**

## 1) Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized cannot exceed ten percent of the capital surplus limit set by the Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

The Company's capital surplus as of June 30, 2010 and 2009, was as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Capital surplus—share premium		
Premium on capital stock	\$ 22,839	22,839
Paid-in capital in excess of par value through conversion	<u>2,407,676</u>	<u>2,413,278</u>
	<u>2,430,515</u>	<u>2,436,117</u>
Capital surplus—others		
Long-term equity investments	<u>16,055</u>	<u>9,963</u>
	<u>\$ 2,446,570</u>	<u>2,446,080</u>

(Continued)

**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

## 2) Legal reserve

Pursuant to the ROC Company Act, 10% of annual net income after offsetting prior years' losses and paying tax is to be set aside as a legal reserve. Legal reserve is exclusively used to offset losses and not for any other purpose. The Company can convert up to half of its legal reserve into capital when it equals at least 50% of paid-in capital.

## 3) Special reserve

According to Securities and Futures Bureau regulations, the Company should provide a special reserve in the amount equal to unrealized foreign currency exchange gains resulting from long-term loans. The special reserve can be transferred back to retained earnings when realized. Furthermore, the Company should provide a special reserve for the current-year stockholders' equity contra account from the current year's earnings after tax and the prior year's unappropriated earnings.

## 4) Appropriation of earnings

The industry of the Company is highly changeable and is capital intensive. The Company is in the stable growing stage. According to the Company's articles of incorporation, 10% of its annual net income after offsetting prior years' deficits and paying taxes is to be set aside as a legal reserve, and special reserves are to be provided according to the regulations. Distribution of the remaining earnings will be as follows: (1) 1% as bonus to the employees, (2) 1% as remuneration to the directors and supervisors, and (3) 98% as bonus to the stockholders, with the cash dividend not less than 10% of the dividends to the stockholders. In consideration of future financing demands and the long-term finance plan, the Company's stockholders' meeting could adjust the retained earnings distribution percentages.

If the annual net income after income tax is not enough for special reserve but there is prior year's accumulated income, the special reserve should be provided from prior year's earnings before distribution.

The stockholders' meeting decided to appropriate legal reserve of \$529 thousand and special reserve of \$224,096 thousand on June 19, 2009. No bonuses or remuneration was distributed. The related information can be obtained on the website of the Market Observation Post System.

The net loss after tax of 2009 amounted to \$1,635,278 thousand and was accounted for as accumulated deficit and approved by the stockholders' meeting on June 18, 2010. The related information can be obtained on the website of the Market Observation Post System.

Employees' bonuses and remuneration to directors and supervisors were not estimated due to the accumulated deficit for the six-month periods ended June 30, 2010 and 2009.

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## 5) Treasury stock

1. In accordance with Article 28-2 of the Securities and Exchange Act, the Company buys its common stock for treasury stock in order to maintain the Company's credibility and owners' equity. As of June 30, 2010 and 2009, the related information on treasury stock was as follows:

(expressed in thousand shares)

Reason	2009		Retired	Ending balance
	Beginning balance	Increase		
In order to maintain the Company's credibility and owners' equity	<u>9,145</u>	<u>33,942</u>	<u>38,218</u>	<u>4,869</u>

2. According to the Securities and Exchange Act, the percentage of shares purchased cannot exceed 10% of the shares issued, and the total cost cannot exceed the sum of retained earnings, paid-in capital in excess of par and realized capital surplus. As of June 30, 2009, the maximum number of shares held by the Company was 35,326 thousand shares, at a cost of \$461,390 thousand, which was within the limit.
3. According to the Securities and Exchange Act, the treasury stock which the Company held cannot be pledged. The treasury stock does not carry any stockholder rights before transfer of ownership.

**(24) Earnings (Loss) per Share**

The details of primary earnings (loss) per share and diluted earnings per share for the Company were as follows:

	June 30, 2010		June 30, 2009	
	Before income tax	After income tax	Before income tax	After income tax
Basic EPS:				
Net income (loss)—parent company	<u>\$ 2,708,141</u>	<u>1,663,141</u>	<u>(689,977)</u>	<u>(1,204,977)</u>
Weighted-average number of common shares outstanding (thousand shares)	<u>2,112,664</u>	<u>2,112,664</u>	<u>2,120,311</u>	<u>2,120,311</u>
Basic EPS (dollars)	<u>\$ 1.28</u>	<u>0.79</u>	<u>(0.33)</u>	<u>(0.57)</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## (25) Derivative Financial Instruments and Hedge Accounting

## 1) Derivatives

As of June 30, 2010 and 2009, the amounts and periods of derivative financial instruments were as follows:

	June 30, 2010	
	Fair value	Nominal amount
Oil swap options—buy a call	TWD <u>-</u>	TWD <u>643,946</u>
Oil swap options—sell a put	TWD <u>(75,053)</u>	TWD <u>10,200,880</u>
Exchange rate options—buy a put	TWD <u>5,131</u>	TWD <u>861,436</u>
Exchange rate options—sell a call	TWD <u>(1,025,787)</u>	TWD <u>1,113,573</u>
Exchange rate options—sell a put	TWD <u>-</u>	TWD <u>1,179,000</u>
Exchange rate swaps	TWD <u>(715,971)</u>	TWD <u>6,821,640</u>
Interest rate swaps	TWD <u>(886,979)</u>	TWD <u>19,687,726</u>
	June 30, 2009	
	Fair value	Nominal amount
Oil swaps	TWD <u>-</u>	TWD <u>403,169</u>
Oil swap options—buy a call	TWD <u>1,868</u>	TWD <u>7,949,054</u>
Oil swap options—sell a put	TWD <u>(519,708)</u>	TWD <u>16,013,822</u>
Exchange rate options—buy a call	TWD <u>17,926</u>	TWD <u>5,466,240</u>
Exchange rate options—buy a put	TWD <u>53,634</u>	TWD <u>7,576,238</u>
Exchange rate options—sell a call	TWD <u>(1,410,363)</u>	TWD <u>6,398,873</u>
Exchange rate options—sell a put	TWD <u>(115,677)</u>	TWD <u>3,537,000</u>
Exchange rate swaps	TWD <u>(577,545)</u>	TWD <u>6,858,360</u>
Interest rate swaps	TWD <u>100,931</u>	TWD <u>5,992,270</u>
Interest rate swaps	TWD <u>(1,505,638)</u>	TWD <u>18,123,266</u>

- The above derivative financial instruments were recorded as financial assets (liabilities) at fair value through profit or loss when hedge accounting was not adopted.
- Net realized gains (loss) from oil swaps and options were \$156,904 thousand and \$(696,300) thousand for the six-month periods ended June 30, 2010 and 2009, respectively (recorded in valuation gain (loss) on financial assets (liabilities), net).

Net realized loss from exchange rate options were \$(802,442) thousand and \$(793,813) thousand for the six-month periods ended June 30, 2010 and 2009, respectively (recorded in valuation loss on financial assets (liabilities), net).

Net realized loss from interest rate swaps were \$(324,786) thousand and \$(76,130) thousand for the six-month periods ended June 30, 2010 and 2009, respectively (recorded in valuation gain (loss) on financial assets (liabilities), net).

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

3. The fair value of derivative financial instruments was determined by assuming that the Company would terminate the contracts on the balance sheet date. The expected receivables or payables generally include unrealized profit or loss from settling the contracts at the period end. The Consolidated Company deals with derivative financial instruments based on the quoted price provided by related valuation techniques.

**(26) Information on Financial Instruments**

- 1) Fair value of financial instruments was as follows:

	June 30, 2010		June 30, 2009	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and cash equivalents	\$ 14,609,520	14,609,520	12,737,364	12,737,364
Financial assets at fair value through profit or loss — current:				
Structural instruments	628,363	628,363	-	-
Derivatives	5,131	5,131	174,359	174,359
Available-for-sale financial assets — current	2,749,814	2,749,814	3,411,371	3,411,371
Notes and accounts receivable (including related parties)	2,862,472	2,862,472	1,542,621	1,542,621
Other receivable	753,108	753,108	1,026,533	1,026,533
Receivables from agents	1,427,165	1,427,165	565,655	565,655
Available-for-sale financial assets — non-current	334,900	334,900	438,404	438,404
Financial assets measured at cost — non-current	648,438	-	507,813	-
Bond portfolios with inactive market — non-current	1,291,177	1,291,177	1,312,787	1,312,787
Refundable deposits	253,937	253,937	219,106	219,106
Restricted assets	306	306	306	306

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

	June 30, 2010		June 30, 2009	
	Book value	Fair value	Book value	Fair value
Financial liabilities:				
Short-term loans	\$ 96,834	96,834	642,980	642,980
Financial liabilities at fair value through profit or loss – current:				
Derivatives	2,703,790	2,703,790	4,128,931	4,128,931
Notes and accounts payable (including related parties)	6,128,759	6,128,759	4,185,120	4,185,120
Accrued expenses	606,859	606,859	490,068	490,068
Payables for purchase of equipment	231,233	231,233	-	-
Payables to agents	82,007	82,007	39,834	39,834
Financial liabilities at fair value through profit or loss – non-current	6,957,543	6,957,543	5,348,157	5,348,157
Long-term loans	14,163,900	14,163,900	15,009,200	15,009,200
Bonds payable	3,000,000	3,000,000	6,000,000	6,000,000
Guarantee deposits received	1,729	1,729	4,548	4,548

- 2) Methods and assumptions for estimating the fair value of financial instruments are as follows:
1. Financial instruments have short maturities; therefore, face value will be considered their fair value. The applicable accounts include cash and cash equivalents, notes receivable, accounts receivable (payable), other receivables, short-term loans, accounts receivable (payable)–related parties, accrued expenses, refundable deposits, guarantee deposits received, payables for purchase of equipment, other payables, and receivables from and payables to agents.
  2. Financial assets and financial liabilities are based on quoted market prices. If a quoted market price is unavailable, then the fair value is determined based on certain valuation techniques. The financial instruments had market prices quoted by other market participants. The estimations and assumptions of the valuation techniques adopted by the Company and its subsidiaries are identical to those adopted by other market participants.
  3. The interest rate of long-term loans (including bonds payable) is floating. The market value is equal to the book value.
  4. For financial assets measured at cost, since market value is not available, fair value is not disclosed.

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

- 3) Details of quoted market prices and evaluated amounts of financial assets and liabilities were as follows:

	June 30, 2010		June 30, 2009	
	Quoted market price	Evaluated amounts per valuation technique	Quoted market price	Evaluated amounts per valuation technique
Financial assets:				
Financial assets at fair value through profit or loss – current:				
Structural instruments	\$ -	628,363	-	-
Derivatives	-	5,131	-	174,359
Available-for-sale financial assets – current:				
Listed stocks	1,887,737	-	1,667,645	-
Domestic funds	825,370	-	1,639,720	-
Foreign funds	36,707	-	104,006	-
Available-for-sale financial assets – non-current:				
Listed stocks	334,900	-	438,404	-
Bond portfolios with inactive market	-	1,291,177	-	1,312,787
Receivables from agents	-	1,427,165	-	565,655
Financial liabilities:				
Short-term loans	-	96,834	-	642,980
Financial liabilities at fair value through profit or loss – current:				
Derivatives	-	2,703,790	-	4,128,931
Notes and accounts payable (including related parties)	-	6,128,759	-	4,185,120
Payables to agents	-	82,007	-	39,834
Financial liabilities at fair value through profit or loss – non-current:				
Bonds payable	-	3,000,000	-	6,000,000
Long-term loans	-	14,163,900	-	15,009,200

(Continued)

**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

- 4) For the six-month periods ended June 30, 2010 and 2009, the Consolidated Company recognized a gain of \$595,794 thousand and \$1,567,967 thousand, respectively, resulting from changes in fair value by revaluation.
- 5) As of June 30, 2010 and 2009, the Company had financial assets and liabilities whose change in interest rate would affect their fair value amounting to \$0 thousand. In addition, financial assets whose changes in interest rate would affect cash flow amounted to \$0 thousand and \$0 thousand, respectively, and financial liabilities whose changes in interest rate would affect cash flow amounting to \$17,260,734 thousand and \$21,652,180 thousand, respectively.
- 6) As of June 30, 2010 and 2009, total interest revenue of financial assets and liabilities except those recorded in financial assets (liabilities) at fair value through profit or loss was \$6,954 thousand and \$13,794 thousand, respectively, and total interest expenses were \$330,259 thousand and \$603,615 thousand, respectively.
- 7) For the six-month periods ended June 30, 2010 and 2009, the Company recognized gains (loss) of \$(29,515) thousand and \$2,388 thousand, respectively, arising from the sale of available-for-sale financial assets, which decreased other stockholders' equity.

- 8) Financial risk

1. Market risk

The equity securities held by the Consolidated Company were measured at fair value. As these assets are measured at fair value, the Company has risk exposure related to changes in fair value in an equity securities market.

The derivative financial instruments held by the Consolidated Company were measured at fair value. Therefore, the Consolidated Company has risk exposure related to changes in market value of fuels, interest rates, and exchange rates.

2. Credit risk

Credit risk is the risk that the counter-party will be unable to fulfill the contractual duty. When derivative commodities become profitable, credit risk is increased. The primary potential credit risk is from financial instruments such as accounts receivable, financial assets at fair value through profit or loss, and available-for-sale financial assets. Before trading, the Consolidated Company evaluates the trading parties' credit condition, and evaluates their credit condition on an ongoing basis during the course of trading. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments.

3. Liquidity risk

As the capital and working capital of the Consolidated Company are sufficient to fulfill all contractual obligations, there is no liquidity risk of being unable to fulfill contractual obligations.

Financial assets held by the Consolidated Company can be readily sold at a price near fair value. Derivatives can also be executed or rescinded and sold at quoted prices. Therefore, there is no significant liquidity risk from these transactions.

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## 4. Cash flow risk arising from interest rate change

Short-term and long-term loans and bonds payable of the Consolidated Company were floating-rate liabilities. Therefore, cash flow of the Consolidated Company will change along with the market rate.

The Consolidated Company uses interest rate swap contracts to hedge cash flow risk arising from changes in interest rates.

## 9) Disclosure of risk control and hedge tactic

## 1. Risk control

For personnel engaged in financial instruments, the Consolidated Company should demarcate the limits of their functions and powers. Managers can assign personnel from different departments in charge of measurement, monitoring, and control of risk.

## 2. Hedge tactic

The Consolidated Company framed a policy on acquiring or disposing of derivatives. The Consolidated Company holds derivatives for hedging purposes, including economic hedge (without hedge accounting) and accounting hedge (using hedge accounting).

Although the Company has more US dollar revenue than expense, it uses loans denominated in US dollars to decrease the exchange rate risk. The Company also uses exchange rate options to minimize the exchange rate risk.

The Consolidated Company has or issues floating rate liabilities, and any change in interest rate causes cash flow risk. The Consolidated Company evaluates the risk as high, so it uses interest rate exchange contracts as a hedge.

Because the price of oil has a significant effect on operating cost, the Consolidated Company signed oil swap contracts and options to decrease operating cost and risk.

**(27) Transactions with Related Parties**

## 1) Name and relationship

Name	Relationship
Shih Lin Paper Co., Ltd. (SLPC)	The vice-president of SLPC is the chairman of the Company.
Asia Pacific Container Terminal Inc. (APCT)	A director of APCT is a second-degree relative of the chairman of the Company.
New World Container Service Corporation (NWCS)	A director of NWCS is the chairman of the Company.
Universal Checker Co., LTD. (UC)	The president of UC is one of the directors of the Company.
Express Container Terminal Corp. (ECTC)	The vice-president of ESTC is one of the directors of the Company.
Lin Associates Law Firm	A senior partner of the law firm is one of the directors of the Company.

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Name	Relationship
New Sincere Transportation Corp. (NSTC)	A director of NSTC is one of the directors of the Company.
New Safety Transportation Corp. (NSaTC)	A director of NSaTC is one of the directors of the Company.
An Chun Tally Co., Ltd. (ACTC)	A director of ACTC is one of the directors of the Company.
Taipei Port Container Terminal Corp. (Taipei Port)	The Company is a director of Taipei Port.
Taian Insurance Co., Ltd. (TIC)	The chairman of TIC is a second-degree relative of one of the directors of the Company.
Wan Chun International Co. (WCIC)	Subsidiary of ECTC
Apezgo Digital Information Co., Ltd. (Apezgo Digital)	Subsidiary of APTC (beginning August 1, 2009).
Wan Hai Lines (Japan) Ltd. (WHL-Japan)	A director of WHL-Japan is the chairman of the Company.
Wan Hai Lines (UAE) LLC. (WHL-UAE)	Joint venture of WHL-INTL.
Hyaline Shipping (HK) Co., Ltd. (Hyaline (HK))	A director of Hyaline (HK) is the chairman of the Company.
Dawin Eastern Transportation Limited (Dawin Eastern)	A director of Dawin Eastern is one of the directors of the Company.
Interasia Lines Ltd. (IAL)	A director of IAL is a director of the Company.
Interasia Lines Singapore Ltd. (IAL (S))	A director of IAL (S) is a director of the Company.

## 2) Significant transactions with related parties

- For the six-month periods ended June 30, 2010 and 2009, services rendered to related parties were as follows:

	2010		2009	
	Amount	Percentage of operating revenue	Amount	Percentage of operating revenue
SLPC	\$ 36,281	0.12	30,739	0.14
APCT	1,645	0.01	1,684	0.01
ECTC	3	-	-	-
NSaTC	132	-	126	-
Taipei Port	-	-	1,003	-
IAL	210,692	0.68	226,579	1.01
IAL (S)	<u>1,301</u>	<u>-</u>	<u>46,938</u>	<u>0.21</u>
	<u>\$ 250,054</u>	<u>0.81</u>	<u>307,069</u>	<u>1.37</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

The above transactions were mainly generated by rendering ocean transportation services and consulting service to related parties. The payment terms included prepaid and collected, and there were no differences between related and nonrelated parties.

2. For the six-month periods ended June 30, 2010 and 2009, services rendered by related parties were as follows:

	2010		2009	
	Amount	Percentage of operating cost	Amount	Percentage of operating cost
ECTC	\$ 30,904	0.12	28,887	0.13
NSTC	265,098	1.06	249,087	1.13
NSaTC	101,012	0.41	81,087	0.37
WCIC	76,037	0.30	73,786	0.33
APCT	133,412	0.53	131,610	0.60
Taipei port	52,214	0.21	11,409	0.05
TIC	10,485	0.04	12,580	0.06
UC	30,337	0.12	33,276	0.15
ACTC	44,317	0.18	492	-
NWCS	43,327	0.17	36,787	0.17
Lin Associates Law Firm	-	-	1,430	0.01
WHL-UAE	13,777	0.05	12,039	0.06
WHL-Japan	103,518	0.42	108,863	0.49
IAL	343	-	341	-
IAL (S)	35,734	0.14	15,969	0.07
Apezgo Digital	9,298	0.04	-	-
Hyaline (HK)	<u>199,950</u>	<u>0.80</u>	<u>173,721</u>	<u>0.79</u>
	<u>\$ 1,149,763</u>	<u>4.59</u>	<u>971,364</u>	<u>4.41</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

3. As of June 30, 2010 and 2009, balances due to and due from related parties and guarantees were as follows:

	June 30, 2010		June 30, 2009	
	Amount	%	Amount	%
Accounts receivable				
SLPC	\$ 5,513	0.19	7,848	0.51
IAL	11	-	3,197	0.21
IAL (S)	-	-	9,711	0.64
Hyaline (HK)	14	-	-	-
	<u>\$ 5,538</u>	<u>0.19</u>	<u>20,756</u>	<u>1.36</u>
Receivables from agents				
WHL-UAE	\$ 4,312	0.30	-	-
WHL-Japan	761,627	53.37	313,282	55.38
	<u>\$ 765,939</u>	<u>53.67</u>	<u>313,282</u>	<u>55.38</u>
Payables to agents				
WHL-UAE	\$ -	-	11,558	29.02
Payables to related parties				
WCIC	\$ 13,165	0.22	13,224	0.32
ECTC	11,297	0.19	10,325	0.25
APCT	21,424	0.35	23,574	0.56
NSTC	95,763	1.56	87,240	2.08
NSaTC	39,919	0.65	29,303	0.70
Taipei port	8,013	0.13	11,980	0.29
TIC	2,358	0.04	-	-
UC	5,381	0.09	5,130	0.12
ACTC	7,992	0.13	79	-
NWCS	8,756	0.14	6,297	0.15
Apezgo Digital	2,587	0.04	-	-
Hyaline (HK)	88,907	1.45	154,270	3.69
	<u>\$ 305,562</u>	<u>4.99</u>	<u>341,422</u>	<u>8.16</u>

4. Leasehold contracts

For the six-month periods ended June 30, 2010 and 2009, the Consolidated Company rented part of the Kaohsiung Port to APCT (the rental was collected by wire transfer). For the six-month periods ended June 30, 2010 and 2009, rental for dock space under the operating lease contract with APCT amounted to \$1,645 thousand and \$1,684 thousand, respectively. There was no significant difference in payment terms between related parties and other companies.

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

**(28) Pledged Assets**

As of June 30, 2010 and 2009, pledged assets were as follows:

Pledged Assets	Objective	Book Value	
		2010	2009
Time deposits (recorded in restricted assets)	Registration of container storage and trucks lease contract	\$ 306	306
Time deposits (recorded in refundable deposits)	Refundable deposits of harbor bureau, lease contract for wharf and lawsuit	133,174	157,717
Terminal equipment	Long-term loans	886,550	107,700
Containers	Long-term loans	2,258,682	3,035,611
Vessels	Long-term loans	16,631,040	15,840,251
Buildings	Long-term loans	20,231	21,327
Total		<u>\$ 19,929,983</u>	<u>19,162,912</u>

**(29) Commitments and Contingencies**

The Consolidated Company's significant commitments and contingent liabilities on June 30, 2010, are summarized as follows:

- 1) The operating lease contracts for vessels have maturity periods through 2014. The estimated annual future lease payments are as follows:

Year	Amount
July 1, 2010~December 31, 2010	\$ 1,152,109
2011	1,450,877
2012	1,303,707
2013	1,099,363
2014 and after	1,617,092
	<u>\$ 6,623,148</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

- 2) The operating lease contracts for office space have maturity periods through 2014. As of June 30, 2010, payment of lease deposits amounted to \$25,566 thousand and was recorded in refundable deposits. The estimated annual future lease payments are as follows:

Year	Amount
July 1, 2010~December 31, 2010	\$ 42,417
2011	82,072
2012	40,470
2013	33,543
2014 and after	<u>39,023</u>
	<u><u>\$ 237,525</u></u>

- 3) The Consolidated Company rents wharf container storage space for container discharge, storage, and transit operations in Taichung, Japan and Kaohsiung. The construction of a warehouse and container shed was done under the name of the Keelung Customs Bureau (KCB), and the construction payment could be seen as rent prepayment. The usage years are thirty years beginning upon the completion of KCB's inspection. This procedure was recorded under leased assets. As of June 30, 2010, the lease deposits amounting to \$118,200 thousand were recorded in refundable deposits. The estimated annual future lease payments are as follows:

Year	Amount
July 1, 2010~December 31, 2010	\$ 319,785
2011	639,564
2012	639,564
2013	639,564
2014 and after	<u>6,972,235</u>
	<u><u>\$ 9,210,712</u></u>

- 4) Significant contracts

1. Agency contracts

The shipping routes of the Consolidated Company cover Northeast Asia, Southeast Asia, India, Pakistan, China, America and Europe, where the Consolidated Company has general agents. The general agents in different harbors are responsible for paying the fees of the Consolidated Company, such as inbound and outbound expenses. The Consolidated Company pays commissions to the general agents. The Consolidated Company also operates inbound and outbound transportation in Taiwan for other shipping companies, and the Consolidated Company receives commissions thereon.

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**WAN HAI LINES LTD.****Notes to Consolidated Financial Statements**

## 2. Contract for port rental

To increase the quality of service and to decrease the cost of operations, the Consolidated Company entered into a contract to lease a wharf in Japan in March 2003 and renewed it in April 2008. The lease period is from March 2003 to March 2023. As of June 30, 2010, payment of lease deposit amounted to ¥253,625,000 (\$73,135 thousand) and was recorded in refundable deposits

The Consolidated Company rented the W29 to W32 stacking yards in February 2006, and the rental period is for 30 years beginning on the date of completion of inspection.

## 3. Contract for purchasing vessels

The Consolidated Company entered into a vessel contract with CSBC Corporation, Taiwan, in June 2007 to purchase 6 vessels. The total contract price amounted to USD397,620 thousand. As of June 30, 2010, the amount paid was \$1,306,261 thousand (recorded as prepayments for equipment).

The Consolidated Company entered into vessel contract with CSBC Corporation, Taiwan, in December 2007 to purchase 6 vessels. The total contract price amounted to USD218,309 thousand. As of June 30, 2010, the amount paid was \$708,993 thousand (recorded in prepayments for equipment).

The Consolidated Company initially entered into contracts for 12 vessels with CSBC Corporation, Taiwan. The contracts were modified to 14 contracts with additional payments amounting to USD23,500 thousand. The total contract amount was USD639,429 thousand, and the vessels were scheduled for delivery in the second quarter of 2012.

## 5) Litigation

1. In the case of the Keelung Customs Office under the Ministry of Finance requiring the Consolidated Company to pay additional import goods tariff of \$31,207 thousand and interest during the period, the Taipei High Administrative Court ruled against the Consolidated Company. The Consolidated Company has applied for constitutional interpretation.
2. According to the court ruling in favor of Cathay United Bank regarding the return of property, the Consolidated Company has to pay \$112 thousand to Cathay United Bank each month starting from March 24, 2008, until the return date. The Consolidated Company filed an appeal for another trial.
3. The Company had filed charges against NSaTC and Chi-hsin Tally Co. and claimed for damages amounting to \$42,684 thousand. The first trial was in process in the Taipei District Court, but the parties were planning to reach a settlement.
4. Fireman's Fund Insurance Company, Chartis Taiwan Insurance Co., Ltd., Zurich Insurance Ltd., Chun Kuo Insurance Company Limited, Taiwan Fire & Marine Insurance Co., Ltd., and Mitsui Sumitomo Insurance Group Holding Inc. had requested the Company to pay damages of approximately \$29,477 thousand. The related trials remained ongoing as of June 30, 2010.

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## (30) Others

- 1) For the six-month periods ended June 30, 2010 and 2009, payroll and depreciation (except lease assets), and amortization expenses of the Consolidated Company, summarized by function, were as follows:

Nature	Function	2010			2009		
		Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Payroll							
Salaries		123,253	566,908	690,161	117,126	589,427	706,553
Insurance		9,145	24,314	33,459	7,892	46,237	54,129
Pension		35,163	42,871	78,034	34,664	37,923	72,587
Other payroll		-	33,443	33,443	-	25,480	25,480
Depreciation		2,275,873	40,718	2,316,591	2,480,666	46,179	2,526,845
Amortization		40,474	1,703	42,177	34,292	4,136	38,428

- 2) Reclassification

To conform to the presentation adopted for the financial statements as of and for the six-month period ended June 30, 2010, certain items of the financial statements as of and for the six-month period ended June 30, 2009, have been reclassified. The reclassification does not have significant effect on the presentation of the financial statements.

## (31) Additional Disclosures

- 1) Related information on material transactions:

1. Financing provided:

No	Lender	Counterparty	Financial statement account	Maximum balance of the period	Ending balance (note 4)	Interest rate	Nature of financing	Related transaction amount to the counterparty	Reasons for short-term financing	Allowance for bad debt	Guarantee		Limits of financing amount for individual counterparty (note3)	Limit of total financing amount to others (note 3)
											Name	Value		
0	The Company	WHL-Singapore	Other receivables – related parties	4,028,125	3,711,970	1.499	Note 1	-	Note 2	-	Promissory note	4,804,500	11,211,390	11,211,390
0	The Company	WHL-Hongkong	Other receivables – related parties	400,104	225,946	1.213	Note 1	-	Note 2	-	Promissory note	954,570	11,211,390	11,211,390

Note 1: Short-term financing.

Note 2: Repayments for loans and payments for equipments.

Note 3: Financing amount shall not exceed 40 percent of the Company's net worth and the following:

- (1) Maximum amount of financing for single borrower who has business with the Company cannot exceed the total transaction amount of the current year.
- (2) Maximum amount of financing for short-term borrower cannot exceed the lower of 20 percent of the Company's net worth or 40 percent of borrower's net worth.
- (3) The restriction in item (1) and (2) above shall not apply to inter-company loans of funds between foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares, and between the Company and subsidiaries.

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## 2. Endorsement / guarantee provided:

No	Guarantor	Guarantee		Limit of endorsement amount for a single company (note 2)	Highest endorsement balance of the period	Ending endorsement balance of the period	Amount guaranteed by the Company's assets	Percentage of accumulated endorsement amount to the net worth on the latest financial statements	Limit of total endorsement amount (note 2)
		Name	Relationship						
0	The Company	WHL-Singapore	Note 1	56,056,952	29,581,382	26,082,057	-	93.06 %	56,056,952
0	The Company	WHL-Hongkong	Note 1	56,056,952	904,400	904,400	-	3.23 %	56,056,952
0	The Company	TK	Note 1	56,056,952	529,300	484,300	Note 3	1.73 %	56,056,952

Note 1: A subsidiary in which the Company directly holds more than 50 percent of its voting shares. Eliminated in the consolidated financial statements.

Note 2: According to the Company's "Policy and Procedures for Guarantee and Endorsement", the maximum endorsement / guarantee amount cannot exceed 200% of the Company's common stock while the maximum endorsement / guarantee amount for a single company cannot exceed 40% of the Company's common stock. This limit does not apply to subsidiaries. The total maximum endorsement / guarantee cannot exceed 250% of the Company's common stock, while the maximum endorsement / guarantee amount for a single company cannot exceed 50% of the Company's common stock.

Note 3: The Company provided guarantee for TK's bank loan of \$484,300 thousand and had received a promissory note for that amount as of June 30, 2010.

## 3. Marketable securities held as of June 30, 2010:

Unit: thousand shares / units

Name of holder	Category and name of security	Relationship	Financial statement account	June 30, 2010				Remarks
				Shares / units (thousand)	Book value	Percentage of ownership (%)	Market value	
The Company	Domestic listed stocks:							
	Formosa Plastics Corporation	-	Available-for-sale financial assets — current	860	58,460	-	58,460	
	Nan Ya Plastics Corporation	-	"	1,578	81,606	-	81,606	
	Formosa Chemicals & Fiber Corporation	-	"	721	53,426	-	53,426	
	Teco Electric & Machinery Co., Ltd.	-	"	2	28	-	28	
	China Steel Corporation	-	"	2,260	67,343	-	67,343	
	Delta Electronics, Inc.	-	"	714	73,934	-	73,934	
	Hon Hai Precision Ind. Co., Ltd.	-	"	460	52,466	-	52,466	
	ASUSTEK Computer Inc.	-	"	88	21,178	-	21,178	
	Chunghwa Telecom Co., Ltd.	-	"	3,090	197,450	-	197,450	
	Transcend Information, Inc.	-	"	89	7,628	-	7,628	
	Amtran Technology Co., Ltd.	-	"	914	26,556	-	26,556	
	Yang Ming Marine Transport Corp.	-	"	18,342	301,723	-	301,723	

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship	Financial statement account	June 30, 2010				Remarks
				Shares / units (thousand)	Book value	Percentage of ownership (%)	Market value	
The Company	China Airlines Ltd.	-	Available-for-sale financial assets—current	20,124	332,044	-	332,044	
	Chinese Maritime Transport Ltd.	-	"	565	40,454	-	40,454	
	Mega Financial Holding Co., Ltd.	-	"	7,600	131,480	-	131,480	
	Taishin Financial Holding Co., Ltd.	-	"	10,782	134,776	-	134,776	
	First Financial Holding Co., Ltd.	-	"	3,192	56,975	-	56,975	
	Taiwan Mobile Co., Ltd.	-	"	604	39,683	-	39,683	
	Kinsus Interconnect Technology Corp.	-	"	629	39,163	-	39,163	
	Far EasTone Telecommunications Co., Ltd.	-	"	937	37,199	-	37,199	
	Pegatron Corporation	-	"	238	7,152	-	7,152	
	Shih Wei Navigation Co., Ltd.	-	"	982	41,896	-	41,896	
	Taiwan Cooperative Bank	-	"	3,820	74,486	-	74,486	
	Kenmec Mechanical Engineering Co., Ltd.	-	"	25	601	-	601	
	Formosa Petrochemical Corp	-	"	129	10,030	-	10,030	
	Total				<u>1,887,737</u>		<u>1,887,737</u>	
	Domestic equity funds:							
	Allianz Global Investors Global Eco Trends Fund	-	Available-for-sale financial assets—current	1,459	11,087	-	11,087	
	ING Global Biotech & Health Care Fund	-	"	1,000	7,340	-	7,340	
	Primasia Asia Pioneer Fund	-	"	3,000	18,780	-	18,780	
	NITC Taiwan Growth Fund	-	"	3,500	22,295	-	22,295	
	Hua Nan Global Agribusiness And Water Fund	-	"	2,000	14,160	-	14,160	

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship	Financial statement account	June 30, 2010				Remarks
				Shares / units (thousand)	Book value	Percentage of ownership (%)	Market value	
The Company	Jih Sun Anti-Global Warming Fund	-	Available-for-sale financial assets — current	2,000	14,620	-	14,620	
	ING Global Climate Change Fund	-	"	2,000	12,140	-	12,140	
	NITC Wonderful Fund	-	"	1,515	18,300	-	18,300	
	SKIT Global Top Dividend Fund	-	"	1,000	6,220	-	6,220	
	Total				<u>124,942</u>		<u>124,942</u>	
	Domestic balanced funds:							
	IBT Diamond Fund	-	Available-for-sale financial assets — current	870	11,583	-	11,583	
	SKIT ECB Balanced Fund	-	"	5,000	42,531	-	42,531	
	Total				<u>54,114</u>		<u>54,114</u>	
	Domestic bond funds:							
	Cathay Bond Fund	-	Available-for-sale financial assets — current	1,674	20,031	-	20,031	
	Prudential Financial Bond Fund	-	"	1,994	30,215	-	30,215	
	Mega Diamond Bond Fund	-	"	15,107	180,553	-	180,553	
	IBT 1699 Bond Fund	-	"	776	10,022	-	10,022	
	Bond Fund	-	"	18,463	233,125	-	233,125	
	Jih Sun Bond Fund	-	"	10,631	150,300	-	150,300	
	Prudential Financial Return Fund	-	"	1,488	22,068	-	22,068	
	Total				<u>646,314</u>		<u>646,314</u>	
	Foreign equity funds:							
	KBC Alaternative Energy Fund	-	Available-for-sale financial assets — current	4	<u>36,707</u>	-	<u>36,707</u>	
	Total				<u>2,749,814</u>		<u>2,749,814</u>	

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship	Financial statement account	June 30, 2010				Remarks
				Shares / units (thousand)	Book value	Percentage of ownership (%)	Market value	
The Company	Domestic listed stocks:							
	Shin Lin Paper Co., Ltd.	The vice-president of SLPC is the chairman of the Company	Available-for-sale financial assets – non-current	5,419	<u>334,900</u>	-	<u>334,900</u>	
	Stocks:							
	Taipei Port Container Terminal Corp.	The Company's institutional director of Taipei Port	Financial assets at fair value through profit or loss – non-current	64,063	640,625	15.25	-	Note 1
	United Stevedoring Corporation	-	"	781	7,813	15.63	-	Note 1
	Bond:							
	Royal Bank of Scotland PLC	-	Bond portfolios with inactive market – non-current	-	<u>1,291,120</u>	-	<u>-</u>	Note 2
	Stock:							
	Wan Hai Lines (Singapore) Pte Ltd	Subsidiary	Long-term equity investments under equity method	273,496	8,401,510	100.00	8,401,510	Notes 4 and 5
	Wan Hai Lines (America) Ltd.	"	"	90	76,255	100.00	76,255	Notes 4 and 5
	k.k. WH Corporation	"	"	1	14,028	100.00	14,028	Notes 4 and 5
	Wan Hai Lines (Germany) GmbH	"	"	Note 3	5,365	100.00	5,365	Notes 4 and 5
	TK. Logistics International Co., Ltd.	"	"	14,300	141,755	55.00	141,755	Notes 4 and 5
	Bao Sheng Shipping Agency Co., Ltd.	"	"	3,000	32,949	70.01	32,949	Notes 4 and 5
					<u>8,671,862</u>		<u>8,671,862</u>	

Note 1: Invested in unlisted companies' stocks, and no market quoted price was available. Net worth was calculated using its market value.

Note 2: No quoted prices in active markets were available, and thus the investments were classified as bond portfolios with inactive market.

Note 3: A limited company – no shares were issued.

Note 4: Net worth was used as its market value.

Note 5: Eliminated in the consolidated financial statements.

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

4. Accumulated acquisition or disposal of individual marketable securities at costs or prices of at least NT\$100 million or 20% of the paid-in capital:

Unit: thousand dollars / thousand shares

Company name	Name of security	Financial statement account	Counterparty	Relationship	Beginning balance		Purchases		Sales			Ending balance		
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Disposal gain (loss)	Shares	Amount
The Company	Manulife Wan Li Bond Fund	Available-for-sale financial assets – current	-	-	7,616	100,000	-	-	7,616	100,759	100,000	759	-	-
	Polaris De-Li Fund	"	-	-	8,794	100,000	-	-	8,794	101,037	100,000	1,037	-	-

Note: Difference between purchasing cost and period-end balance was caused by amortization and exchange rate valuation.

5. Acquisition of individual real estate at cost of at least NT\$100 million or 20% of the paid-in capital: None.
6. Disposal of individual real estate at price of at least NT\$100 million or 20% of the paid-in capital: None.
7. Purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital:

Company name	Related party	Nature of relationship	Transaction details				Description and rational of trade terms different from regular transactions		Notes and accounts receivable (payable)		Remarks
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Payment terms (day)	Unit price	Payment terms	Ending balance of notes and accounts receivable (payable)	Percentage of total notes and accounts receivable (payable)	
The Company	WHL-Singapore	Subsidiary	Rent income, commission revenue	(495,714)	(1.69) %	30 days	-	-	116,552	(8.69) %	Note 2
	IAL	A director of IAL is a director of the Company	Container rental revenue	(210,692)	(0.72) %	"	-	-	11	- %	
	APCT	A director of APCT is a second-degree relative of the chairman of the Company.	Container fee, service charge, terminal handling charge	133,412	0.56 %	"	-	-	(21,424)	(0.39) %	
	NSTC	A director of NSTC is one of the directors of the Company	Container fee, tow charge, terminal handling charge	265,098	1.12 %	"	-	-	(95,763)	(1.74) %	
	NSaTC	A director of NSaTC is one of the directors of the Company.	Container fee, tow charge, terminal handling charge	101,012	0.43 %	"	-	-	(39,919)	(0.73) %	
	k.k.WH Corporation	Subsidiary	Terminal port charges, rent expense	1,732,307	7.30 %	"	-	-	930	0.03 %	Note 2
	WHL-Hongkong	Subsidiary of WHL-Singapore	Commission fee	233,972	0.99 %	"	-	-	-	- %	Notes 1 and 2

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Company name	Related party	Nature of relationship	Transaction details				Description and rational of trade terms different from regular transactions		Notes and accounts receivable (payable)		Remarks
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Payment terms (day)	Unit price	Payment terms	Ending balance of notes and accounts receivable (payable)	Percentage of total notes and accounts receivable (payable)	
The Company	WHL-Japan	A director of WHL-Japan is the chairman of the Company	Commission fee	103,518	0.44 %	"	-	-	761,627	22.84 %	

Note: Including notes receivable / payable, accounts payable – related parties and receivables / payables from/to agents.

Note 1: Including commission expenses to Shanghai Clipper International shipping Agency Ltd. and Shenzhen Uniwin International Logistics made through WHL-HongKong.

Note 2: Eliminated in the consolidated financial statements.

8. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital:

Company name	Name of counterparty	Nature of relationship	Ending balance of receivables from related parties	Turnover rate (times)	Balance of overdue accounts receivables		Collection in subsequent period	Allowance for bad debt
					Amount	Alleviated action		
The Company	WHL-Hongkong (SCSA)	Subsidiary of Dawin (note 1)	821,842	-	-		620,574 (as of August 20, 2010)	-
	WHL-Japan	A director of WHL-Japan is the chairman of the Company	761,627	-	-		749,309 (as of August 20, 2010)	-
	WHL-Singapore	Subsidiary	116,552	-	-		116,552 (as of August 20, 2010)	-
	WHL-Hongkong (SUIL)	Subsidiary of Dawin (note 1)	836,595	-	-		131,323 (as of August 20, 2010)	-
	WHL-Singapore	Subsidiary	3,715,982	-	-		2,180,362 (as of August 20, 2010)	-
	WHL-Hongkong	Subsidiary of WHL-Singapore (note 1)	226,171	-	-		225 (as of August 20, 2010)	-

Note 1: Eliminated in the consolidated financial statements.

9. Derivative financial instruments: the detailed information regarding derivative financial instruments is stated in note 25.

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## 2) Related information on investee companies:

## 1. Name of, location of, and related information on investees:

Unit: thousand dollars / thousand shares

Investor company	Investee company	Location	Main businesses and products	Initial investment amount		Balance as of June 30, 2010			Net income (loss) of the investee	Investment gain (loss)	Remarks
				June 30, 2010	June 30, 2009	Shares (thousand)	Percentage of ownership (%)	Book value			
The Company	Wan Hai Lines (Singapore) Pte. Ltd.	10 Hoe Chiang Road #25-01 Keppel Towers Singapore 089315	Transportation and shipping agencies service, vessels and containers rental service and international transportation and shipping agencies services	1,956,935	1,956,935	273,496	100.00%	8,401,510	(1,491,282)	(1,491,282)	Subsidiary (Note 3)
	Wan Hai Lines (America) Ltd.	2510 W. Dunlap Ave Ste 425 Phoenix AZ 85021	Transportation and shipping agencies services	132,000	132,000	90	100.00%	76,255	12,197	12,197	Subsidiary (Note 3)
	k.k. WH Corporation	OI NEW No.5 TERMINAL BLDG., 4F 4-9. YASHIO2 CHOME, SHINAGAWA-KU, TOKYO 140-0003, JAPAN	Terminal operation and management service and vessels rental service	7,141	7,141	1	100.00%	14,028	(110)	(110)	Subsidiary (Note 3)
	Wan Hai Lines (Germany) GmbH	Brandstwiete 1, 20457 Hamburg, Germany	Transportation and shipping agencies services	1,018	1,018	Note 1	100.00%	5,365	1,130	1,130	Subsidiary (Note 3)
	T.K. Logistics International Co., Ltd.	No. 28, Zhongshan 4th Rd., Zhongshan Dist., Keelung City 203, Taiwan (R.O.C.)	Managing container terminals and storage facilities	143,000	143,000	143,000	55.00%	141,755	15,103	8,307	Subsidiary (Note 3)
	Bao Sheng Shipping Agency Co., Ltd.	7F, No. 255, Ren'ai 2nd Rd., Ren'ai District, Keelung City 200, Taiwan (R.O.C.)	Maritime transportation and shipping agencies services	30,000	-	3,000	70.01%	32,949	4,213	3,791	Subsidiary (Note 3)
	Wan Hai Lines (Philis.) Inc.	11/F PBCOM Tower 6795 Ayala Avenue cor VA Ruffino Sts. Makati City 1226 Philippines	Transportation and shipping agencies services	5,991 (PHP9,015)	5,991 (PHP9,015)	902	100.00%	9,125	5,009	5,009	Indirect subsidiary (Note 3)
	Wan Hai Lines (HK) Limited	3F, Singga Commercial Centre No. 148 Connaught Rd W conteral, Hong Kong	Transportation and shipping agencies services	62,859 (HKD15,000)	62,859 (HKD15,000)	160,000	100.00%	1,874,073	194,460	194,460	Indirect subsidiary (Note 3)
	Wan Hai Lines (M) Sdn. Bhd.	SUITE 7.02, LEVEL 7, IMS 2, 88, JALAN BATAI LAUT4, TAMAN INTAN, 41300 KLANG, SELANGOR DARUL EHSAN, MALAYSIA	Transportation and shipping agencies services	4,613 (MYR500)	4,613 (MYR500)	500	100.00%	145,132	5,435	5,435	Indirect Subsidiary (Note 3)
	Yi Chun Shipping Agencies Sdn. Bhd.	SUITE 7.01, LEVEL 7, IMS 2, 88, JALAN BATAI LAUT4, TAMAN INTAN, 41300 KLANG, SELANGOR DARUL EHSAN, MALAYSIA	Transportation and shipping agencies services	1,845 (MYR200)	1,845 (MYR200)	200	100.00%	2,068	8	8	Indirect subsidiary (Note 3)

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Investor company	Investee company	Location	Main businesses and products	Initial investment amount		Balance as of June 30, 2010			Net income (loss) of the investee	Investment gain (loss)	Remarks
				June 30, 2010	June 30, 2009	Shares (thousand)	Percentage of ownership (%)	Book value			
The Company	Wan Hai Lines (Korea) Ltd.	15th FL., Hanway bldg., 70, Da-Dong, Chung-Gu, Seoul, Korea	Transportation and shipping agencies services	3,500 (KRW100,000)	3,500 (KRW100,000)	20	100.00%	1,113	3,817	3,817	Indirect subsidiary (Note 3)
WHL-Singapore	Wan Hai International Pte Ltd.	10 Hoe Chiang Road #25-01 Keepel Towers Singapore 089315	Transportation and shipping agencies service	1,062 (SGD50)	1,062 (SGD50)	50	100.00%	192,861	41,332	41,332	Indirect subsidiary (Note 3)
	Wan Hai Lines (Thailand) Limited	21 floor, Lumpini Tower, 1168/56, 61 rama 4 Road, Thungmahamek, Sathorn, Bangkok	Transportation and shipping agencies services	2,251 (THB2,450)	2,251 (THB2,450)	25	49.00%	18,344	709	348	Indirect subsidiary (Note 3)
WHL-INTL.	Wan Hai Lines (UAE) LLC.	Office No. C/308, Nashwan Building, AI Mankhool Road, AI Raffa Dubai	Transportation and shipping agencies services	1,365 (AED147)	1,365 (AED147)	Note 2	49.00%	10,175	16,440	8,055	Invested by indirect subsidiary
	Wan Hai Lines (India) PVT Ltd.	01, Ground Floor, Bombay Dyeing & Mfg Co. Ltd Admn. Offices Building, Pandurang Budhkar Marg, Worli Mumbai 400 025	Transportation and shipping agencies services	68 (INR100)	68 (INR100)	10	100.00%	22,428	4,884	4,884	Invested by indirect subsidiary (Note 3)
WHL-Hongkong	Dawin Logistics (International) Ltd.	2F, Singga Commercial Centre, No. 148, Connaught Rd. W, Hong Kong	Transportation, storage and investment services	25,006 (HKD1,920)	25,006 (HKD1,920)	1,920	100.00%	180,711	50,682	50,682	Invested by indirect subsidiary (Note 3)
	Guangzhou Wan Hai I.T. and Network Ltd.	35F, China Telecomm Building, No. 18, Zhonghan Second Rd., Dongshan District, Guangzhou, China	Information software services	7,922 (RMB2,125)	7,922 (RMB2,125)	-	100.00%	9,779	(861)	(861)	Indirect subsidiary (Note 3)
Dawin Logistics (International) Ltd.	Shenzhen Asia World Logistics Ltd.	Rm 505, 5F, China Rail Transportation Building, Shen Yen Rd., Yen Tim District, Shenzhen, China	Containers, storage and transportation services	4,941 (RMB1,060)	39,865 (RMB9,832)	-	100.00%	11,097	522	522	Indirect subsidiary (Note 3)
	Shenzhen Uniwin International Logistics Ltd.	25F, Tim Meng City Building, Shen Nan Chong Rd., Shenzhen, China	Transportation and shipping agencies sales	63,102 (RMB15,505)	63,102 (RMB15,505)	-	90.00%	267,728	44,033	39,630	Indirect subsidiary (Note 3)
	Blue Ocean Logistics (Shanghai) Ltd.	Rm 802C, No. 469 Wu Song Rd, Hong Kon District, Shanghai, China	Storage and international transportation services	32,596 (RMB7,824)	32,596 (RMB7,824)	-	100.00%	40,011	2,199	2,199	Indirect subsidiary (Note 3)
Shenzhen Uniwin International Logistics Ltd.	Shanghai Clipper International Shipping Agency Ltd.	Rm 2205, 22F, No. 689, Guang Dong Rd, Shanghai, China.	International shipping agencies services	8,319 (RMB1,892)	1,868 (RMB459)	-	90.00%	22,792	7,496	6,670	Indirect subsidiary (Note 3)

Note 1: Limited companies with no common shares issued.

Note 2: 147 shares.

Note 3: Eliminated in the consolidated financial statements.

## 2. Financing to others: None.

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## 3. Endorsement / guarantee provided:

No.	Guarantor	Guarantee		Limit of endorsement amount for a single company	Highest endorsement balance of the period	Ending endorsement balance of the period	Amount guaranteed by the Company's assets	Ratio of accumulated endorsement amount to the net worth on the most recent financial statements	Limit of total endorsement amount
		Name	Relationship						
1	WHL-Singapore	The Company	Note 1	15,043,062	2,500,000	2,500,000	-	8.92 %	15,043,062

Note 1: The Company is the parent company of the guarantor in which the Company directly or indirectly owns more than 50 percents of the voting shares.

Note 2: According to the Company's "Policy and Procedures for Guarantee and Endorsement", the maximum endorsement / guarantee amount cannot exceed 200% of the Company's common stock while the maximum endorsement / guarantee amount for a single company cannot exceed 40% of the Company's common stock.

This limit does not apply to the subsidiaries. The total maximum endorsement / guarantee cannot exceed 250% of the Company's common stock, while the maximum endorsement / guarantee amount for a single company cannot exceed 50% of the Company's common stock.

Note 3: Eliminated in the consolidated financial statements.

## 4. Marketable securities held as of June 30, 2010:

Unit: thousand dollars

Name of holder	Category and name of security	Relationship	Financial statement account	Balance as of June 30, 2010				Remarks
				Shares (thousand)	Book value	Percentage of ownership (%)	Market value	
WHL-Singapore	Stock:							
	Wan Hai Lines (Phils.), Inc.	Subsidiary of WHL-Singapore	Long-term equity investment under equity method	902	9,125	100.00	9,125	Notes 1 and 3
	Wan Hai Lines (H K) Limited	"	"	160,000	1,874,073	100.00	1,874,073	Notes 1 and 3
	Wan Hai Lines (M) Sdn. Bhd.	"	"	500	145,132	100.00	145,132	Notes 1 and 3
	Yi Chun Shipping Agencies Sdn. Bhd.	"	"	200	2,068	100.00	2,068	Notes 1 and 3
	Wan Hai Lines (Korea) Ltd.	"	"	20	1,113	100.00	1,113	Notes 1 and 3
	Wan Hai International Pte Ltd	"	"	50	192,861	100.00	192,861	Notes 1 and 3
WHL-INTL.	Wan Hai Lines (UAE) LLC.	Joint venture of WHL-INTL.	"	Note 2	10,175	49.00	10,175	Note 1
	Wan Hai Lines (India) PVT Ltd.	Subsidiary of WHL-INTL.	"	10	22,428	100.00	22,428	Notes 1 and 3
WHL-Hongkong	Dawin Logistics (International) Ltd.	Subsidiary of WHL-Hongkong	"	1,920	180,711	100.00	180,711	Notes 1 and 3
	Yangtze River Express Network Ltd.	"	Financial assets measured at cost	-	-	6.00	-	Note 1

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Name of holder	Category and name of security	Relationship	Financial statement account	Balance as of June 30, 2010				Remarks
				Shares (thousand)	Book value	Percentage of ownership (%)	Market value	
WHL-Hongkong	Guangzhou Wan Hai I.T. and Network Ltd.	Subsidiary of WHL-Hongkong	Long-term equity investment under equity method	-	9,779	100.00	9,779	Notes 1 and 3
Dawin Logistics (International) Ltd.	Shenzhen Asia World Logistics Ltd.	Subsidiary of Dawin	"	-	11,097	100.00	11,097	Notes 1 and 3
	Shenzhen Uniwin International Logistics Ltd.	"	"	-	267,728	90.00	267,728	Notes 1 and 3
	Blue Ocean Logistics (Shanghai) Ltd.	"	"	-	40,011	100.00	40,011	Notes 1 and 3
Shenzhen Uniwin International Logistics Ltd.	Shanghai Clipper International Shipping Agency Ltd.	Subsidiary of Shenzhen Uniwin	"	-	22,792	90.00	22,792	Notes 1 and 3

Note 1: Invested in unlisted companies, and no quoted prices in active markets were available. Thus, the net worth was used as its market value.

Note 2: 147 shares.

Note 3: Eliminated in the consolidated financial statements.

5. Accumulated acquisition or disposal of individual marketable securities at costs or prices of at least NT\$100 million or 20% of the paid-in capital: None.
6. Acquisition of individual real estate at costs of at least NT\$100 million or 20% of the paid-in capital: None.
7. Disposal of individual real estate at prices of at least NT\$100 million or 20% of paid-in capital: None.
8. Purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital:

Company name	Related party	Nature of relationship	Transaction details				Description and rational of trade terms different from regular transactions		Notes and accounts receivable (payable)		Remarks
			Purchases (sales)	Amount	Percentage of total purchases (sales) (%)	Payment terms (day)	Unit price	Payment terms	Ending balance of notes and accounts receivable (payable)	Percentage of total notes and accounts receivable (payable)	
WH Corporation	The Company	The ultimate parent company	Rent income, terminal port charges	1,732,307	100.00 %	30 days	-		(930)	(0.20) %	Notes 1 and 2
WH Corporation	WHL-Singapore	Subsidiaries	Rent expense	1,516,001	88.99 %		-		-	- %	Note 2
WHL-Singapore	The Company	The ultimate parent company	Rent expense, commission expense	495,714	10.74 %		-		(116,552)	(10.00)%	Note 2

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## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

Company name	Related party	Nature of relationship	Transaction details				Description and rational of trade terms different from regular transactions		Notes and accounts receivable (payable)		Remarks
			Purchases (sales)	Amount	Percentage of total purchases (sales) (%)	Payment terms (day)	Unit price	Payment terms	Ending balance of notes and accounts receivable (payable)	Percentage of total notes and accounts receivable (payable)	
WHL-Hongkong	The Company	The ultimate parent company	Commission revenue	(233,972)	(87.93)%		-		-	- %	

Note: Including notes receivable / payable, accounts payable—related parties and receivable / payable from / to agents.

Note 1: Including commission expenses with Shanghai Clipper International Shipping Agency Ltd. and Shenzhen Uniwin International Logistics paid through WHL-HongKong.

Note 2: Eliminated in the consolidated financial statements.

9. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.

10. Derivative financial instruments:

WHL-Singapore entered into a variety of derivative transactions for hedging purposes, including exchange rate options for exchange risk in foreign currencies of deposits and accounts receivable, interest rate swaps for interest rate risk of loans, and oil swap options for fluctuation of oil prices. As of June 30, 2010, outstanding derivatives were as follows:

	June 30, 2010		
	Nominal amount	Fair value Gain	Loss
Oil swap options	TWD <u>9,032,578</u>	TWD <u>-</u>	<u>47,326</u>
Exchange rate options	TWD <u>196,830</u>	TWD <u>2,997</u>	<u>-</u>
Interest rate swaps	TWD <u>13,944,096</u>	TWD <u>-</u>	<u>596,223</u>

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## 3) Information on investments in Mainland China:

## 1. Overview of investments:

Units: thousand dollars

Name of investee in Mainland China	Main businesses and products	Issued capital	Method of investment	Aggregate investment amount remitted from Taiwan at the beginning of the period	Amount remitted or returned in current period		Aggregate investment amount remitted from Taiwan at the end of the period	Percentage of direct or indirect ownership possessed by the Company (%)	Investment gain (loss)	Book value as of June 30, 2010	Amount of investment income remitted back to Taiwan at the end of the period
					Invested amount	Returned amount					
Guangzhou Wan Hai I.T. and Network Ltd.	Information software service	NTD 7,922 (RMB 2,125)	Indirectly invested in Mainland China through a Hongkong Company	NTD -	-	-	-	100.0 %	NTD (861) (RMB (184) (Notes 1 and 3))	NTD 9,779 (RMB 1,821)	-
Shenzhen Uniwin International Logistics	Freight transportation and acting as agent for transport affairs	NTD 63,102 (RMB 15,505)	Indirectly invested in Mainland China through a Hongkong Company	-	-	-	-	90.0 %	NTD 39,630 (RMB 8,494) (Notes 1 and 2)	NTD 267,728 (RMB 56,258)	-
Shenzhen Asia World Logistics Ltd.	Containers, storage and transportation services	NTD 4,941 (RMB 1,060)	Indirectly invested in Mainland China through a Hongkong Company	-	-	-	-	100.0 %	NTD 522 (RMB 112) (Notes 1 and 2)	NTD 11,097 (RMB 2,332)	-
Shanghai Clipper International Shipping Agency Ltd.	International shipping agencies services	NTD 4,070 (RMB 1,000)	Indirectly invested in Mainland China through a Hongkong Company	-	-	-	-	90.0 %	NTD 6,670 (HKD 1,609) (Notes 1 and 2)	NTD 22,792 (RMB 5,497)	-
Blue Ocean Logistics (Shanghai) Ltd.	Containers, storage and international transportation services	NTD 32,596 (RMB 7,824)	Indirectly invested in Mainland China through a Hongkong Company	-	-	-	-	100.0 %	NTD 2,199 (HKD 530) (Notes 1 and 2)	NTD 40,011 (HKD 9,650)	-
Yangtze River Express Network Ltd.	Air transportation services	NTD 2,086,400 (RMB 500,000)	Indirectly invested in Mainland China through a Hongkong Company	-	-	-	-	6.0 %	NTD - (RMB - )	NTD - (RMB - )	-

Note 1: Eliminated in the consolidated financial statements.

Note 2: Audited by the parent company's engaged auditors.

Note 3: Audited by other auditors.

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

## 2. Limitation on investments in Mainland China

Aggregate investment amount remitted from Taiwan to Mainland China at the end of the period	Investment amount approved by Investment Commission of Ministry of Economic Affairs	Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs
NTD - (HKD - )	NTD 429,855 (USD 13,172 )	16,817,086

Note 1: Most of the Company's investments in Mainland China are from local capital.

## 3. Major transactions

For the major transactions between the Company and the investee companies in Mainland China as of June 30, 2010, refer to Note 31(1) Related information on material transactions, and (2) Related information on investee companies.

## 4) Significant inter-company transactions between consolidated entities:

June 30, 2010

No. (note 1)	Company name	Name of counterparty	Relationship (note 2)	Transaction details			
				Financial statement account	Amount	Credit period (day)	Percentage of net sales or total assets (%)
0	The Company	Wan Hai Lines (Singapore) Pte Ltd	1	Receivables from agents	1,906,144	No significant differences	2.97
0	"	"	"	Notes receivable, account receivable	3,942,153	"	6.14
0	"	"	"	Shipping agency revenue	(498,780)	"	(1.60)
0	"	"	"	Shipping agency fee	406,567	"	1.31
0	"	"	"	-	26,986,457	Endorsement to subsidiary	42.01
1	Wan Hai Lines (Singapore) Pte. Ltd.	The Company	2	-	2,500,000	Endorsement to parent company	3.89
0	The Company	k.k. WH Corporation	1	Rent expense on vessel	1,579,381	Rent vessels from SG through kk	5.08
4	k.k. WH Corporation	Wan Hai Lines (Singapore) Pte. Ltd	3	Rent expense on vessel	1,581,735	"	5.08

(Continued)

## WAN HAI LINES LTD.

## Notes to Consolidated Financial Statements

June 30, 2009

No (note 1)	Company name	Name of counterparty	Relationship (note 2)	Transaction details			
				Financial statement account	Amount	Credit period (day)	Percentage of net sales or total assets (%)
0	The Company	Wan Hai Lines (Singapore) Pte Ltd	1	Other receivables	2,563,169	No significant differences	3.97
0	"	"	"	Rent expense on vessels	2,064,792	Rent vessels through First Marine Corporation- Japan	9.24
0	"	"	"	Shipping agency fee	615,821	No significant differences	2.76

Note 1: numbers denote the following:

- 1) 0 represents the Company.
- 2) Subsidiaries are listed by names and numbered starting with 1.

Note 2: relationship with the listed companies:

- 1) The Company to the subsidiary
- 2) Subsidiary to the Company
- 3) Subsidiary to subsidiary

Note 3: The disclosed amounts are above 1% of total assets for balance sheet accounts or 1% of total operating revenue for income statement accounts of the Consolidated Company.

**(32) Segment Information**

The Company operates in a single industry. Disclosure of segment information is not applicable.