

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

AND

INDEPENDENT AUDITORS' REPORT

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

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Letter of Representation

In 2006 (from January 1 to December 31, 2006), the Company's related-party companies consolidated in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as those required for a parent and subsidiaries consolidated in accordance with Statement of Financial Accounting Standards No. 7, and the required disclosures of information relating to consolidated statements have already been disclosed in the aforementioned parent and subsidiaries' consolidated financial statements; therefore, consolidated financial statements of related-party companies are not separately prepared.

Company Name: SHIH WEI NAVIGATION CO., LTD.

Chairman:

March 28, 2007

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 December 31, 2006 and 2005, and the related statements of income, changes in stockholders equity, and cash flows for the 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 "Regulations 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 December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China.

March 28, 2007
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
DECEMBER 31, 2006 AND 2005
(amounts expressed in thousands of New Taiwan dollars)

	2006		2005	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 4.1)	\$ 1,626,074	14	1,048,094	11
Financial assets at fair value through profit or loss—current (Note 4.2)	85,100	1	98,400	1
Accounts receivable, net	2,241	-	27,441	-
Other accounts receivable—related party (Note 5)	-	-	2,948	-
Other financial assets—current	280,845	2	40,613	1
Inventories	79,699	1	74,479	1
Deferred income tax asset—current (Note 4.11)	3,179	-	3,843	-
Restricted assets—current (Note 6)	302,872	3	16,127	-
Other current assets	44,914	-	41,077	-
	2,424,924	21	1,353,022	14
FUNDS AND INVESTMENTS				
Long-term investments under equity method (Note 4.3)	69,196	1	63,520	1
Held-to-maturity financial assets (Note 4.2)	36,210	-	3,000	-
Financial assets carried at cost — noncurrent (Note 4.2)	38,868	-	62,778	-
	144,274	1	129,298	1
PROPERTY AND EQUIPMENT (Notes 4.4, 5 and 6)				
Land	79,937	1	79,937	1
Buildings and structures	30,127	-	29,957	-
Transportation equipment	5,300	-	5,300	-
Vessel equipment	10,103,516	88	9,662,342	102
Office furniture and equipment	3,128	-	2,562	-
Leasehold improvements	7,078	-	7,963	-
Prepayments for business facilities	820,713	8	233,220	2
Other equipment	41,062	-	46,244	-
Less: Accumulated depreciation	(2,407,696)	(21)	(2,316,618)	(24)
	8,683,165	76	7,750,907	81
INTANGIBLE ASSETS				
Deferred pension costs	1,359	-	2,022	-
OTHER ASSETS				
Deposits-out	110,485	1	174,143	2
Deferred charges	63,580	1	107,653	1
	174,065	2	281,796	3
TOTAL ASSETS	\$ 11,427,787	100	9,517,045	100
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term debt (Note 4.5)	\$ 210,000	2	-	-
Accounts payable	71,962	1	77,691	1
Income tax payable (Note 4.11)	38,621	-	59,921	1
Accrued expenses	74,257	1	87,118	1
Current portion of long-term liabilities (Note 4.7)	543,651	5	608,985	6
Other current liabilities	66,457	-	87,189	1
	1,004,948	9	920,904	10
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss — noncurrent (Note 4.8)	26,350	-	-	-
Bonds payable (Note 4.8)	368,049	3	-	-
Long-term loans (Note 4.7)	4,432,851	39	4,129,386	43
	4,827,250	42	4,129,386	43
OTHER LIABILITIES				
Accrued pension liability (Note 4.6)	14,674	-	14,470	-
Deposits-in	219	-	185	-
Unrealized gain on sale and leaseback	-	-	28	-
	14,893	-	14,683	-
Total Liabilities	5,847,091	51	5,064,973	53
STOCKHOLDERS' EQUITY				
Capital stock				
Common stock (Note 4.9)	2,784,970	24	2,524,973	27
Capital collected in advance (Note 4.9)	318,110	3	-	-
	3,103,080	27	2,524,973	27
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
Capital surplus—stock option (Note 4.8)	105,555	1	-	-
	278,548	3	172,993	2
Retained earnings (Note 4.10)				
Legal reserve	302,453	3	156,574	2
Special reserve	-	-	37,586	-
Unappropriated retained earnings	1,859,194	16	1,465,375	15
	2,161,647	19	1,659,535	17
Cumulative translation adjustment	42,557	-	99,474	1
Unrecognized pension net loss	(5,136)	-	(4,903)	-
Total Stockholders' Equity	5,580,696	49	4,452,072	47
COMMITMENTS AND CONTINGENCIES (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,427,787	100	9,517,045	100

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 YEARS ENDED DECEMBER 31, 2006 AND 2005
(amounts expressed in thousands of New Taiwan dollars)

	2006		2005	
	Amount	%	Amount	%
Operating revenue, net	\$ 3,251,534	100	3,503,038	100
Operating costs	1,927,745	59	1,891,406	54
Gross operating profit	1,323,789	41	1,611,632	46
Operating expenses	132,982	4	113,756	3
Operating income	1,190,807	37	1,497,876	43
Non-operating income				
Interest income	59,462	2	20,658	1
Investment gain—equity method (Note 4.3)	13,476	-	16,857	-
Cash dividends (Note 4.2)	130,528	4	21,530	1
Gain on disposal of property and equipment (Note 4.4)	265,683	8	931	-
Gain on disposal of investments	6,326	-	569	-
Foreign exchange gain	26,285	1	103,509	3
Gain on valuation of financial liability (Note 4.8)	2,430	-	-	-
Other income	50,171	2	53,608	1
	<u>554,361</u>	<u>17</u>	<u>217,662</u>	<u>6</u>
Non-operating expenses				
Interest expense	245,842	8	185,287	5
Loss on disposal of property and equipment	-	-	348	-
Other expenses	14,565	-	6,333	-
	<u>260,407</u>	<u>8</u>	<u>191,968</u>	<u>5</u>
Income before income tax	1,484,761	46	1,523,570	44
Income tax expense (Note 4.11)	(71,409)	(2)	(64,780)	(2)
Total consolidated net income	<u>\$ 1,413,352</u>	<u>44</u>	<u>1,458,790</u>	<u>42</u>
Distributed to:				
Consolidated net income	\$ 1,413,352	44	1,458,790	42
Minority interest income	-	-	-	-
	<u>\$ 1,413,352</u>	<u>44</u>	<u>1,458,790</u>	<u>42</u>
	Before tax	After tax	Before tax	After tax
Earnings per share in New Taiwan dollars (Note 4.12)				
-Primary earning per share, current period	<u>\$ 5.33</u>	<u>5.07</u>	<u>6.03</u>	<u>5.78</u>
-Primary earning per share, retroactively adjusted	<u>\$ 5.33</u>	<u>5.07</u>	<u>5.47</u>	<u>5.24</u>
-Diluted earning per share, current period	<u>\$ 5.31</u>	<u>5.06</u>	<u>6.03</u>	<u>5.78</u>
-Diluted earning per share, retroactively adjusted	<u>\$ 5.31</u>	<u>5.06</u>	<u>5.47</u>	<u>5.24</u>

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 YEARS ENDED DECEMBER 31, 2006 AND 2005
(amounts expressed in thousands of New Taiwan dollars)

	Capital stock	Capital collected in advance	Capital surplus	Retained earnings			Cumulative translation adjustment	Unrecognized net pension loss	Total
				Legal reserve	Special reserve	Unappropriated earnings			
Balance, January 1, 2005	\$ 2,013,578	-	324,012	67,664	-	910,173	(35,819)	(1,767)	3,277,841
Appropriation of 2004 earnings:									
Special reserve	-	-	-	-	37,586	(37,586)	-	-	-
Legal reserve	-	-	-	88,910	-	(88,910)	-	-	-
Compensation to directors and supervisors	-	-	-	-	-	(6,000)	-	-	(6,000)
Capitalization of employee bonuses	8,000	-	-	-	-	(8,000)	-	-	-
Employee bonuses	-	-	-	-	-	(8,000)	-	-	(8,000)
Capitalization of retained earnings	352,376	-	-	-	-	(352,376)	-	-	-
Cash dividends	-	-	-	-	-	(402,716)	-	-	(402,716)
Capitalization of capital surplus	151,019	-	(151,019)	-	-	-	-	-	-
Net income for 2005	-	-	-	-	-	1,458,790	-	-	1,458,790
Unrecognized net pension loss	-	-	-	-	-	-	-	(3,136)	(3,136)
Cumulative translation adjustment	-	-	-	-	-	-	135,293	-	135,293
Balance, December 31, 2005	2,524,973	-	172,993	156,574	37,586	1,465,375	99,474	(4,903)	4,452,072
Appropriation of 2005 earnings:									
Special reserve revised	-	-	-	-	(37,586)	37,586	-	-	-
Legal reserve	-	-	-	145,879	-	(145,879)	-	-	-
Compensation to directors and supervisors	-	-	-	-	-	(9,000)	-	-	(9,000)
Capitalization of employee bonuses	7,500	-	-	-	-	(7,500)	-	-	-
Employee bonuses	-	-	-	-	-	(11,000)	-	-	(11,000)
Capitalization of retained earnings	252,497	-	-	-	-	(252,497)	-	-	-
Cash dividends	-	-	-	-	-	(631,243)	-	-	(631,243)
Convertible bonds issued	-	-	105,555	-	-	-	-	-	105,555
Capitalization of cash	-	318,110	-	-	-	-	-	-	318,110
Net income for 2006	-	-	-	-	-	1,413,352	-	-	1,413,352
Unrecognized pension net loss	-	-	-	-	-	-	-	(233)	(233)
Cumulative translation adjustment	-	-	-	-	-	-	(56,917)	-	(56,917)
Balance, December 31, 2006	<u>\$ 2,784,970</u>	<u>318,110</u>	<u>278,548</u>	<u>302,453</u>	<u>-</u>	<u>1,859,194</u>	<u>42,557</u>	<u>(5,136)</u>	<u>5,580,696</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 YEARS ENDED DECEMBER 31, 2006 AND 2005
(amounts expressed in thousands of New Taiwan dollars)

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total consolidated net income	\$ 1,413,352	1,458,790
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	498,151	452,290
Amortization	73,787	58,909
Transfer of deferred charges to operating expenses	1,655	450
Recovery of liquidating dividends—financial assets at cost (noncurrent)	(480)	(3,846)
Investment gain—equity method	(13,476)	(16,857)
Gain on disposal of property and equipment	(265,683)	(931)
Interest expenses of convertible bonds	2,384	-
Gain on disposal of investments	(6,326)	(221)
Gain on valuation of financial liability	(2,430)	-
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	18,856	(96,301)
Notes and accounts receivable, net	25,047	4,731
Other accounts receivable—related party	-	(2,892)
Other financial assets — current	(237,408)	57,598
Inventories	(5,714)	(14,898)
Deferred income tax assets — current	664	(1,734)
Other current assets	(3,490)	26,549
Accounts payable	(5,227)	21,429
Income tax payable	(21,301)	28,714
Accrued expenses	(12,406)	1,739
Other current liabilities	(20,220)	(59)
Accrued pension liability	634	864
Net cash provided by operating activities	<u>1,440,369</u>	<u>1,974,324</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from repayment of long-term investments under equity method	7,319	10,859
Sale of property and equipment	507,921	952
Purchases of property and equipment	(1,702,846)	(1,396,884)
Purchases of held-to-maturity financial assets — noncurrent	(33,210)	-
Proceeds from repayment of financial assets carried at cost	24,020	-
Purchases of financial assets at cost — noncurrent	-	(26,395)
Decrease in deposits-out	62,370	162,347
Increase in deferred charges	(60,036)	(79,007)
Increase in restricted assets	(286,863)	-
Net cash used in investing activities	<u>(1,481,325)</u>	<u>(1,328,128)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term debt	210,000	-
Increase in convertible bonds	500,000	-
Increase in long-term liabilities	272,604	307,552
Increase (decrease) in deposits-in	34	(10)
Increase in capital collected in advance	318,110	-
Distribution of cash dividends	(631,243)	(402,716)
Employee bonuses and compensation to directors and supervisors	(20,000)	(14,000)
Net cash provided by (used in) financing activities	<u>649,505</u>	<u>(109,174)</u>
EXCHANGE RATE EFFECT	<u>(30,569)</u>	<u>23,403</u>
Net increase in cash and cash equivalents	577,980	560,425
Cash and cash equivalents, beginning of period	1,048,094	487,669
Cash and cash equivalents, end of period	<u>\$ 1,626,074</u>	<u>1,048,094</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest (excluding capitalized interest)	<u>\$ 247,548</u>	<u>178,108</u>
Cash paid during the period for income tax	<u>\$ 92,046</u>	<u>37,800</u>
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:		
Reclassification of long-term liabilities due in one year	<u>\$ 543,651</u>	<u>608,985</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

DECEMBER 31, 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 Act 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 35 Companies. In August 2006, the Company invested in a wholly owned (100%) subsidiary, FORTUNATE MARITIME S.A. (PANAMA). As of December 31, 2006, the Company and its subsidiaries owned 26 vessels: Gallant, Babitonga (Great), Paragon, Best, Majestic, Elegant, Brave, Advance, Oceanic, Buenos Aires (Giant), Blossom, Royal, Shining, Brilliant, Sunny, Scan Bulker, Grand, Excellent, Honor, Noble SW (Bright), Superior, Genius, Unicorn Brilliant, Nordana Mathilde (Leader), Luxury SW(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 their spare parts wholesale businesses.
- (4) The ships and their 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 December 31, 2006, the number of employees was 635.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and accounting principles generally accepted in the R.O.C. 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 December 31, 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%
FORTUNATE MARITIME S.A. (PANAMA)	Aug. 03, 2006	"	"	"
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	"	"	"

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

Name of subsidiary company	Date established	Relationship with the Company	Main business	The Company's ownership as of December 31, 2006
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 PESCADORES S.A. (PANAMA)	Jan. 20, 2006	"	"	"
VIGOR PESCADORES S.A. (PANAMA)	Jan. 20, 2006	"	"	"
TRUMP PESCADORES S.A. (PANAMA)	Mar. 24, 2006	"	"	"
FOURSEAS PESCADORES S.A. (PANAMA)	Jun. 02, 2006	"	"	"
HUGE PESCADORES S.A. (PANAMA)	Aug. 25, 2006	"	"	"
FAIR PESCADORES S.A. (PANAMA)	Aug. 25, 2006	"	"	"
FOREVER PESCADORES S.A. (PANAMA)	Oct. 31, 2006	"	"	"
ETERNITY PESCADORES S.A. (PANAMA)	Oct. 31, 2006	"	"	"
FEDERAL PESCADORES S.A. (PANAMA)	Oct. 31, 2006	"	"	"

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 invested in FORTUNATE MARITIME S.A. (PANAMA) during 2006, and DONG LIEN MARITIME S.A. (PANAMA) invested in GLARING PESCADORES S.A. (PANAMA), VIGOR PESCADORES S.A. (PANAMA), TRUMP PESCADORES S.A. (PANAMA), FOURSEAS PESCADORES S.A. (PANAMA), HUGE PESCADORES S.A. (PANAMA), FAIR PESCADORES S.A. (PANAMA), FOREVER PESCADORES S.A. (PANAMA), ETERNITY PESCADORES S.A. (PANAMA) and FEDERAL PESCADORES S.A. (PANAMA) during 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.

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

- 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.
- i. Other important items in the consolidated financial statements of subsidiaries: 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 "The Effects of Changes in Foreign Exchange Rates". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into NT dollars at foreign exchange rates ruling at the dates the fair value was determined.

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

(3) Accounting estimation

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

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

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

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

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.

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

(7) Financial assets

The Consolidated Companies adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement" 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) 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.
- (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.

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.

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

(8) Derivative financial instruments and hedging

The derivative financial instruments held by the Company are for hedging the risk of changes in foreign currency exchange rates and interest rates resulting from operational, financial and investment activities. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

(9) Allowance for doubtful accounts

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

(10) Inventories

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

(11) Long-term investment under equity method

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 are 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.

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

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

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

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

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 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. Moreover, 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 defined benefit 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

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

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 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. If the average remaining service life is shorter than 15 years, then 15 years is used.

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) Convertible bonds

Convertible bonds issued by the Company on or after January 1, 2006, comprise convertible notes that can be converted into share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a convertible bond is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the convertible bond as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a convertible bond is measured at amortized cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a convertible bond is not remeasured subsequent to initial recognition.

(16) 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.

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

(17) Income tax

The Company adopted 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 to 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.

(18) Earnings per share of common stock

The computation of basic earnings per share is based on the weighted-average number of outstanding ordinary shares. The convertible bonds that the Company issued are potential common stock. If the potential common stock is not dilutive, the Company only discloses primary earnings per share; if it is dilutive, the Company also discloses diluted earnings per share. Net income and outstanding ordinary shares both need to be adjusted for the influence of including dilutive potential common stock. Stock dividends and new common stock issued through retained earnings, capital surplus, and employees' bonuses are included in the computation of outstanding shares retroactively.

3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES

Starting from January 1, 2006, the Company adopted the newly released Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement", and adopted SFAS No. 36, "Financial Instruments: Disclosure and Presentation". Such change in accounting principle had no effect on the consolidated income and earnings per share of 2006. Please refer to Notes 4(2) and 4(13).

4. SUMMARY OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 393	404
Petty cash	18,812	19,239
Bank deposits		
Checking accounts	49,076	973
Savings accounts	518,899	63,893
Foreign currency deposits	34,169	46,980
Time deposits	1,004,725	916,605
Total	<u>\$ 1,626,074</u>	<u>1,048,094</u>

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

(2) Financial assets

	<u>2006</u>	<u>2005</u>
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Beneficiary certificates – Franklin Templeton Global Bond Fund	\$ 42,315	32,800
Beneficiary certificates – Shinkong NT\$ High Yield Fund	20,000	-
1 Year Absolute Return Notes on a Basket of Global Securities	6,510	-
9 Months Absolute Return Notes on a Basket of United States and European Securities	16,275	-
Re-Purchase Bond Fund issued by Bank SinoPac	-	65,600
Total	<u>\$ 85,100</u>	<u>98,400</u>
 Held-to-maturity financial assets – noncurrent		
Financial bond investments – The Chinese Bank	\$ 3,000	3,000
Bond investments – Deutsche Bank Aktiengesellschaft	33,210	-
	<u>\$ 36,210</u>	<u>3,000</u>
 Financial assets carried at cost – noncurrent		
Investment in stock – K/S DANRED I (original investment cost US\$518,545)	\$ 16,721	16,241
Investment in stock – ETERNAL PESCADORES S.A. (PANAMA) (original investment cost US\$461,290)	-	15,130
Investment in stock – HARMONY SUCCESS S.A. (PANAMA) (original investment cost US\$653,600)	21,275	30,528
Investment in stock – LANDO CO., LTD. (original investment cost JPY 3,000,000)	872	879
Total	<u>\$ 38,868</u>	<u>62,778</u>

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

Derivative financial instruments:

The following is a summary of the derivative financial instruments as of December 31, 2006 and 2005:

Item	2006		2005	
	Book Value	Nominal Principal	Book Value	Nominal Principal
Derivative financial assets				
Equity-linked notes	\$ -	JPY 766,340 thousand	-	-
1 Year Absolute Return Notes on a Basket of Global Securities	6,510	USD 200 thousand	-	-
9 months Absolute Return Notes on a Basket of United States and European Securities	16,275	USD 500 thousand	-	-
	<u>\$ 22,785</u>		<u>-</u>	-
Derivative financial liability:				
Foreign option	<u>\$ -</u>	USD 1,200 thousand	<u>-</u>	-

- a. In accordance with interpretation (94) No. 16 of the ROC Accounting Research and Development Foundation, accounts of the Company's financial report for 2006 have been renamed in accordance with Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement". As of December 31, 2005, the originally accounted for short-term investment of \$101,400 was reclassified as financial assets at fair value through profit or loss – current of \$98,400, and the long-term investment under the cost method of \$62,778 was reclassified as financial assets carried at cost – noncurrent of \$62,778.
- b. Derivative financial asset—The Company purchased 1 Year Absolute Return Notes on a Basket of Global Securities and 9 Months Absolute Return Notes on a Basket of United States and European Securities issued by CALYON Financial Products (Guernsey) Limited, from Hua Nan Commercial Bank, Ltd. and the Land Bank of Taiwan, respectively, during 2006. CALYON Financial Products (Guernsey) Limited will pay the Note holder the larger of 3% annually or the participation rate multiplied by the minimum absolute value of the stock performance rate if the Company holds the above Notes to the maturity date.

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

- c. Derivative financial liability—The Company and subsidiaries bought a 14-day foreign option with an assured rate in US dollars from Hua Nan Bank, Jin 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 and subsidiaries can receive the exchange gain at the contract rate.
- d. The Company bought the 5-year 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.
- e. The Company bought the 3-year bond issued by Deutsche Bank Aktiengesellschaft with face value of \$33,210 (US\$1,000 thousand) on November 1, 2006, and the maturity date is November 1, 2009. The interest rate is 4.85%, and the interest will be calculated every year. At the maturity date, the Company can get back all the principal.
- f. The Company invested in K/S DANRED I Corporation of Denmark in 1999. This 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 December 31, 2006. During the 2006 and 2005, the Company received cash dividends of \$13,168 (including liquidating dividends of \$480) and \$19,330 (including liquidating dividends of \$3,846), respectively.
- g. 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 has a 19% shareholding. As of December 31, 2006, the company had been closed and had returned original investment amounting to \$15,006 (US\$461). During 2006 and 2005, the Company's subsidiary received cash dividends of \$98,682 (US\$3,034 thousand) and \$2,200 (US\$68,400), respectively.

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

- h. 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 returned investment amounting to \$9,014 (US\$277 thousand). As of December 31, 2006, the Company invested in HARMONY SUCCESS S.A. (PANAMA) amounting to \$21,275 (US\$654 thousand). During 2006 and 2005, the Company received cash dividends of \$18,678 (US\$574 thousand) and zero, respectively, from the investee company.
- i. The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) invested in LANDO CO., LTD. during August 2005. As of December 31, 2006, the subsidiary company had 18.75% ownership and had paid \$872 (JPY 3,000 thousand).

(3) Long-term investments under equity method

<u>December 31, 2006</u>	<u>Share</u>	<u>Amount</u>	<u>Ownership</u>
EUROASIA II INC., PANAMA	45	<u>\$ 69,196</u>	45%
(original investment cost US\$1,022,173 NT\$33,036 thousand)			
<u>December 31, 2005</u>	<u>Share</u>	<u>Amount</u>	<u>Ownership</u>
EUROASIA II INC., PANAMA	45	<u>\$ 63,520</u>	45%
(original investment cost US\$1,022,173 NT\$33,036 thousand)			

- 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. The Company's subsidiary had paid \$199 (US\$6,180) for EUROASIA III INC., whose assets, liabilities, and equities were transferred to EUROASIA II INC., PANAMA. Investment gain (loss) recognized for 2006 and 2005 based on the audited financial statements with unqualified opinion issued by both of the investee

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

companies' independent auditors is detailed below:

Investee company	2006	2005
	Investment gain (loss)	Investment gain (loss)
	\$ 13,476	16,725
EUROASIA II INC., PANAMA		
EUROASIA III INC., PANAMA	-	132
Total	\$ 13,476	16,857

Note: The Company's subsidiary returned capital of \$7,319 (US\$225,000) and \$10,859 (US\$337,500) from long-term investments in EUROASIA II INC., PANAMA due to its decrease in capital in 2006 and 2005, respectively.

(4) Property and equipment

	Accumulated		
	Cost	Depreciation	Net Amount
2006			
Land	\$ 79,937	-	79,937
Buildings and structures	30,127	3,415	26,712
Transportation equipment	5,300	1,104	4,196
Vessel equipment	10,103,516	2,378,442	7,725,074
Office furniture and equipment	3,128	239	2,889
Leasehold improvements	7,078	2,843	4,235
Prepayments for business facilities	820,713	-	820,713
Other equipment	41,062	21,653	19,409
Total	\$ 11,090,861	2,407,696	8,683,165
2005			
Land	\$ 79,937	-	79,937
Buildings and structures	29,957	2,407	27,550
Transportation equipment	5,300	221	5,079
Vessel equipment	9,662,342	2,289,928	7,372,414
Office furniture and equipment	2,562	841	1,721
Leasehold improvements	7,963	4,894	3,069
Prepayments for business facilities	233,220	-	233,220
Other equipment	46,244	18,327	27,917
Total	\$ 10,067,525	2,316,618	7,750,907

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

- a. The Company disposed of the vessel Trump and its vessel equipment at a sale price of US\$4,000 thousand (NT\$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 entire sales price. The gain on disposal of the vessel and its equipment was \$47,635.
- b. A Company subsidiary, MOON BRIGHT PESCADORES S.A. (PANAMA), disposed of the vessel Federal and its vessel equipment at a sale price of US\$11,700 thousand (NT\$380,701) during November 2006. The book value of the vessel Federal and its equipment amounted to \$132,982 and \$29,700, respectively. The gain on disposal of the vessel and its equipment was \$218,019.

(5) Short-term debt

Item	Period	Amount
2006		
Secured loans	Current portion	\$ 210,000

The Company provided restricted assets—foreign currency deposits as collateral for the above secured loans. The loans bore interest of 2.42% ~ 2.5% for 2006.

(6) Pension reserve

- a. As of December 31, 2006 and 2005, the Company's pension expenses were as follows:

	2006	2005
Pension reserve account balance, end of year	\$ 6,548	4,877
Pension expenses:		
Defined benefit net pension cost	2,171	2,207
Defined contribution net pension cost	2,230	967
Accrued pension liabilities	14,674	14,470

- b. In 2006 and 2005, under the defined contribution pension plan, the Company contributed pension expenses amounting to \$2,230 and \$967, respectively, to the Bureau of Labor Insurance.

- c. Effective on December 31, 1996, the Company adopted SFAS No. 18, "Accounting for Pensions".

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

d. Components of net periodic pension cost for the year

	<u>2006</u>	<u>2005</u>
Service cost	\$ 613	1,052
Interest cost	724	489
Projected return on plan assets	(158)	(104)
Amortization	992	770
Net periodic pension costs	<u>\$ 2,171</u>	<u>2,207</u>

e. Reconciliation of the funded status of the plan and accrued pension cost at December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Discount rate	3.25%	3.00%
Future salary increase rate	2.00%	1.50%
Expected rate of return on pension fund assets	3.25%	3.00%
	<u>2006</u>	<u>2005</u>
Benefit obligation		
Vested benefit obligation	(\$ 9,245)	(7,171)
Non-vested benefit obligation	(11,977)	(12,176)
Accumulated benefit obligation	(21,222)	(19,347)
Additional benefits based on future salaries	(2,988)	(2,931)
Projected benefit obligation	(24,210)	(22,278)
Fair value of plan assets	6,548	4,877
Funded status	(17,662)	(17,401)
Unrecognized net transitional obligation	59	71
Unrecognized prior service cost	1,300	1,951
Unrecognized net loss	8,124	7,834
Additional minimum pension liability	(6,495)	(6,925)
Accrued pension liability	<u>(\$ 14,674)</u>	<u>(14,470)</u>

As of December 31, 2006 and 2005, vested benefit obligation under the pension plan amounted to \$9,551 and \$7,468, respectively.

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

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

	<u>2006</u>	<u>2005</u>
Secured loans	\$ 4,706,524	4,586,371
Credit loans	270,248	152,000
Less: current portion	(543,651)	(608,985)
Net amount	<u>\$ 4,432,851</u>	<u>4,129,386</u>

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 0.862%~6.99% and 1.125%~6.993% for 2006 and 2005, respectively.

(8) Corporate bonds payable

On November 30, 2005, the Company issued the 2nd domestic unsecured convertible bonds.

In accordance with ROC Statement of Financial Accounting Standards No. 36, the convertible bonds are split into convertible option and liability components, and recorded as equity and liability components, respectively.

The information on the convertible bonds is as follows:

	<u>2006</u>
Issue amount	\$ 500,000
Equity component	(105,555)
Liability component	394,445
Evaluation	(2,430)
Interest expense	2,384
Total	<u>\$ 394,399</u>

The equity component was recorded as capital surplus — stock option. The liability component was recorded as financial liabilities at fair value through profit or loss — noncurrent of \$26,350, bonds payable of \$368,049, and gain on valuation of financial liability of \$2,430.

The Company issued \$500,000 thousand worth of Taiwan domestic convertible bonds on November 30, 2006, for which the final terms and conditions were as follows:

- (i) Coupon rate: 0%
- (ii) Issue period: From November 30, 2006, to November 30, 2011.
- (iii) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 150% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the

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

issue amount.

(iv) Conversion

A) The bondholders can ask the Company to convert the convertible bonds into common stock during the period from one month after the issue date to ten days before the maturity date.

B) Conversion price: \$29.8

(9) Capital stock

As of December 31, 2006 and 2005 the Company's authorized share capital consisted of 380,000 thousand shares of common stock, at NT\$10 par value per share, of which 278,497 and 252,497 thousand shares, respectively, were issued and outstanding.

On August 25, 2006, the Company's board of directors approved a resolution for cash subscription by issuing 25,000 thousand shares and the 2nd domestic unsecured convertible bonds amounting to \$500,000 thousand to be the capital for the Company's investment in a wholly owned (100%) subsidiary, FORTUNATE MARITIME S.A. (PANAMA).

On October 31, 2006, the Company's board of directors approved a resolution for cash subscription by issuing 25,000 thousand shares of common stock at an issuance price of \$21.50 per share. As of December 31, 2006, capital collected in advance amounted to \$318,110. The stock issuance was authorized by and registered with the government authorities on January 19, 2007.

(10) 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.

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

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
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

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:

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

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.

(11) Income tax

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

	2006	2005
Increase income tax payable	\$ 37,813	56,571
Decrease (increase) in deferred income tax assets – current	664	(1,734)
Income tax prepayment and withholding	35,471	11,318
Over-accrual of prior years' income tax expense	(2,539)	(1,375)
Income tax expense	\$ 71,409	64,780

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

The components of income tax expense were as follows:

	2006	2005
Income tax currently payable	\$ 28,700	67,889
Deferred income tax expense (revenue)	664 (1,734)
Over-accrual of prior years' income tax expense	(2,539)	(1,375)
Additional 10% surtax on undistributed earnings	44,584	-
Income tax expense	\$ 71,409	64,780

- b. The Company adopted the 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 2006 and 2005 was as follows:

	2006	2005
Income tax effects of income before income tax calculated using the actual tax rate (25%)	\$ 371,180	380,883
Permanent difference		
Investment income — equity method (excluding cash dividend)	(339,689)	(313,745)
Gain on disposal of investments	(1,581)	(142)
Gain on valuation of financial liability	(607)	-
Other	61	(841)
Temporary difference		
Foreign exchange (gain) loss	(822)	1,518
Pension expense	158	216
Income tax currently payable	\$ 28,700	67,889

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

	2006	2005
Foreign exchange (gain) loss	(\$ 822)	1,518
Pension expense	158	216
Deferred income tax (expense) revenue	(\$ 664)	1,734

- d. As of December 31, 2006 and 2005, deferred income tax assets and liabilities due to

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

temporary differences and income tax effects were as follows:

	2006	2005
Total deferred tax assets	\$ 3,179	3,843
Total deferred tax liabilities	\$ -	-
Taxable temporary differences		
	2006	2005
Deferred income tax assets — current		
- Bad debt expense	\$ 1,800	1,800
- Pension expense	8,494	7,863
- Loss on foreign exchange	2,421	5,710
Net amount	\$ 12,715	15,373
Tax effect		
	2006	2005
Deferred income tax assets — current		
- Bad debt expense	\$ 450	450
- Pension expense	2,123	1,965
- Loss on foreign exchange	606	1,428
Net amount	\$ 3,179	3,843

- e. The Company's income tax returns were examined by the Tax Authority through 2004, and additional tax amounting to \$3,350 was assessed for 2003. 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 as income tax expenses in 2005. As of December 5, 2006, additional tax amounting to \$808 was assessed. The \$808 was paid in full at February 15, 2007.

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

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 administrative tax appeals of 2001 and 2000, the Tax Authority decided to

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

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 paid the additional tax in July 2005.

f. As of December 31, 2006 and 2005, the Company's income tax payable of 2003 was \$808 and \$3,350, respectively.

g. Related information on imputation tax:

	2006	2005
Balance of stockholders' imputation credit account	\$ 59,517	19,734
	2006	2005
Estimated (actual) imputation credit ratio of earnings distribution	(estimated) 5.24%	(actual) 5.16%

h. Related information on undistributed earnings

	2006	2005
Undistributed earnings of 1997 and before	\$ -	-
Undistributed earnings of 1998 and after	1,859,194	1,465,375
Total	\$ 1,859,194	1,465,375

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

(12) Earnings per share

The Company's primary and diluted earnings per share for 2006 and 2005 are calculated as follows:

	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
Unit: NTD'000s/Shares'000s; Earnings per share: NTD				
Primary earnings per share				
— Current period				
Consolidated net income attributed to common shareholders	\$ 1,484,761	1,413,352	1,523,570	1,458,790
Weighted-average number of shares outstanding	278,497	278,497	252,497	252,497
Primary earnings per share	\$ 5.33	5.07	6.03	5.78
— Retroactively adjusted				
Weighted-average number of shares outstanding	278,497	278,497	252,497	252,497
Primary earnings per share — retroactively adjusted	\$ 5.33	5.07	5.47	5.24
Diluted earnings per share				
Net income	\$ 1,484,761	1,413,352	1,523,570	1,458,790
Effect of dilutive potential common stock — convertible bonds	2,384	1,788	-	-
Net income — diluted	\$ 1,487,145	1,415,140	1,523,570	1,458,790
— Current period				
Weighted-average number of shares outstanding	\$ 278,497	278,497	278,497	278,497
Income to bonds assumed to be converted	1,398	1,398	-	-
Weighted-average number of shares outstanding — diluted	\$ 279,895	279,895	278,497	278,497
— Retroactively adjusted				
Weighted-average number of shares outstanding	\$ 278,497	278,497	278,497	278,497
Effect of dilutive potential common stock — convertible bonds	1,398	1,398	-	-
Weighted-average number of shares outstanding — diluted	\$ 279,895	279,895	278,497	278,497
Diluted earnings per share — current period	\$ 5.31	5.06	6.03	5.78
Diluted earnings per share — retroactively adjusted	\$ 5.31	5.06	5.47	5.24

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

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

(13) Information on financial instruments

a. Information on fair value of financial instruments

As of December 31, 2006 and 2005, the information on the fair value of the Company's financial assets and liabilities was as follows:

Non-Derivative Financial Instruments	2006		2005	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 1,626,074	1,626,074	1,048,094	1,048,094
Financial assets at fair value through profit or loss – current	62,315	65,815	98,400	97,905
Accounts receivable, net	2,241	2,241	27,441	27,441
Other accounts receivable – related party	-	-	2,948	2,948
Other financial assets – current	280,845	280,845	40,613	40,613
Restricted assets	302,872	302,872	16,127	16,127
Held-to-maturity financial assets – noncurrent	36,210	35,632	3,000	3,027
Financial assets carried at cost – noncurrent	38,868	-	62,778	-
Deposits-out	110,485	110,485	174,143	174,173
Financial Liabilities				
Short-term debt	210,000	210,000	-	-
Accounts payable	71,962	71,962	77,691	77,691
Income tax payable	38,621	38,621	59,921	59,921
Accrued expenses	74,257	74,257	87,118	87,118
Other financial liability	4,389	4,389	2,776	2,776
Bonds payable	368,049	368,049	-	-
Long-term loans	4,976,502	4,976,502	4,738,371	4,738,371
Deposits-in	219	219	185	185
Derivative Financial Instruments				
Financial Assets				
Foreign options	\$ -	488	-	-
9 Months Absolute Return Notes on a Basket of United States and European Securities	16,275	15,819	-	-
1 Year Absolute Return Notes on a Basket of Global Securities	6,510	6,380	-	-
Financial Liabilities				
Financial liabilities at fair value through profit or loss – noncurrent	26,350	26,350	-	-
Foreign options	-	456	-	-

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

- b. 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, agency current, restricted assets, deposits-out, short-term debt, long-term loans, accounts payable, accrued tax payable, accrued expenses, other financial liabilities—current, bonds payable and deposits-in.
 - ii. Financial assets at fair through profit or loss: Fair values of derivatives and structured time deposits were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
 - iii. Held-to-maturity financial assets: Debt securities which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost under the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization.
 - iv. 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 value.
 - v. 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. If the appointed rate is fixed, the fair value of the long-term loans is estimated by the present value of expected cash flow. For loans whose maturity dates are close to each other, the discount rates are similar.
 - vi. The fair value of bonds payable is the discounted future cash flows, and the discounted rates are similar to convertible bonds.
 - vii. For the above-mentioned derivative financial assets labeled as financial assets at fair value through profit or loss—current and derivative financial liabilities labeled as financial liabilities at fair value through profit or loss—current, the fair value of derivative financial instruments, which include unrealized gains or losses on unsettled contracts, are determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date.
- c. For the financial assets provided by the Company as collateral as of December 31, 2006

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

and 2005, please refer to Note 6.

- d. The fair value of financial assets and liabilities based on quoted market prices or other valuation techniques used by the Company was as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Based on quoted market prices</u>	<u>Determined by using valuation techniques</u>	<u>Based on quoted market prices</u>	<u>Determined by using valuation techniques</u>
Financial Assets				
Cash and cash equivalents	\$ -	1,626,074	-	1,048,074
Financial assets at fair value through profit or loss — current	88,502	-	97,905	-
Accounts receivable, net	-	2,241	-	27,441
Other accounts receivable—related party	-	-	-	2,948
Other financial assets — current	-	280,845	-	40,613
Restricted assets	-	302,872	-	16,127
Held-to-maturity financial assets— noncurrent	-	35,632	-	3,027
Deposits — out	-	110,485	-	174,143
Financial Liabilities				
Short-term debt	-	21,000	-	-
Account payable	-	71,962	-	77,691
Income tax payable	-	38,621	-	59,921
Accrued expenses	-	74,257	-	87,118
Other financial liabilities	-	4,389	-	2,776
Financial liabilities at fair value through profit or loss — noncurrent	-	26,350	-	-
Bonds payable	-	368,049	-	-
Long-term loans	-	4,976,502	-	4,738,371
Deposits—in	-	219	-	185

- e. As of December 31, 2006 and 2005, the financial assets exposed to fair value interest rate risk were \$1,037,935 and \$916,605, respectively. The financial liabilities were \$368,049 and \$0, respectively. The financial assets exposed to cash flow interest rate risk were both \$3,000, and the financial liabilities were \$5,186,502 and \$4,738,371, respectively.

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

f. For the year ended December 31, 2006 the evaluation gain on financial assets and liabilities at fair value through profit or loss amounted to \$2,430.

g. Financial risk

i. Market risk

The securities held by the Company are classified into financial assets at fair value through profit or loss—current. The Company will be exposed to market price risk of securities because financial assets are evaluated at fair value.

The Company's bond investments (recorded as held-to-maturity financial assets—noncurrent)—Deutsche Bank Aktiengesellschaft were computed using annual fixed rates. Therefore, the fair value changed along with the market rate. If the market interest rate rises 1%, the fair value of the bond investment would decrease \$959.

ii. Credit risk

Financial bond investments held by the Company were purchased from financial institutions with good credit ratings. The Company controls the credit risk exposure to each financial institution, and judged that there was no significant concentration of 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. For the amount of endorsement guarantees as of December 31, 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

As December 31, 2006, The Company's short-term and long-term loans 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 rate rises 1%, the Company's cash outflow would increase \$51,865 in the future.

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

5. RELATED-PARTY TRANSACTIONS

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

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

(2) Significant transactions with related parties

a. Sales

<u>Name of related party</u>	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ 33,856	1	32,642	1

The Company acted as the related party's agent for vessel management and charged it management fees. The sales price and collection period for the Company's sales to the related party are according to mutually agreed-upon terms.

b. Other accounts receivable — related party

<u>Name of related party</u>	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
WISDOM MARINE LINES S.A.	\$ -	-	2,948	100

c. Advance receipts (recorded as other current liabilities)

<u>Name of related party</u>	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ -	-	2,902	3

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

d. Related parties paid the Company rental monthly according to the lease contract for part of an office building, as follows:

<u>Name of related party</u>	<u>2006</u>	<u>2005</u>
DONG LIEN SHIPPING CO., LTD.	\$ 64	96
COMPASS INVESTMENTS CO., LTD.	15	-
Total	<u>\$ 79</u>	<u>96</u>

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

f. The disposal agreements for vessels M/V ROMANTIC signed by the DONG LIEN SHIPPING CO., LTD. amounted to \$3,000 at December 28, 2006. As of December 31, 2006, the amount of the sale had not been received, and the company estimated the gain on disposal of the vessels to be \$172.

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 December 31, 2006 and 2005.

<u>Name of asset</u>	<u>2006</u>	<u>2005</u>
Property and equipment (net book value)		
-Land	\$ 79,937	79,937
-Buildings and structures	26,712	25,087
-Vessel equipment	7,223,778	7,295,729
Prepayment for vessel equipment	177,722	-
Restricted assets	302,872	16,127
Total	<u>\$ 7,811,021</u>	<u>7,416,880</u>

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

7. COMMITMENTS AND CONTINGENCIES

As of December 31, 2006 and 2005, the Company's commitments and contingencies were as follows:

(1) The Company had significant contracts as follows:

<u>Contract Title</u>	<u>Contracting Party</u>	<u>Period Covered</u>	<u>Contents</u>
Management Contract	K/S DANRED I	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 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 December 31, 2006 and 2005, the Company was provided endorsement guarantees by other companies amounting to zero and US\$10,910 thousand, 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, but the defendant has no assets to pay any judgment. 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.

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

- (4) 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.
- (5) 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. It was mutually agreed by the two parties that the full and final settlement amounted to NT\$2,100 thousand. All of the indemnity has been paid by the PNI insurance company to Shau-Ching Tsai's family members.
- (6) The construction and purchase agreements for vessels signed by the subsidiaries of a Company subsidiary amounted to JPY31,769,700 thousand and US\$26,000 thousand as of December 31, 2006, and JPY7,511,400 thousand as of December 31, 2005. They had paid JPY2,405,836 thousand as of December 31, 2006, and JPY784,100 thousand as of December 31, 2005 (recorded as prepayments for business facilities).
- (7) The disposal agreements for vessel M/V ROMANTIC signed by DONG LIEN SHIPPING CO., LTD. amounted to \$3,000 at December 28, 2006. As of December 31, 2006, the amount of the sale had not been received, and the company estimated the gain on disposal of the vessel to be \$172.

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

(8) As of December 31, 2006, the purchase agreements for vessels signed by the subsidiaries of a Company subsidiary were as follows:

<u>Contents date</u>	<u>Seller</u>	<u>Buyer</u>	<u>Vessel's name</u>	<u>Price</u>	<u>Delivery date</u>
2006/9/26	FODAS MARITIME S.A. PANAMA	FORTUNATE MARITIME S.A. PANAMA	FODAS PESCADORES	USD12,000	2007/01/15
2006/11/13	ELEGANT PESCADORES S.A. (PANAMA)	SALT LINE CO., S.A. & NIPPON SHIO KAISO CO., LTD.	ELEGANT PESCADORES	USD 5,290	2007/02/02
2006/12/25	UNICORN BRILLIANT S.A. (PANAMA)	VIETNAM NATIONAL SHIPPING LINES	UNICORN BRILIANT	USD12,500	2007/01/22

8. MAJOR DISASTER LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS

(1) On October 31, 2006, the Company's board of directors approved a resolution for cash subscription by issuing 25,000 thousand shares of common stock at an issuance price of \$21.50.

On January 5, 2007, the Company received all of the money. On January 19, 2007, the stock issuance was authorized by and registered with the government authorities.

(2) In order to provide complete service, dispose of old vessels, and improve international competitiveness, the Company's board of directors approved a resolution for purchase of two vessels from ONOMICHI DOCKYARD CO., LTD. for JPY3,170,000 thousand on February 8, 2006.

(3) The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) sold 45% of its EUROASIA II INC. PANAMA shareholding to DANSK REDERI A/S COPENHAGEN, and estimated the gain on disposal to be US\$5,000 thousand.

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

10. OTHERS

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

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

	2006			2005		
	Operating cost	Operating expense	Total	O p e r a t i n g c o s t	Operating expense	Total
Employee expenses						
Payroll	\$ 318,952	54,137	373,089	295,687	47,921	343,608
Insurance	13,731	4,007	17,738	12,361	3,833	16,194
Retirement	-	4,401	4,401	-	3,174	3,174
Others	97,868	2,019	99,887	80,205	1,864	82,069
Depreciation	495,758	2,393	498,151	450,268	2,022	452,290
Depletion	-	-	-	-	-	-
Amortization	73,685	102	73,787	58,755	154	58,909

Some items on the financial statements of 2005 of the Company were reclassified to conform with the financial statements of 2006; the reclassification has no great influence on the financial statements.