

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006 AND 2005

AND

INDEPENDENT AUDITORS' REPORT

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Shih Wei Navigation Co., Ltd. and subsidiaries as of June 30, 2006 and 2005, and the related statements of income, changes in stockholders equity, and cash flows for the half-years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shih Wei Navigation Co., Ltd. and subsidiaries as of June 30, 2006 and 2005, and the results of their operations and their cash flows for the half-years then ended, in conformity with the "Standards Governing the Compilation of Financial Statements by Securities Issuers" and generally accepted accounting principles of the R.O.C.

August 14, 2006
Taipei, Taiwan, R.O.C.

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2006 AND 2005
(amounts expressed in thousands of New Taiwan dollars)

	June 30			
	2006		2005	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 4(1))	\$ 1,195,690	12	737,277	8
Financial assets at fair value through profit or loss – current (Note 4(2))	32,320	-	142,985	2
Accounts receivable, net	4,287	-	54,778	1
Other financial assets – current	41,740	-	54,911	1
Inventories	90,082	1	60,548	1
Deferred income tax asset – current (Note 4(9))	3,211	-	2,296	-
Restricted assets – current (Note 6)	-	-	15,522	-
Other current assets	40,294	-	28,007	-
	<u>1,407,624</u>	<u>13</u>	<u>1,096,324</u>	<u>13</u>
FUND AND INVESTMENTS				
Long-term investment – equity method (Note 4(3))	69,691	1	64,096	1
Held-to-maturity financial assets – noncurrent (Note 4(2))	3,000	-	3,000	-
Financial assets carried at cost – noncurrent (Note 4(2))	53,620	1	40,773	-
	<u>126,311</u>	<u>2</u>	<u>107,869</u>	<u>1</u>
PROPERTY AND EQUIPMENT (Notes 4(4), 5 and 6)				
Land	79,937	1	79,937	1
Buildings and structures	29,957	-	29,838	-
Transportation equipment	5,300	-	2,260	-
Vessel equipment	9,963,668	101	9,294,527	102
Office furniture and equipment	2,562	-	2,793	-
Leasehold improvements	3,290	-	5,419	-
Prepayments for business facilities	354,206	4	161,765	2
Other equipment	47,168	-	44,702	-
Less: Accumulated depreciation	(2,366,687)	(24)	(2,002,714)	(22)
	<u>8,119,401</u>	<u>82</u>	<u>7,618,527</u>	<u>83</u>
INTANGIBLE ASSETS				
Deferred pension cost	2,022	-	2,684	-
OTHER ASSETS				
Deposits-out	151,420	2	190,778	2
Deferred charges	104,699	1	112,765	1
	<u>256,119</u>	<u>3</u>	<u>303,543</u>	<u>3</u>
TOTAL ASSETS	<u>\$ 9,911,477</u>	<u>100</u>	<u>9,128,947</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Notes payable	\$ -	-	331	-
Accounts payable	65,005	1	61,129	1
Accrued tax payable (Note 4(9))	69,300	1	47,519	1
Accrued expenses	82,424	1	69,601	1
Current portion of long-term liabilities (Note 4(6))	526,336	5	650,501	7
Other current liabilities (Notes 4(8) and 5)	694,898	7	516,870	5
	<u>1,437,963</u>	<u>15</u>	<u>1,345,951</u>	<u>15</u>
LONG-TERM LIABILITIES				
Long-term loans (Note 4(6))	4,232,311	44	4,191,793	46
OTHER LIABILITIES				
Accrued pension liability (Note 4(5))	14,814	-	11,819	-
Deposits-in	70	-	170	-
Unrealized gain on sale and leaseback	-	-	109	-
	<u>14,884</u>	<u>-</u>	<u>12,098</u>	<u>-</u>
Total Liabilities	<u>5,685,158</u>	<u>59</u>	<u>5,549,842</u>	<u>61</u>
STOCKHOLDERS' EQUITY				
Capital stock				
Common stock (Note 4(7))	2,524,973	25	2,524,973	28
Stock dividend to be distributed (Note 4(8))	259,997	2	-	-
Capital surplus				
Capital surplus – additional paid-in capital	104,883	1	104,883	1
Capital surplus – convertible bonds converted in excess of the common stock's par value	68,110	1	68,110	1
Retained earnings (Note 4(8))				
Legal reserve	302,453	3	156,574	2
Special reserve	-	-	37,586	-
Unappropriated earnings	937,154	9	731,550	8
Cumulative translation adjustment	33,652	-	(42,804)	(1)
Unrecognized pension loss	(4,903)	-	(1,767)	-
Total Stockholders' Equity	<u>4,226,319</u>	<u>41</u>	<u>3,579,105</u>	<u>39</u>
COMMITMENTS AND CONTINGENCIES (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 9,911,477</u>	<u>100</u>	<u>9,128,947</u>	<u>100</u>

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE HALF-YEARS ENDED JUNE 30, 2006 AND 2005
(amounts expressed in thousands of New Taiwan dollars)

	January 1 ~ June 30			
	2006		2005	
	Amount	%	Amount	%
Operating revenue, net	\$ 1,622,804	100	1,703,337	100
Operating costs	975,007	60	904,453	53
Operating gross profit	647,797	40	798,884	47
Operating expenses	60,510	4	56,281	3
Operating income	587,287	36	742,603	44
Nonoperating income				
Interest income	25,507	2	5,026	-
Investment gain— equity method (Note 4(3))	7,085	-	8,812	1
Cash dividends (Note 4(2))	15,293	1	11,616	1
Gain on disposal of property and equipment (Note 4(4))	47,663	3	82	-
Gain on sale of investments	-	-	569	-
Foreign exchange gain	-	-	54,345	3
Rental income (Note 5)	48	-	48	-
Other income	32,428	2	22,298	1
	128,024	8	102,796	6
Nonoperating expenses				
Interest expense	114,149	7	80,636	5
Loss on disposal of property and equipment	-	-	340	-
Foreign exchange loss	35,874	2	-	-
Other expenses	6,808	-	1,481	-
	156,831	9	82,457	5
Income before income tax	558,480	35	762,942	45
Income tax expense (Note 4(9))	(67,168)	(4)	(37,977)	(2)
Total consolidated net income	\$ 491,312	31	724,965	43
Distributed to:				
Consolidated net income	\$ 491,312	31	724,965	43
Minority interest income	-	-	-	-
	\$ 491,312	31	724,965	43
	Before tax	After tax	Before tax	After tax
Earnings per share in New Taiwan dollars (Note 4(10))				
-Primary earning per share, current period	\$ 2.01	1.76	3.02	2.87
-Primary earning per share, retroactively adjusted	\$ 2.01	1.76	2.74	2.60

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE HALF-YEARS ENDED JUNE 30, 2006 AND 2005
(amounts expressed in thousands of New Taiwan dollars)

	Capital stock	Stock dividend to be distributed	Capital surplus	Retained earnings			Cumulative translation adjustment	Unrecognized pension loss	Total
				Legal reserve	Special reserve	Unappropriated earnings			
January 1~June 30, 2005									
Balance, January 1, 2005	\$ 2,013,578	-	324,012	67,664	-	910,173	(35,819)	(1,767)	3,277,841
Appropriation of 2004 earnings:									
Legal reserve	-	-	-	88,910	-	(88,910)	-	-	-
Special reserve	-	-	-	-	37,586	(37,586)	-	-	-
Capitalization of retained earnings	352,376	-	-	-	-	(352,376)	-	-	-
Employee bonuses	-	-	-	-	-	(8,000)	-	-	(8,000)
Capitalization of employee bonuses	8,000	-	-	-	-	(8,000)	-	-	-
Compensation to directors and supervisors	-	-	-	-	-	(6,000)	-	-	(6,000)
Cash dividends	-	-	-	-	-	(402,716)	-	-	(402,716)
Capitalization of capital surplus	151,019	-	(151,019)	-	-	-	-	-	-
Net income for January 1~June 30, 2005	-	-	-	-	-	724,965	-	-	724,965
Cumulative translation adjustment	-	-	-	-	-	-	(6,985)	-	(6,985)
Balance, June 30, 2005	<u>\$ 2,524,973</u>	<u>-</u>	<u>172,993</u>	<u>156,574</u>	<u>37,586</u>	<u>731,550</u>	<u>(42,804)</u>	<u>(1,767)</u>	<u>3,579,105</u>
January 1~June 30, 2006									
Balance, January 1, 2006	\$ 2,524,973	-	172,993	156,574	37,586	1,465,375	99,474	(4,903)	4,452,072
Appropriation of 2005 earnings:									
Legal reserve	-	-	-	145,879	-	(145,879)	-	-	-
Reverse last year's special reserve	-	-	-	-	(37,586)	37,586	-	-	-
Capitalization of retained earnings	-	252,497	-	-	-	(252,497)	-	-	-
Capitalization of employee bonuses	-	7,500	-	-	-	(7,500)	-	-	-
Employee bonuses	-	-	-	-	-	(11,000)	-	-	(11,000)
Compensation to directors and supervisors	-	-	-	-	-	(9,000)	-	-	(9,000)
Cash dividends	-	-	-	-	-	(631,243)	-	-	(631,243)
Net income for January 1~June 30, 2006	-	-	-	-	-	491,312	-	-	491,312
Cumulative translation adjustment	-	-	-	-	-	-	(65,822)	-	(65,822)
Balance, June 30, 2006	<u>\$ 2,524,973</u>	<u>259,997</u>	<u>172,993</u>	<u>302,453</u>	<u>-</u>	<u>937,154</u>	<u>33,652</u>	<u>(4,903)</u>	<u>4,226,319</u>

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE HALF-YEARS ENDED JUNE 30, 2006 AND 2005
(amounts expressed in thousands of New Taiwan dollars)

	January 1 ~ June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total consolidated net income	\$ 491,312	724,965
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	244,217	209,876
Amortization	41,593	25,519
Transfer of deferred charges to operating expenses	308	226
Recovery of liquidating dividends paid by financial assets carried at cost—noncurrent	(480)	437
Investment gain—equity method (excluding cash dividends)	(7,085)	(8,812)
Gain on sale of investments	-	(569)
(Gain) loss on disposal of property and equipment, net	(47,663)	258
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	64,500	(142,245)
Notes and accounts receivable, net	22,849	(23,461)
Inventories	(16,538)	(3,186)
Deferred income tax assets—current	632	(187)
Other financial assets—current	1,285	40,953
Other current assets	(25,238)	37,594
Notes payable	-	331
Accounts payable	(11,698)	6,946
Income tax payable	9,378	16,311
Accrued expenses	(3,804)	(13,680)
Other current liabilities	(17,005)	23,550
Accrued pension liability	344	687
Net cash provided by operating activities	<u>746,907</u>	<u>895,513</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) in financial assets carried at cost—noncurrent	8,937	(9,887)
Sale of property and equipment	127,320	-
Purchases of property and equipment	(799,724)	(1,283,557)
Decrease in deposits-out	20,240	135,965
Increase in deferred charges	(44,242)	(52,988)
Decrease in restricted assets—current	15,856	-
Net cash used in investing activities	<u>(671,613)</u>	<u>(1,210,467)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in long-term loans	86,583	572,859
Decrease in deposits-in	(115)	(25)
Employee bonuses	-	(8,000)
Net cash provided by financing activities	<u>86,468</u>	<u>564,834</u>
EXCHANGE RATE EFFECT	<u>(14,166)</u>	<u>(272)</u>
Net increase in cash and cash equivalents	147,596	249,608
Cash and cash equivalents, beginning of period	1,048,094	487,669
Cash and cash equivalents, end of period	<u>\$ 1,195,690</u>	<u>737,277</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest (excluding capitalized interest)	<u>\$ 118,525</u>	<u>76,325</u>
Cash paid during the period for income tax	<u>\$ 57,157</u>	<u>21,853</u>
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:		
Reclassification of long-term liabilities due in one year	<u>\$ 526,336</u>	<u>650,501</u>
Compensation payable to directors and superiors	<u>\$ 6,000</u>	<u>4,500</u>
Employee bonus payable	<u>\$ 11,000</u>	<u>-</u>
Cash dividend payable	<u>\$ 631,243</u>	<u>402,716</u>

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2006 AND 2005

(amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

SHIH WEI NAVIGATION CO., LTD. (the Company) was established in March 1985 in accordance with the Company Law of the Republic of China. The Company's stock was listed on the securities exchange of the Taiwan Stock Exchange Corporation on August 25, 2003. In July 1994, the Company invested in a wholly owned (100%) subsidiary, DONG LIEN MARITIME S.A. (PANAMA), which reinvested in 100% ownership of FOURSEAS MARITIME S.A. (PANAMA), ELEGANT PESCADORES S.A. (PANAMA), BRAVE PESCADORES S.A., GRAND OCEAN NAVIGATION S.A. (PANAMA), JACKSON STEAMSHIP S.A. (PANAMA), BLOSSOM PESCADORES S.A. (PANAMA), ROYAL PESCADORES S.A. (PANAMA), SHINING PESCADORES S.A. (PANAMA), BRILLIANT PESCADORES S.A., SUNNY PESCADORES S.A. (PANAMA), GENIUS PESCADORES S.A. (PANAMA), GALLANT PESCADORES S.A. (PANAMA), GRAND PESCADORES S.A. (PANAMA), MOON BRIGHT SHIPPING CORP. (PANAMA), EXCELLENT PESCADORES S.A. (PANAMA), HONOR PESCADORES S.A. (PANAMA), BRIGHT PESCADORES S.A. (PANAMA), SUPERIOR PESCADORES S.A. (PANAMA), VALOR PESCADORES S.A. (PANAMA), GRAND OVERSEAS S.A. (PANAMA), UNICORN BRILLIANT S.A. (PANAMA), PHAROS PESCADORES S.A. (PANAMA), BEACON PESCADORES S.A. (PANAMA), POSEIDON PESCADORES S.A. (PANAMA), LEADER PESCADORES S.A. (PANAMA), WELL PESCADORES S.A. (PANAMA), GLARING PESCADORES S.A.(PANAMA), VIGOR PESCADORES S.A. (PANAMA), TRUMP PESCADORES S.A (PANAMA) and FOURSEAS PESCADORES S.A. (PANAMA). As of June 30, 2006, the Company and its subsidiaries owned 26 vessels: Trump, Babitonga (Great), Paragon, Best, Elegant, Brave, Advance, Oceanic, Buenos Aires (Giant), Blossom, Royal, Shining, Brilliant, Sunny, Scan Bulker, Gallant, Grand, Federal, Excellent, Honor, Bright, Superior, Grand Overseas, Unicorn Brilliant, Well and Glaring.

The Company and its subsidiaries' main business scope includes

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

The parent company: None.

As of June 30, 2006, the number of employees was 664.

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

JUNE 30, 2006 AND 2005

(amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with the "Standards Governing the Compilation of Financial Statements by Securities Issuers" and generally accepted accounting principles of the Republic of China. The significant accounting policies and measurement basis were as follows:

(1) Principles of consolidation

a. The subsidiaries that have been consolidated in the financial statements are as follows:

Name of subsidiary company	Date established	Relationship with the Company	Main business	The Company's ownership as of June 30, 2006
DONG LIEN MARITIME S.A. (PANAMA)	Sep. 28, 1979	The Company's subsidiary	International sea transportation and shipping agent-related businesses	Direct ownership of 100%
GRAND OCEAN NAVIGATION S.A. (PANAMA)	Oct. 21, 1991	Investee company of the Company's subsidiary	"	Direct ownership of 100% by the Company's subsidiary
FOURSEAS MARITIME S.A. (PANAMA)	Oct. 31, 1991	"	"	"
ELEGANT PESCADORES S.A. (PANAMA)	Oct. 07, 1993	"	"	"
BRAVE PESCADORES S.A.	Dec. 12, 1993	"	"	"
JACKSON STEAMSHIP S.A. (PANAMA)	Oct. 12, 1990	"	"	"
BRILLIANT PESCADORES S.A.	Dec. 22, 1993	"	"	"
BLOSSOM PESCADORES S.A. (PANAMA)	May 09, 1996	"	"	"
ROYAL PESCADORES S.A. (PANAMA)	Nov. 30, 1995	"	"	"
GENIUS PESCADORES S.A. (PANAMA)	Aug. 20, 1993	"	"	"
MOON BRIGHT SHIPPING CORP. (PANAMA)	Dec. 03, 1992	"	"	"
GALLANT PESCADORES S.A. (PANAMA)	Oct. 02, 1996	"	"	"
SUNNY PESCADORES S.A. (PANAMA)	Jul. 09, 1993	"	"	"
GRAND PESCADORES S.A. (PANAMA)	Jun. 04, 1997	"	"	"
SHINING PESCADORES S.A. (PANAMA)	Oct. 21, 1993	"	"	"
EXCELLENT PESCADORES S.A. (PANAMA)	Nov. 05, 2002	"	"	"
HONOR PESCADORES S.A. (PANAMA)	May 20, 2003	"	"	"
BRIGHT PESCADORES S.A. (PANAMA)	May 20, 2003	"	"	"
SUPERIOR PESCADORES S.A. (PANAMA)	Nov. 21, 2003	"	"	"
GRAND OVERSEAS S.A. (PANAMA)	Jan. 08, 2004	"	"	"
UNICORN BRILLIANT S.A. (PANAMA)	Jan. 02, 2004	"	"	"
VALOR PESCADORES S.A. (PANAMA)	Apr. 08, 2004	"	"	"
PHAROS PESCADORES S.A. (PANAMA)	Jul. 27, 2004	"	"	"
POSEIDON PESCADORES S.A. (PANAMA)	Jul. 27, 2004	"	"	"
BEACON PESCADORES S.A. (PANAMA)	Sep. 08, 2004	"	"	"
LEADER PESCADORES S.A. (PANAMA)	Aug. 03, 2004	"	"	"
WELL PESCADORES S.A. (PANAMA)	Mar. 24, 2005	"	"	"
GLARING PES S.A.(PANAMA)	Jan. 20, 2006	"	"	"
VIGOR PESCADORES S.A.(PANAMA)	Jan. 20, 2006	"	"	"
TRUMP PESCADORES S.A.(PANAMA)	Mar. 24, 2006	"	"	"
FOURSEAS PESCADORES (PANAMA)	Jun. 2, 2006	"	"	"

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2006 AND 2005

(amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

For purposes of preparing the consolidated financial statements, the debt, obligations and inter-company transactions between the Company and its subsidiaries have been eliminated.

The balance sheet accounts of the financial statements of foreign subsidiaries are translated at year-end exchange rates, and the income statement items are translated at weighted-average exchange rates prevailing during the year. Retained earnings at the beginning of the year are translated at the prior year's year-end exchange rate, whereas the remaining stockholders' equity accounts are translated at historical rates. The resulting translation adjustment is charged to the cumulative translation adjustment account in stockholders' equity.

- b. Change in subsidiary's investments: The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) invested in GLARING PESCADORES S.A. (PANAMA), VIGOR PESCADORES S.A. (PANAMA), TRUMP PESCADORES S.A. (PANAMA) and FOURSEAS PESCADORES S.A. (PANAMA) during the first half of 2006, and the subsidiary company has a 100% shareholding.
 - c. Related information on the subsidiaries that are not included in the consolidated financial statements: None.
 - d. Subsidiary's accounting year-end differs from the Company's: None.
 - e. Subsidiary's accounting policies and controlling companies differ from the Company's: None.
 - f. Special operating risk of foreign subsidiaries: None.
 - g. Legal or contract restrictions on distribution of earnings of the subsidiaries: None.
 - h. Method and duration of amortization of consolidated debit or credit: None.
- (2) Foreign currency transactions

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2006 AND 2005

(amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

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

(3) Accounting estimation

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

(4) Classification as current and noncurrent assets and liabilities

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

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

(5) Asset impairment

Effective January 1, 2005, the Company adopted ROC Statement of Financial Accounting Standards No. 35 (SFAS No. 35) "Accounting for Asset Impairment". According to ROC SFAS No. 35, the Company assesses at balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

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The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

(6) Cash and cash equivalents

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

(7) Financial assets

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

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

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

- (a) Financial assets at fair value through profit of loss: The main purposes of the financial instruments are selling or repurchasing in the short term. Except for the derivatives that the Consolidated Companies held for hedging purposes and are considered to be effective, all derivatives should be classified into this account.
- (b) Available-for-sale financial assets: These are evaluated at fair value, and any changes are recorded as a separate component of stockholders' equity. If there is evidence of impairment, impairment loss should be recognized. If the impairment loss decreases subsequently, the decreased amount of impairment for equity financial instruments cannot be reversed. If the impairment loss on debt financial instruments decreases and is apparently related to events that occurred after the impairment, the decreased amount of impairment loss should be reversed and recognized in the accompanying consolidated statements of income.

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- (c) Financial assets carried at cost: Equity investments which cannot be evaluated at fair value is booked at original cost. If there is evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.
- (d) Held-to-maturity financial assets: These will be evaluated at amortized cost. If there is evidence of impairment, impairment loss should be recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. But the reversed faced value cannot exceed the amortized cost.

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

(8) Derivative financial instruments and hedging

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

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

The accounting policies for derivative financial instruments are as follows:

- a. Fair value hedging: The translation difference resulting from remeasuring by fair value or from variation of exchange rate is recorded as current gain or loss in the accompanying consolidated statement of income. The gain or loss resulting from the hedging risk will be adjusted in the face value of the hedged items and will be recognized as current gain or loss in the accompanying consolidated statement of income as soon as possible.
- b. Cash flow hedging: The gain or loss on hedging instruments will be recognized as an

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adjustment of stockholders' equity. If the hedging transaction will be recognized as assets or liabilities, the gain or loss recorded in stockholders' equity will be reclassified as current gain or loss in the accompanying consolidated statement of income. And if the hedging transaction will influence the net gain or loss, the above-mentioned gain or loss recognized in stockholders' equity will be reclassified as current gain or loss in the accompanying consolidated statement of income.

- c. Foreign operation investment hedging: The gain on loss of hedging items will be recognized as an adjustment of stockholders' equity, and it will be reclassified as current gain or loss when disposing of the foreign operation.

(9) Allowance for doubtful accounts

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

(10) Inventories

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

(11) Long-term equity investments

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

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

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

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

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

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

Buildings and structures	50 years
Transportation equipment	5 years
Vessel equipment	8 to 25 years
Office furniture and equipment	5 to 9 years
Leasehold improvement	5 years
Other equipment	3 to 25 years

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

Gain or loss on disposal of property and equipment is recorded as nonoperating income or expense.

(13) Deferred charges

Deferred charges consist of unamortized major renovation costs and computer software acquisition costs of vessel equipment stated at cost, and are amortized using the straight-line method over a period of two to five years. The cost for purchasing a golf club membership was stated at cost, and is amortized over a period of 20 years.

(14) Employee pension plan

In 1992, the Company established an Employee Retirement Fund Committee and approved an employee pension plan. Effective November 1992, in accordance with the Ministry of the Interior's "Regulations on Employee Retirement Fund Provision and Administration", the Company made monthly pension contributions at 2% of total monthly employee gross salaries. This contribution rate was revised to 4.3% commencing April 1997 and deposited into a designated account with the Central Trust of China. After July 1, 2005, the Labor Pension Act took effect. The employees who were previously subject to the Labor Standards Law could choose to be subject to the defined contribution pension plan under the Labor Pension Act (the New Plan), and for employees hired after the effective date, the pension plan was changed to the New Plan. Under the New Plan, the Company contributes monthly an amount no less than 6% of the employees' monthly salaries and wages to the employees' individual pension accounts deposited with the Bureau of Labor Insurance. Before the Company pension plan is revised and changed to the New Plan, if the Company pension plan has no related rule, then it should follow the New Plan.

The Company accounts for the defined benefit pension plan in accordance with ROC

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SFAS No. 18, "Accounting for Pensions". SFAS No. 18 requires that the Company recognize a minimum pension liability as of the balance sheet date equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets. SFAS No. 18 also requires the Company to recognize net periodic pension costs (including service cost, transitional net assets, past service cost and pension gain/loss) based on actuarially determined amounts over the service lives of the retirement plan participants. In addition, the transitional net assets and past service cost are amortized on a straight-line basis over 15 years.

Under the defined contribution plan, the Company contributes 6% of the employees' monthly salaries and wages to the employees' individual pension accounts deposited with the Bureau of Labor Insurance as a current expense.

(15) Revenue recognition

Revenue is generally recognized when the process of gain has been substantially accomplished and realized or is realizable. Revenues are realizable when realized or realizable and earned. The relevant cost also be recognizes cost and expense when the revenue is recognized.

(16) Income tax

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 22, "Income Taxes", to recognize inter-period tax allocations; to recognize deferred income tax liabilities on future taxable temporary differences; and to recognize deferred income tax assets on future deductible temporary differences, prior year loss carryforwards, and investment tax credits. The future reliability of deferred income tax assets is assessed, and a valuation account, if needed, is provided accordingly.

Effective from the implementation of the imputation tax system in 1998, after-tax net earnings shall be distributed according the resolution of the stockholders' annual meeting in the following year. The undistributed earnings shall be subject to 10% surtax and recorded as income tax expense during the year such stockholders' resolution is passed.

(17) Earnings per share of common stock

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

(18) Information related to the translation of the financial statements

The financial statements of the Company have been prepared in the local currency and in

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Chinese. The financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES

Starting from January 1, 2006, the Company adopted the newly released ROC Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments", and adopted ROC SFAS No. 36, "Disclosure and Presentation of Financial Instruments". Such change in accounting principle had no effect on the consolidated income and earnings per share for the first half of 2006. Please refer to Notes 4(2) and 4(11).

4. SUMMARY OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	June 30	
	2006	2005
Cash on hand	\$ 426	324
Petty cash	15,849	16,139
Bank deposits		
Checking accounts	1,958	5,591
Savings accounts	62,661	405,831
Foreign currency deposits	27,160	56,832
Time deposits	1,087,636	252,560
Total	\$ 1,195,690	737,277

(2) Financial assets

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	June 30	
	2006	2005
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Re-Purchase Bond Fund issued by Polaris Bank	\$ -	95,630
Re-Purchase Bond Fund issued by Bank SinoPac	-	15,785
Beneficiary certificates – Franklin		
Templeton Global Bond fund	32,320	31,570
Total	\$ 32,320	142,985
Held-to-maturity financial assets – noncurrent		
Financial bond investments – The Chinese Bank	\$ 3,000	3,000
Financial assets carried at cost – noncurrent		
Investment in stock – K/S DANRED I (original investment cost US\$518,545)	\$ 16,721	11,958
Investment in stock – ETERNAL PESCADORES S.A. (PANAMA) (original investment cost US\$461,290)	14,909	14,563
Investment in stock – HARMONY SUCCESS S.A. (PANAMA) (original investment cost US\$653,600)	21,124	14,252
Investment in stock – LANDO CO., LTD. (original investment cost JPY 3,000,000)	866	-
Total	\$ 53,620	40,773

- a. In accordance with interpretation (94) No.16 of the ROC Accounting Research and Development Foundation, the Company's financial report for the first half of 2006 have been renamed in accordance with ROC Statement of Financial Accounting standard No.34 "Accounting for Financial Instruments" As of June 30, 2005, the originally accounted for short-term investment of \$145,985 was reclassified as financial assets at fair value through profit or loss-current of \$142,985 and held-to-maturity financial assets – noncurrent of \$3,000, and the long-term investment under the cost method of \$40,773 was reclassified as financial assets carried at cost – noncurrent of \$40,773.
- b. The Company bought the 5-year-term financial bond issued by The Chinese Bank with a face value of \$3,000 on September 1, 2004, and the maturity date is September 1, 2009. The interest rate is floating, and the interest will be calculated every six months. At the maturity date, the Company can get back all the principal.
- c. The Company invested in K/S DANRED I Corporation of Denmark in 1999. This

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company was established for purposes of owning a newly built vessel – Bianco Bulker. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. The Company has a 13% shareholding. During 2001, the vessel construction was completed and the Company had paid \$16,721 (US\$518,545) as of June 30, 2006. During the first half of 2006 and 2005, the Company received cash dividends of \$6,702 (including the recovery of liquidating dividends of \$480) and \$10,719 (excluding liquidating dividends of \$437), respectively.

- d. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in ETERNAL PESCADORES S.A. (PANAMA) during 2002. This company was established for purposes of owning a newly built vessel – Pescadores Bulker. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. In March 2004, the vessel construction was completed. The Company's subsidiary had 19% ownership and had paid \$14,909 (US\$461,290) as of June 30, 2006. During the first half of 2006 and 2005, the Company's subsidiary received cash dividends of \$1,103 (US\$34,200) and \$897 (US\$28,500), respectively.
- e. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in HARMONY SUCCESS S.A. (PANAMA) during May 2003. The subsidiary company had 19% ownership. The main purpose of establishing the company was to own a newly built vessel – Golden Kiku. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. In September 2005, the vessel construction was completed, and the subsidiary company had paid \$21,124 (US\$653,600) as of June 30, 2006. During the first half of 2006 and 2005, the Company received cash dividends of \$7,488 (US\$232,180) and zero, respectively, from the investee company.
- f. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in LANDO CO., LTD. during August 2005. As of June 30, 2006, the subsidiary company had 18.75% ownership and had paid \$866 (JPY3,000,000).

(3) Long-term equity investments

Share	Amount	Ownership
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June 30, 2006			
Under the Equity Method			
EUROASIA II INC., PANAMA	45	\$ 69,691	100%
(original investment cost US\$1,022,173 \$ 33,036)			
June 30, 2005			
Under the Equity Method	Share	Amount	Ownership
EUROASIA II INC., PANAMA	45	\$ 63,901	45%
(original investment cost US\$1,353,493 \$ 42,730)			
EUROASIA III INC., PANAMA	45	195	45%
(original investment cost US\$3,089 \$ 98)			
Total		\$ 64,096	

- a. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in EUROASIA II INC., PANAMA and EUROASIA III INC., PANAMA in 2003. The companies were established for purposes of owning newly built vessels – Bianco Pescadores and Hull No. 10369. The payments for the vessels' construction and related expenses were made in installments according to the shareholding percentages of both investee companies, but EUROASIA III INC., PANAMA transferred all of the assets and liabilities and equity accounts to EUROASIA II INC., PANAMA during July 2005. As of June 30, 2006, the Company's subsidiary had a 45% and 0% shareholding of EUROASIA II INC., PANAMA and EUROASIA III INC., respectively, and had paid \$33,036 (US\$1,022,173) for EUROASIA II INC., PANAMA and \$0 for EUROASIA III INC., PANAMA. Investment gain recognized for the first half of 2006 and 2005 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors is detailed below:

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<u>Investee company</u>	<u>January 1~June 30</u>	
	<u>2006</u>	<u>2005</u>
	<u>Investment gain</u>	
EUROASIA II INC., PANAMA (Note)	\$ 70,085	8,683
EUROASIA III INC., PANAMA	-	129
Total	<u>\$ 7,085</u>	<u>8,812</u>

Note: The Company's subsidiary received repayment of long-term investments of \$10,859 (US\$337,500) from EUROASIA II INC., PANAMA's decrease in capital in 2005.

(4) Property and equipment

<u>June 30, 2006</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Land	\$ 79,937	-	79,937
Buildings and structures	29,957	2,910	27,047
Transportation equipment	5,300	662	4,638
Vessel equipment	9,963,668	2,338,966	7,624,702
Office furniture and equipment	2,562	80	2,482
Leasehold improvements	3,290	1,476	1,814
Prepayments for business facilities	354,206	-	354,206
Other equipment	47,168	22,593	24,575
Total	<u>\$ 10,486,088</u>	<u>2,366,687</u>	<u>8,119,401</u>
<u>June 30, 2005</u>			
Land	\$ 79,937	-	79,937
Buildings and structures	29,838	1,907	27,931
Transportation equipment	2,260	1,946	314
Vessel equipment	9,294,527	1,979,981	7,314,546
Office furniture and equipment	2,793	976	1,817
Leasehold improvements	5,419	4,383	1,036
Prepayments for business facilities	161,765	-	161,765
Other equipment	44,702	13,521	31,181
Total	<u>\$ 2,002,714</u>	<u>2,002,714</u>	<u>7,618,527</u>

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<u>9,621,241</u>	<u> </u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>

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- a. The Company's disposed of the vessel Trump and its vessel equipment at a sale price of US\$4,000 thousand (\$127,320) during December 2005. The book value of the vessel Trump and its equipment amounted to \$77,610 and \$2,075, respectively. In January 2006, the Company received all of the money and delivered the vessel. The gain on disposal of the vessel and its equipment was \$47,635.
- b. The total insurance coverage for the above fixed assets amounted to US\$296,220 thousand and \$101,600 as of June 30, 2006, and US\$279,640 thousand and \$91,734 as of June 30, 2005.

(5) Pension reserve

- a. As of June 30, 2006 and 2005, the Company's pension expenses were as follows:

	January 1~June 30	
	2006	2005
Pension reserve account balance, end of year	\$ 5,650	4,103
Pension expenses:		
Defined benefit net pension cost	1,086	1,315
Defined contribution net pension cost	627	-
Accrued pension liabilities	14,814	11,819

- b. For the first half of 2006, the Company's defined contribution net pension cost amounted to \$627, and it has been contributed to the Bureau of Labor Insurance.
- c. From December 31, 1996, the Company adopted ROC Statement of Financial Accounting Standards No. 18 "Accounting for Pensions" for defined benefit pension expenses.

(6) Long-term loans/current portion of long-term loans

	June 30	
	2006	2005
Secured loans	\$ 4,606,647	4,762,294
Credit loans	152,000	80,000
Less: current portion	(526,336)	(650,501)
Net amount	\$ 4,232,311	4,191,793

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 0.86%~7.88% and 1.13%~4.97% for the first half of 2006 and 2005, respectively.

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(7) Capital stock

The movements of the capital stock are summarized as follows:

(amounts expressed in New Taiwan dollars)

Stock Authorization Date	Authorized Capital	Paid-in Capital	Remarks
Mar. 1985	\$ 12,000,000	12,000,000	Initial capital
Mar. 1992	29,000,000	29,000,000	Capital increase in cash of \$ 17,000,000
May 1993	53,000,000	53,000,000	" \$ 24,000,000
Aug. 1994	95,000,000	95,000,000	" \$ 42,000,000
Dec. 1996	199,990,000	199,990,000	" \$104,990,000
Jul. 1997	2,600,000,000	800,000,000	Capital increase in cash of \$584,810,000, and capitalization of retained earnings of \$15,200,000
Jun. 1998	2,600,000,000	1,201,650,000	Capital increase in cash of \$240,000,000, and capitalization of retained earnings and capital surplus of \$161,650,000
Nov. 1999	2,600,000,000	1,297,782,000	Capitalization of capital surplus of \$96,132,000
Dec. 2000	2,600,000,000	1,428,760,200	Capitalization of retained earnings of \$55,804,626, capital surplus of \$73,973,574, and employee bonuses of \$1,200,000
Oct. 2001	2,600,000,000	1,471,275,480	Capitalization of retained earnings of \$40,005,280 and employee bonuses of \$2,510,000
Oct. 2002	2,600,000,000	1,525,770,120	Capitalization of retained earnings of \$51,494,640 and employee bonuses of \$3,000,000
Oct. 2003	2,600,000,000	1,541,027,820	Capitalization of retained earnings of \$15,527,700
Aug. 2004	2,600,000,000	1,933,515,800	Capitalization of retained earnings of \$154,102,780, capital surplus of \$146,397,640, employee bonuses of \$7,500,000 and convertible bonds of \$84,487,560
Oct. 2004	2,600,000,000	2,009,417,830	Capitalization of convertible bonds of \$75,902,030
Nov. 2004	2,600,000,000	2,013,577,920	Capitalization of convertible bonds of \$4,160,090
Jun. 2005	3,800,000,000	2,524,972,400	Capitalization of retained earnings of \$352,376,140, capital surplus of \$151,018,340 and employee bonuses of \$8,000,000

On June 23, 2006, the Company's shareholders' meeting approved a resolution to increase

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capital with capitalization of retained earnings amounting to \$259,997 (including employee bonuses amounting to \$7,500). Following the approval of Jin-Quan-Jeng (1) Ruling Letter No. 0950129028, the Company's board of directors on July 13, 2006, approved a resolution to designate August 8, 2006, as the basis date for the capital increase.

(8) Distribution of retained earnings

The articles of incorporation of the Company mandate that 10% of after-tax earnings should first offset cumulative losses from previous years, and 10% of the remainder be set aside as legal reserve. The board of directors may submit an earnings distribution proposal to the stockholders' meeting for resolution, of which employee bonuses cannot be less than 2% and remuneration to directors and supervisors cannot exceed 5%. Dividends may be distributed after a special surplus is appropriated.

According to the articles of incorporation, the dividend policy of the Company is based on the prudence principle considering the long-term financing structure and operations in the future. When earnings and funds become relatively sufficient for operating and expanding, then cash dividends or stock dividends will be distributed. In the meanwhile, stock dividends of at most 50% and cash dividends of at least 50% should be distributed.

The distribution of retained earnings for 2005 and 2004 was approved in the stockholders' meetings on June 23, 2006, and April 26, 2005, respectively, as follows:

Item	2005	2004
Legal reserve	\$ 145,879	88,910
Special reserve	(37,586)	35,586
Directors' and supervisors' remuneration	9,000	6,000
Employee bonuses — stock (recorded at par value)	7,500	8,000
Employee bonuses — cash	11,000	8,000
Capitalization of stockholders' bonuses — stock (recorded at par value)	252,497	352,376
Capitalization of stockholders' bonuses — cash	631,243	402,716
Total	<u>\$ 1,019,533</u>	<u>903,588</u>

As of June 30, 2006, the above-mentioned capitalization of stockholders' bonuses — cash of \$631,243 had not been done, and the capitalization of stockholders' bonuses — cash of \$402,716 was done on July 4, 2005.

Following is the relevant information on distribution of retained earnings for dividends per share, employee bonuses, and compensation to directors and supervisors of the Company in the years 2005 and 2004:

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dollars)	(amounts expressed in New Taiwan	
<u>Dividends per share</u>	<u>2005</u>	<u>2004</u>
Cash	\$ 2.50	2.00
Stock	1.00	1.75
Total	<u>\$ 3.50</u>	<u>3.75</u>

<u>Employee bonuses and directors' and supervisors' remuneration</u>	<u>2005</u>	<u>2004</u>
Employee bonuses – cash	\$ 11,000	8,000
Employee bonuses – stock	7,500	8,000
Directors' and supervisors' remuneration	9,000	6,000
Total	<u>\$27,500</u>	<u>22,000</u>

If the above employee bonuses and directors' and supervisors' compensation were considered current year's expense, the Company's primary earnings per share (after tax) for 2005 and 2004 would be NT\$5.67 (dollars) and NT\$4.52 (dollars), respectively. The above employee bonuses were 750 and 800 thousand shares of capital stock constituting 0.30% and 0.40% of the Company's outstanding stock as of December 31, 2005 and 2004, respectively.

The distribution of the above employee bonuses and directors' and supervisors' compensation, and related information will be announced on the Market Observation Post System.

(9) Income tax

a. The components of income tax expenses (benefit) were as follows:

	January 1~June 30	
	2006	2005
Increase income tax payable	\$ 65,950	42,877
Decrease (increase) in deferred income tax assets—current	632 (187)
Income tax prepayment and withholding	583	12
Under-accrual (over-accrual) of prior years' income tax expense	<u>3 (</u>	<u>4,725)</u>
Income tax expense	<u>\$ 67,168</u>	<u>37,977</u>

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The components of income tax expense were as follows:

	January 1 ~ June 30	
	2006	2005
Income tax currently payable	\$ 21,94	42,889
Deferred income tax expense (revenue)	632 (187)
Under-accrual (over-accrual) of prior years' income tax expense	3 (4,725)
Additional 10% surtax on undistributed earnings	44,585	-
Income tax expense	\$ 67,168	37,977

- b. The Company adopted ROC "Alternative Minimum Tax Rules" to calculate the income tax expense from January 1, 2006.

The reconciliation of the income tax effects of income before income tax calculated using the actual tax rate (25%) and income tax currently payable for the first half of 2006 and 2005 was as follows:

	January 1 ~ June 30	
	2006	2005
Income tax effects of income before income tax calculated using the actual tax rate (25%)	\$ 139,610	190,725
Permanent difference		
Investment income – equity method	(116,968)	(179,927)
Gain on disposal of investments	(-)	(142)
Cash (liquidating) dividends – cost method	(120)	109
Cash dividends-equity method	-	31,716
Difference between book and tax on depreciation of assets	58	16
Other	-	205
Temporary difference		
Foreign exchange (gain) loss	(718)	15
Pension expense	86	172
Income tax currently payable	\$ 21,948	42,889

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c. For the first half of 2006 and 2005, the components of deferred income tax revenue were as follows:

	January 1~June 30	
	2006	2005
Foreign exchange (gain) loss	(\$ 71 8)	15
Pension expense	86	172
Deferred income tax (expense) revenue	(\$ 63 2)	187

d. As of June 30, 2006 and 2005, deferred income tax assets and liabilities due to temporary differences and income tax effects were as follows:

	June 30	
	2006	2005
Total deferred tax assets	\$ 3,211	2,371
Total deferred tax liabilities	\$ -	75

	Taxable temporary differences	
	June 30	
	2006	2005
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 1,800	1,800
- Pension expense	8,206	7,686
- Loss (gain) on foreign exchange	2,836	(303)
Net amount	\$ 12,842	9,183

	Tax effect	
	June 30	
	2006	2005
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 450	450
- Pension expense	2,051	1,921
- Loss (gain) on foreign exchange	701	(75)
Net amount	\$ 3,211	2,296

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e. The Company's income tax returns were examined by the Tax Authority through 2003, and additional tax amounting to \$3,350 was assessed. The Tax Authority assessed additional tax amounting to \$5,742 for 1997 and 1998. The Company disagreed with this tax assessment and has applied to the Tax Authority for administrative appeal proceedings. In accordance with the principle of conservatism, the Company recorded fully the above-mentioned assessment of additional tax amounting to \$5,742 in 2001 and \$3,350 in 2005 as income tax expenses. The Tax Authority assessed additional tax amounting to \$1,345, \$6,669 and \$4,901 for 2002, 2001 and 2000, respectively, and the assessment's method of calculating the tax was different from the past; therefore, the Company has filed an administrative appeal and recorded fully the above-mentioned assessment of additional tax as income tax expenses.

For the above tax administrative appeals of 1997 and 1998, the Taiwan High Court adjudged that the Company should pay the Tax Authority additional tax amounting to \$5,742 for 2005 and 2006.

For the above tax administrative appeals of 2001 and 2000, the Tax Authority decided to cancel the assessment of additional tax amounting to \$3,109 and \$1,605, respectively.

The Company canceled the above 2002 tax administrative appeal in the first half of 2005 and expected to pay the additional tax amounting to \$1,345.

f. As of June 30, 2006 and 2005, the Company's income tax payable of 2003 and 2002 was \$3,350 and \$4,642, respectively.

g. Related information on imputation tax:

	June 30	
	2006	2005
Balance of stockholders' imputation credit account	\$ 77,496	3,775
	2006	2005
Imputation credit ratio of earnings distribution	(actual) 5.16%	(actual) 3.16%

h. Related information on undistributed earnings

	June 30	
	2006	2005
Undistributed earnings of 1997 and before	\$ -	-
Undistributed earnings of 1998 and after	937,154	731,550
Total	\$ 937,15	731,550

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(10) Earnings per share

The Company's primary and diluted earnings per share for the first half of 2006 and 2005 were calculated as follows:

Unit: NTD'000s/Shares'000s; Earnings per share: NTD

	January 1 ~ June 30		January 1 ~ June 30	
	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
Primary earnings per share				
— Current period				
Consolidated net income attributed to common shareholders	\$ 558,480	491,312	762,942	724,965
Weighted-average number of shares outstanding	278,497	278,497	252,497	252,497
Primary earnings per share	\$ 2.01	1.76	3.02	2.87
— Retroactively adjusted				
Weighted-average number of shares outstanding	278,497	278,497	278,497	278,497
Primary earnings per share — retroactively adjusted	\$ 2.01	1.76	2.74	2.60

(11) Information of financial instruments

a. Derivative financial instruments

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

	June 30			
	2006		2005	
	Contract Amount	Credit Risk	Contract Amount	Credit Risk
Financial Instruments				
Derivative Financial Instruments				
Nontrading—Purchase forward contract	US\$ 6,000,000	-	-	-
—Equity-linked notes	-	-	-	-

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

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

i. Market risk

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

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

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

iii. Types and purpose of financial derivatives held

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

iv. Presentation of financial derivatives in financial statements

The Company's foreign exchange forward contracts resulted in an exchange gain of \$2,276 for the first half of 2006. Foreign exchange forward contracts receivable and payable are netted. There were no foreign exchange forward contracts receivable or payable as of June 30, 2006.

The foreign exchange forward contracts of the Company's subsidiary US\$182 thousand resulted in an exchange loss of and US\$130 thousand as of the first half of 2006 and 2005, respectively. Foreign exchange forward contracts receivable and payable are netted. There were no foreign exchange forward contracts receivable or payable as of June 30, 2006 and 2005.

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The Company's subsidiary bought 14-day equity-linked notes with an assured rate in US dollars from Hua Nan Bank, Jih Sun International Bank and Mega International Commercial Bank. If the current rate according to Reuters TKFE is higher than (or equal to) the contract rate at the option expiration date, the contract amount in US dollars will be converted to JPY, and the Company's subsidiary can receive the exchange gain at the contract rate.

The realized interest revenue and the exchange gain of the Company's subsidiary were US\$16 thousand and US\$1 thousand, respectively, for the first half of 2006.

b. Fair value of financial instruments

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

	June 30			
	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Cash and cash equivalents	1,195,690	1,195,693	737,277	737,277
Accounts receivable, net	4,287	4,287	54,778	54,778
Other financial assets – current	41,740	41,740	54,911	54,911
Restricted assets	-	-	15,522	15,522
Financial assets at fair value through profit or loss – current	32,320	33,245	142,985	142,985
Held-to-maturity financial assets – noncurrent	3,000	3,030	3,000	3,027
Financial assets carried at cost – noncurrent	53,620	-	40,773	-
Deposits-out	151,420	151,420	190,778	190,778
Financial Liabilities				
Notes payable	-	-	331	331
Accounts payable	65,005	65,005	61,129	61,129
Accrued tax payable	69,300	69,300	47,519	47,519
Accrued expense	82,424	82,424	69,601	69,601
Long-term loans	4,758,647	4,758,647	4842,294	4,842,294
Deposits-in	70	70	170	170

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

- i. The fair value of financial instruments is estimated based upon their face value stated on the balance sheet. Because such financial instruments will become due shortly, their face value should be a reasonable basis for estimating their fair value. This method is applicable to cash and cash equivalents, accounts receivable, other financial assets – current, restricted assets, deposits-out, notes and accounts payable, accrued tax payable, accrued expenses, other current liabilities and deposits-in.
- ii. Financial assets at fair through profit or loss – current and held-to-maturity financial assets – noncurrent: If available, fair value of marketable securities is the market price; otherwise, financial or other information is used to estimate the fair value.

The estimates and assumptions of the valuation techniques adopted by the Company are identical to those adopted by other market participants. As of June 30, 2006 and 2005, the fair value decided in an open market was \$33,245 and \$142,985, respectively.

- iii. Financial assets carried at cost – noncurrent: Because the market value of the financial assets – noncurrent is not available, it is impossible to estimate their fair values.
 - iv. Long-term loans: Interest expenses of long-term loans are computed using annual floating rates, and the book value of the long-term loans is equal to their fair value.
- d. For the financial assets provided by the Company as collateral as of June 30, 2006 and 2005, please refer to Note 6.
- e. Financial risk

- i. Market risk

The Company's bond investments (recorded as held-to-maturity financial assets – noncurrent) were computed using annual floating rates. Therefore, the fair value changed along with the market rate. If the market rate rises 1%, the fair value of the bond investment would decrease \$103.

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ii. Credit risk

The company's major clients are the owners of a large amount of commodities, agencies for long-term leasing of vessels, and the Company's subsidiaries. In order to reduce credit risk, the Company regularly evaluates its customers' financial position. However, the Company usually does not require collateral from its customers. For the amount of endorsement guarantees as of June 30, 2006 and 2005, please refer to Note 7(2).

iii. Liquidity risk

The capital and operating funds of the Company are sufficient to perform all current contract obligations; therefore, there is no liquidity risk.

iv. Cash flow risk arising from interest rate change

The company's Long-term loan carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Company's future cash flow. If the market interest rises 1%, the Company's cash outflow would increase \$47,586 in the future.

5. RELATED-PARTY TRANSACTIONS

(1) Names of related parties and relationship with the Company

Name of related party	Relationship
EUROASIA II INC., PANAMA	An investee company that was accounted for under the equity method by the Company's subsidiary.
DONG LIEN SHIPPING CO., LTD.	The company's president was a Company director.
HARMONY SUCCESS S.A. (PANAMA)	The company's president was an immediate family member of the Company's chairman.

(2) Significant transactions with related parties

a. Sales

Name of related party	January 1~June 30			
	2006		2005	
	Amount	%	Amount	%
EUROASIA II INC., PANAMA	\$ 16,648	1	15,457	1

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The Company acted as the related parties' agent for vessel management and charged them management fees, agency fees and commission revenue. The sales price and collection period for the Company's sales to related parties are according to mutually agreed-upon terms.

b. Advance receipts (recorded as other current liabilities)

<u>Name of related party</u>	June 30			
	2006		2005	
	Amount	%	Amount	%
EUROASIA II INC., PANAMA	\$ 2,885	-	2,794	-

c. Other accounts payable (recorded as other current liabilities)

<u>Name of related party</u>	June 30			
	2006		2005	
	Amount	%	Amount	%
HARMONY SUCCESS S.A. (PANAMA)	\$ 1,580	-	-	-

d. For the agency contract concluded by the Company and the related parties, please refer to Note 7.

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e. DONG LIEN SHIPPING CO., LTD. paid the Company rental monthly according to the lease contract for part of an office building, as follows:

<u>DONG LIEN SHIPPING CO., LTD.</u>	<u>January 1~June 30</u>	
	<u>2006</u>	<u>2005</u>
Rental income	\$	48
	48	

6. PLEDGED ASSETS

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

<u>Name of asset</u>	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Property and equipment (net book value)		
-Land	\$	79,937
	79,937	
-Buildings and structures	27,047	27,931
-Vessel equipment	7,276,147	7,314,356
Restricted assets	-	15,552
Total	\$	7,437,746
	7,383,131	

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7. COMMITMENTS AND CONTINGENCIES

As of June 30, 2006 and 2005, the Company's commitments and contingencies were as follows:

(1) The Company had significant contracts as follows:

Contract Title	Contracting Party	Period Covered	Contents
Management Contract	ETERNAL PESCADORES S.A. (PANAMA)	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	Acting as the Company's agent for management of the vessel
"	K/S DANRED I	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	MAJESTIC PESCADORES S.A. (PANAMA)	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	K/S DANSKIB 33	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	EUROASIA II INC., PANAMA	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"

(2) As of June 30, 2006 and 2005, the Company was provided endorsement guarantees by other companies amounting to US\$10,413 thousand and US\$6,218 thousand, respectively; the Company had issued guarantee notes for endorsement guarantees and cargo transportation which amounted to \$534,965 and \$625,040, respectively.

(3) The Company signed an agreement for purchase of a Taiwan Danshui Golf Club Membership with Mr. Hsiao Shing-Yuan (hereinafter called defendant) in Nov. 2003; the selling price was \$1,800. After the defendant received the check issued by the Company and cashed the check on December 10, 2003, the Company found the membership of the defendant was a nontransferable general membership, but the defendant firstly cheated the Company by signing the above-mentioned agreement and receiving the Company's conveyance payment, and secondly further cheated the Company with the excuse that the trading of club memberships was now prohibited. The Company demanded the defendant solve the problems with the above-mentioned agreement many times, but the defendant ignored the demands. The Company has assigned an attorney to file suit against the defendant, and it is now being examined by the Taipei District Court. In accordance with the principle of conservatism, the Company has provided full allowance for doubtful accounts for the above-mentioned selling price of \$1,800 (recorded as other financial assets – current) in the financial statements for 2003.

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- (4) The Company's subsidiary entered into an agreement to purchase the vessel Well to be constructed for its business operation, and at the same time it signed the construction and purchase agreement, it sold the vessel to MAN SHIPPING LP for the same price. The subsidiary also entered into a long-term vessel-leasing contract with MAN SHIPPING LP for the same vessel for a guaranteed minimum lease term of 5 years. Upon expiration of the 5-year lease term, the subsidiary had the right to renew the lease for another 10 years, or to purchase the vessel at the agreed-upon price according to the contract (at no bargain purchase price). The Company leased the vessel according to the contract and made deposits-out amounting to US\$4,698 thousand. In May 2005, the Company purchased the vessel Well for US\$15,538 thousand.
- (5) The construction and purchase agreements for vessels signed by the subsidiaries of the Company's subsidiary amounted to JPY17,845,000 thousand as of June 30, 2006, and JPY9,987,400 thousand as of June 30, 2005. They had paid JPY1,230,175 thousand as of June 30, 2006, and JPY558,100 thousand as of June 30, 2005 (recorded as prepayments for business facilities).
- (6) During 2005, there was violent fighting among the crew of the vessel Trump. A crew member named Whey-kuan Tsai was killed. The Company paid compensation of \$100 to the family, and also paid compensation of \$480 according to the "Seaman's Contract". The victim's family asserted that the Company and the killer should pay compensation of \$6,916 to the victim's family according to Article No. 188, first clause, and Article No. 192 of the Civil Law. The Company asserted the fighting was not business-related, so it was not covered by Article No. 188 of Civil Law. The Company asserted the Company did not have compensation responsibility arising from this lawsuit, and it is now being examined by the Panchiao District Court.
- (7) An employee named Shau-ching Tsai of the Company's subsidiary BRIGHT PESCADORES S.A. (PANAMA) was careless in maintaining a crane. Consequently, a cable of the machine broke because of long-term abrasion and caused a steel plate to drop. It struck and killed the victim, Yun-yu Wu. On November 21, 2005, the victim's mother filed a claim in the Keelung District Court that the Company's parent company SHIH WEI NAVIGATION CO., LTD. should pay compensation of NT\$4,447 thousand. The Keelung District Court adjudged that Shau-Ching Tsai was careless in causing Yun-yu Wu's death, and because the Company's subsidiary was the employer of Shau-ching Tsai, the Company's parent company should pay compensation of NT\$3,437 thousand. However, the Company's parent company disagreed with the ruling of the Keelung District Court and decided to appeal to the Taiwan High Court. In this case, the Company's parent company had bought insurance from the PNI insurance company. If the Court still adjudges that the Company's parent company has responsibility for compensation, the parent company can apply to PNI to pay the insurance compensation.

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8. MAJOR DISASTER LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS

On July 13, 2006, the Company's board of directors approved a resolution to return a portion of the paid-in capital of its subsidiary DONG LIEN MARITIME S.A. (PANAMA). Therefore, the Company's subsidiary decided on July 14, 2006, to return capital of US\$20,000,000 to the Company, and it estimated it would remit back that amount in the third quarter of 2006. The capital of its subsidiary was US\$40,851,392 after the decrease, and it finished the registration of the change in capital on August 2, 2006.

10. OTHERS

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

(2) Summary of employee expenses, depreciation, depletion and amortization

	January 1~June 30					
	2006			2005		
	Operating cost	Operating expense	Total	O p e r a t i n g c o s t	Operating expense	Total
Employee expense						
Payroll	\$ 154,784	25,103	179,887	137,751	20,892	158,643
Insurance	6,144	1,826	7,970	6,611	1,874	8,485
Retirement	-	1,713	1,713	-	1,315	1,315
Others	44,381	994	45,375	41,738	928	42,666
Depreciation	243,042	1,175	244,217	208,949	927	209,876
Depletion	-	-	-	-	-	-
Amortization	41,559	34	41,593	25,446	73	25,519