

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

**AND**

**INDEPENDENT AUDITORS' REPORT**

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

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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, 2007 and 2006, 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 "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 June 30, 2007 and 2006, and the results of their operations and their cash flows for the half-years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.

August 20, 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**  
**JUNE 30, 2007 AND 2006**  
(amounts expressed in thousands of New Taiwan dollars)

	June 30			
	2007		2006	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 4(1))	\$ 2,416,751	19	1,195,690	12
Financial assets at fair value through profit or loss—current (Note 4(2))	194,273	2	32,320	-
Accounts receivable, net	6,773	-	4,287	-
Other financial assets—current	115,896	1	41,740	-
Inventories	100,404	1	90,082	1
Deferred income tax asset—current (Note 4(10))	4,148	-	3,211	-
Restricted assets—current (Note 6)	13,397	-	-	-
Other current assets	37,260	-	40,294	-
	<u>2,888,902</u>	<u>23</u>	<u>1,407,624</u>	<u>13</u>
<b>FUNDS AND INVESTMENTS</b>				
Long-term investments under equity method (Note 4(3))	-	-	69,691	1
Financial assets at fair value through profit or loss—noncurrent (Notes 4(2) and (7))	24,408	-	-	-
Held-to-maturity financial assets—noncurrent (Note 4(2))	36,210	-	3,000	-
Financial assets carried at cost—noncurrent (Note 4(2))	39,045	-	53,620	1
	<u>99,663</u>	<u>-</u>	<u>126,311</u>	<u>2</u>
<b>PROPERTY AND EQUIPMENT (Notes 4(4), 5 and 6)</b>				
Land	79,937	1	79,937	1
Buildings and structures	30,127	-	29,957	-
Transportation equipment	6,460	-	5,300	-
Vessel equipment	10,452,971	84	9,963,668	101
Office furniture and equipment	3,407	-	2,562	-
Leasehold improvements	-	-	3,290	-
Prepayments for business facilities	1,198,783	10	354,206	4
Other equipment	43,383	-	47,168	-
Less: Accumulated depreciation	( 2,467,974)	( 20)	( 2,366,687)	( 24)
	<u>9,347,094</u>	<u>75</u>	<u>8,119,401</u>	<u>82</u>
<b>INTANGIBLE ASSETS</b>				
Deferred pension costs	1,359	-	2,022	-
<b>OTHER ASSETS</b>				
Deposits-out	71,561	1	151,420	2
Deferred charges	102,129	1	104,699	1
	<u>173,690</u>	<u>2</u>	<u>256,119</u>	<u>3</u>
<b>TOTAL ASSETS</b>	<b>\$ 12,510,708</b>	<b>100</b>	<b>9,911,477</b>	<b>100</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 85,503	1	65,005	1
Income tax payable (Note 4(10))	6,322	-	69,300	1
Accrued expenses	63,107	-	82,424	1
Dividend payable (Note 4(9))	1,122,233	9	631,243	6
Current portion of long-term liabilities (Note 4(6))	751,291	6	526,336	5
Deferred income tax liabilities (Note 4(10))	62,500	-	-	-
Other current liabilities (Notes 4(9) and 5)	110,938	1	63,655	1
	<u>2,201,894</u>	<u>17</u>	<u>1,437,963</u>	<u>15</u>
<b>LONG-TERM LIABILITIES</b>				
Bonds payable (Note 4(7))	125,291	1	-	-
Long-term loans (Note 4(6))	4,199,614	34	4,232,311	44
	<u>4,324,905</u>	<u>35</u>	<u>4,232,311</u>	<u>44</u>
<b>OTHER LIABILITIES</b>				
Accrued pension liability (Note 4(5))	14,935	-	14,814	-
Deposits-in	178	-	70	-
	<u>15,113</u>	<u>-</u>	<u>14,884</u>	<u>-</u>
Total Liabilities	<u>6,541,912</u>	<u>52</u>	<u>5,685,158</u>	<u>59</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock				
Common stock (Note 4(8))	3,147,351	25	2,524,973	25
Stock dividend to be distributed (Note 4(9))	162,510	1	259,997	2
	<u>3,309,861</u>	<u>26</u>	<u>2,784,970</u>	<u>27</u>
Capital surplus				
Capital surplus—additional paid-in capital	392,383	3	104,883	1
Capital surplus—convertible bonds converted in excess of the common stock's par value	273,386	2	68,110	1
Capital surplus—stock option (Note 4(7))	34,854	-	-	-
	<u>700,623</u>	<u>5</u>	<u>172,993</u>	<u>2</u>
Retained earnings (Note 4(9))				
Legal reserve	443,788	4	302,453	3
Unappropriated retained earnings	1,440,094	12	937,154	9
	<u>1,883,882</u>	<u>16</u>	<u>1,239,607</u>	<u>12</u>
Cumulative translation adjustment	79,566	1	33,652	-
Net loss not recognized as pension cost	( 5,136)	-	( 4,903)	-
Total Stockholders' Equity	<u>5,968,796</u>	<u>48</u>	<u>4,226,319</u>	<u>41</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 12,510,708</b>	<b>100</b>	<b>9,911,477</b>	<b>100</b>

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, 2007 AND 2006**  
(amounts expressed in thousands of New Taiwan dollars)

	January 1~June 30			
	2007		2006	
	Amount	%	Amount	%
Operating revenue, net	\$ 1,567,730	100	1,622,804	100
Operating costs	840,735	54	975,007	60
Gross operating profit	726,995	46	647,797	40
Operating expenses	71,116	5	60,510	4
Operating income	655,879	41	587,287	36
Non-operating income				
Interest income	56,234	4	25,507	2
Investment gain—equity method (Note 4(3))	-	-	7,085	-
Cash dividends (Note 4(2))	18,247	1	15,293	1
Gain on disposal of property and equipment (Note 4(4))	260,286	17	47,663	3
Gain on disposal of investments (Note 4(3))	169,906	11	-	-
Foreign exchange gain	14,366	1	-	-
Gain on valuation of financial liability (Note 4(7))	36,851	2	-	-
Other income	20,049	1	32,476	2
	<u>575,939</u>	<u>37</u>	<u>128,024</u>	<u>8</u>
Non-operating expenses				
Interest expense	125,496	8	114,149	7
Foreign exchange loss	-	-	35,874	2
Other expenses	4,421	-	6,808	-
	<u>129,917</u>	<u>8</u>	<u>156,831</u>	<u>9</u>
Income before income tax	1,101,901	70	558,480	35
Income tax expense (Note 4(10))	( 68,773)	( 4)	( 67,168)	( 4)
Total consolidated net income	<u>\$ 1,033,128</u>	<u>66</u>	<u>491,312</u>	<u>31</u>
Distributed to:				
Consolidated net income	\$ 1,033,128	66	491,312	31
Minority interest income	-	-	-	-
	<u>\$ 1,033,128</u>	<u>66</u>	<u>491,312</u>	<u>31</u>
	<u>Before tax</u>	<u>After tax</u>	<u>Before tax</u>	<u>After tax</u>
Earnings per share in New Taiwan dollars (Note 4(11))				
-Primary earning per share, current period	<u>\$ 3.60</u>	<u>3.37</u>	<u>2.01</u>	<u>1.76</u>
-Primary earning per share, retroactively adjusted			<u>2.01</u>	<u>1.76</u>
-Diluted earning per share, current period	<u>\$ 3.48</u>	<u>3.26</u>	<u>2.01</u>	<u>1.76</u>
-Diluted earning per share, retroactively adjusted			<u>2.01</u>	<u>1.76</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 HALF-YEARS ENDED JUNE 30, 2007 AND 2006**  
(amounts expressed in thousands of New Taiwan dollars)

	Capital stock	Capital collected in advance	Stock dividend to be distributed	Capital surplus	Retained earnings			Cumulative translation adjustment	Net loss not recognized as pension cost	Total
					Legal reserve	Special reserve	Unappropriated earnings			
<b>January 1~June 30, 2006</b>										
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:										
Reversal of special reserve	-	-	-	-	-	( 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)
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>-</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>
<b>January 1~June 30, 2007</b>										
Balance, January 1, 2007	\$ 2,784,970	318,110	-	278,548	302,453	-	1,859,194	42,557	( 5,136)	5,580,696
Appropriation of 2006 earnings:										
Legal reserve	-	-	-	-	141,335	-	( 141,335)	-	-	-
Compensation to directors and supervisors	-	-	-	-	-	-	( 9,000)	-	-	( 9,000)
Capitalization of employee bonuses	-	-	9,200	-	-	-	( 9,200)	-	-	-
Employee bonuses	-	-	-	-	-	-	( 17,150)	-	-	( 17,150)
Capitalization of retained earnings	-	-	153,310	-	-	-	( 153,310)	-	-	-
Cash dividends	-	-	-	-	-	-	( 1,122,233)	-	-	( 1,122,233)
Convertible bonds issued	112,381	-	-	134,575	-	-	-	-	-	246,956
Cash capital increase	250,000	( 318,110)	-	287,500	-	-	-	-	-	219,390
Net income for January 1~June 30, 2007	-	-	-	-	-	-	1,033,128	-	-	1,033,128
Cumulative translation adjustment	-	-	-	-	-	-	-	37,009	-	37,009
Balance, June 30, 2007	<u>\$ 3,147,351</u>	<u>-</u>	<u>162,510</u>	<u>700,623</u>	<u>443,788</u>	<u>-</u>	<u>1,440,094</u>	<u>79,566</u>	<u>( 5,136)</u>	<u>5,968,796</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, 2007 AND 2006**  
(amounts expressed in thousands of New Taiwan dollars)

	January 1~June 30	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Total consolidated net income	\$ 1,033,128	491,312
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	255,948	244,217
Amortization	26,233	41,593
Transfer of deferred charges to operating expenses	1,910	308
Recovery of liquidating dividends—financial assets carried at cost (noncurrent)	-	( 480)
Investment gain—equity method	-	( 7,085)
Gain on disposal of investments	( 169,906)	-
Gain on disposal of property and equipment	( 260,286)	( 47,663)
Interest expenses of convertible bonds	10,291	-
Gain on valuation of financial liability	( 36,851)	-
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss—current	( 106,192)	64,500
Notes and accounts receivable, net	( 4,497)	22,849
Inventories	( 20,241)	( 16,538)
Deferred income tax assets—current	( 969)	632
Other financial assets—current	168,158	1,285
Other current assets	7,397	( 25,238)
Accounts payable	13,178	( 11,698)
Income tax payable	( 32,299)	9,378
Accrued expenses	( 11,591)	( 3,804)
Deferred income tax liabilities	62,500	-
Other current liabilities	17,931	( 17,005)
Accrued pension liability	261	344
Net cash provided by operating activities	954,103	746,907
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in financial assets at fair value through profit or loss—noncurrent	( 20,000)	-
Proceeds from return of capital by investee	-	8,937
Sale of long-term investments	237,744	-
Sale of property and equipment	587,711	127,320
Purchases of property and equipment	( 1,182,618)	( 799,724)
Decrease in deposits-out	39,618	20,240
Increase in deferred charges	( 68,060)	( 44,242)
Decrease in restricted assets	289,727	15,856
Net cash used in investing activities	( 115,878)	( 671,613)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Decrease in short-term debt	( 210,000)	-
(Decrease) increase in long-term loan	( 62,017)	86,583
Decrease in deposits-in	( 41)	( 115)
Increase in capital collected in advance	219,390	-
Net cash (used in) provided by financing activities	( 52,668)	86,468
<b>EXCHANGE RATE EFFECT</b>	5,120	( 14,166)
Net increase in cash and cash equivalents	790,677	147,596
Cash and cash equivalents, beginning of period	1,626,074	1,048,094
Cash and cash equivalents, end of period	<b>\$ 2,416,751</b>	<b>1,195,690</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest (excluding capitalized interest)	<b>\$ 126,218</b>	<b>118,525</b>
Cash paid during the period for income tax	<b>\$ 39,541</b>	<b>57,157</b>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:</b>		
Reclassification of long-term liabilities due in one year	<b>\$ 751,291</b>	<b>526,336</b>
Compensation to directors and supervisors	<b>\$ 9,000</b>	<b>9,000</b>
Employee bonuses payable	<b>\$ 17,150</b>	<b>11,000</b>
Cash dividends payable	<b>\$ 1,122,233</b>	<b>631,243</b>

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

**SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

**(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 39 Companies. In August 2006, the Company invested in a wholly owned (100%) subsidiary, FORTUNATE MARITIME S.A. (PANAMA). As of June 30, 2007, the Company and its subsidiaries owned 26 vessels: Gallant, Babitonga (Great), Paragon, Best, Majestic, Fodas, Venture SW, Brave, Advance, Oceanic, Buenos Aires (Giant), Blossom, Royal, Shining, Brilliant, Sunny, Scan Bulker, Grand, Excellent, Honor, Noble SW (Bright), Superior, Genius, 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 June 30, 2007, the number of employees was 472.

**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 June 30, 2007
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 June 30, 2007
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	"	"	"
PATRIOT PESCADORES S.A. (PANAMA)	May 11, 2007	"	"	"
MODEST PESCADORES S.A. (PANAMA)	May 11, 2007	"	"	"
WISE PESCADORES S.A. (PANAMA)	May 11, 2007	"	"	"
PENGHU PESCADORES S.A. (PANAMA)	June 01, 2007	"	"	"

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 half-year-end exchange rates, and the income statement items are translated at weighted-average exchange rates prevailing during the half year. Retained earnings at the beginning of the year are translated at the prior year's half-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 PATRIOT PESCADORES S.A. (PANAMA), MODEST PESCADORES S.A. (PANAMA), WISE PESCADORES S.A. (PANAMA), and PENGHU PESCADORES S.A. (PANAMA), during the first half of 2007, and the subsidiary company has a 100% shareholding.
- c. Related information on the subsidiaries that are not included in the consolidated financial statements: None.

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

- d. Subsidiary's accounting half-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.
- i. Other important items in the consolidated financial statements of subsidiaries: None.

(2) 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.

(3) Foreign currency transactions

The accounts of the Company are maintained in NT dollars. Foreign currency transactions except for derivative financial instruments are recorded in NT 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.

**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.

**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
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) 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.

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

(15) 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 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.

(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 for the first half of 2006. Please refer to Notes 4(2) and 4(12).

**4. SUMMARY OF SIGNIFICANT ACCOUNTS**

(1) Cash and cash equivalents

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Cash on hand	\$ 389	426
Petty cash	15,164	15,849
Bank deposits		
Checking accounts	900	1,958
Savings accounts	26,650	62,661
Foreign currency deposits	289,435	27,160
Time deposits	2,024,213	1,087,636
Bonds with repurchase agreement	60,000	-
<b>Total</b>	<b>\$ 2,416,751</b>	<b>1,195,690</b>

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

(2) Financial assets

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Financial assets at fair value through profit or loss— current		
Beneficiary certificates—ING Taiwan Bond Fund	\$ 30,000	-
Beneficiary certificates—Fuh Hwa Global Bond Portfolio Fund	30,000	-
Beneficiary certificates—Primasia Money Market Fund	25,000	-
Beneficiary certificates—Hua Nan Global Infrastructure Fund	30,000	-
Beneficiary certificates—HSBC Global Fund of Bond Funds	30,000	-
Beneficiary certificates—Franklin Templeton Global Bond Fund	42,653	32,320
Investment in stock—WUYI INTERNATIONAL PHARMACEUTICAL CO. (HK)	58	-
1 Year Absolute Return Notes on a Basket of Global Securities	6,562	-
<b>Total</b>	<b>\$ 194,273</b>	<b>32,320</b>
Financial assets at fair value through profit or loss— noncurrent		
Beneficiary certificates—Hua Nan Link No. 1 Fund	\$ 20,000	-
Adjustments for change in value of bonds payable	4,408	-
<b>Total</b>	<b>\$ 24,408</b>	<b>-</b>
Held-to-maturity financial assets—noncurrent		
Financial bond investments—The Chinese Bank	\$ 3,000	3,000
Bond investments—Deutsche Bank Aktiengesellschaft	33,210	-
<b>Total</b>	<b>\$ 36,210</b>	<b>3,000</b>
Financial assets carried at cost—noncurrent		
Investment in stock—K/S DANRED I (original investment cost: US\$518,545)	\$ 16,721	16,721
Investment in stock—ETERNAL PESCADORES S.A. (PANAMA) (original investment cost: US\$461,290)	-	14,909
Investment in stock—HARMONY SUCCESS S.A. (PANAMA) (original investment cost: US\$653,600)	21,445	21,124
Investment in stock—LANDO CO., LTD. (original investment cost: JPY 3,000,000)	879	866
<b>Total</b>	<b>\$ 39,045</b>	<b>53,620</b>

**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 June 30, 2007 and 2006:

Item	June 30			
	2007		2006	
	Book Value	Nominal Principal	Book Value	Nominal Principal
Derivative financial assets				
Equity-linked notes	\$ -	USD 1,004 thousand	-	-
1 Year Absolute Return Notes on a Basket of Global Securities	6,562	USD 200 thousand	-	-
Forward contract	-	JPY2,698,250 thousand	-	-
	<u>\$ 6,562</u>		<u>-</u>	-
Derivative financial liability:				
Equity-linked notes	\$ -	JPY 52,982 thousand		
Foreign option	<u>230</u>	USD 3,000 thousand	<u>-</u>	-

- a. Derivative financial asset—The Company purchased 1 Year Absolute Return Notes on a Basket of Global Securities issued by CALYON Financial Products (Guernsey) Limited, from Hua Nan Commercial Bank, Ltd. 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.
- b. Derivative financial liability—The Company and subsidiaries bought a 14-day foreign option with an assured rate in US (JPY) dollars from Hua Nan Bank, Jin Sun International Bank, Taiwan Cooperative 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 (JPY) will be converted to JPY (US dollars), and the Company and subsidiaries can receive the exchange gain at the contract rate.
- c. 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.

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

- d. 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.
- e. 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 June 30, 2007. During the first half of 2007 and 2006, the Company received cash dividends of \$10,719 and \$6,702 (including liquidating dividends of \$480), respectively.
- f. 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\$461thousand). During the first half of 2006, the Company's subsidiary received cash dividends of \$1,103 (US\$34 thousand).
- g. 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. As of June 30, 2007, the Company invested in HARMONY SUCCESS S.A. (PANAMA) amounting to \$21,445 (US\$654 thousand). During the first half of 2007 and 2006, the Company received cash dividends of \$7,528 (US\$228 thousand) and \$7,488 (US\$232 thousand), respectively, from the investee company.
- h. The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) invested in LANDO CO., LTD. during August 2005. As of June 30, 2007, the subsidiary company had 18.75% ownership and had paid \$879 (JPY 3,000 thousand).

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

(3) Long-term investments under equity method

<b>June 30, 2006</b>	<b>Share</b>	<b>Amount</b>	<b>Ownership</b>
EUROASIA II INC., PANAMA	45	<b>\$ 69,691</b>	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. As of June 30, 2006, the subsidiary company had 45% ownership and had paid \$33,026 (US\$1,022,173). Investment gain (loss) recognized for the first half of 2007 and 2006 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors is detailed below:

<b>Investee company</b>	<b>January 1~June 30</b>	
	<b>2007</b>	<b>2006</b>
	<b>Investment gain</b>	<b>Investment gain</b>
EUROASIA II INC., PANAMA	\$ -	7,085

- b. The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) disposed of the EUROASIA II INC., PANAMA at a sale price of US\$7,200 thousand to DANSK REDERI A/S COPENHAGEN. On April 4, 2007, the Company received the entire sale price. The gain on disposal was \$169,906.

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

(4) Property and equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
<b>June 30, 2007</b>			
Land	\$ 79,937	-	79,937
Buildings and structures	30,127	3,923	26,204
Transportation equipment	6,460	1,562	4,898
Vessel equipment	10,452,971	2,437,475	8,015,496
Office furniture and equipment	3,407	1,702	1,705
Prepayments for business facilities	1,198,783	-	1,198,783
Other equipment	43,383	23,312	20,071
<b>Total</b>	<b>\$ 11,815,068</b>	<b>2,467,974</b>	<b>9,347,094</b>
<b>June 30, 2006</b>			
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
<b>Total</b>	<b>\$ 10,486,088</b>	<b>2,366,687</b>	<b>8,119,401</b>

- 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 sale price. The gain on disposal of the vessel and its equipment was \$47,635.
- b. The Company's subsidiary, UNICORN BRILLIANT PESCADORES S.A. (PANAMA), disposed of its own vessel "Unicorn Brilliant" at a sale price of US\$12,500 thousand (NT\$410,125) during January 2007. During the first half 2007, the Company received all of the sale price. The gain on disposal of the vessel was US\$5,076 thousand (NT\$168,171).

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

- c. The Company's subsidiary, ELEGANT PESCADORES S.A. (PANAMA), disposed its own vessel "Elegant" at a sale price of US\$5,290 thousand (NT\$173,565) during February 2007. During the first half 2007, the Company received all of the sale price. The gain on disposal of the vessel was US\$2,801 thousand (NT\$92,489).

(5) Pension reserve

- a. As of June 30, 2007 and 2006, the Company's pension expenses were as follows:

	January 1 ~ June 30	
	<b>2007</b>	<b>2006</b>
Pension reserve account balance, end of year	\$ 7,425	5,650
Pension expenses:		
Defined benefit net pension cost	1,095	1,086
Defined contribution net pension cost	1,294	627
Accrued pension liabilities	14,935	14,814

- b. For the first half of 2007 and 2006, under the defined contribution pension plan, the Company contributed pension funds amounting to \$1,294 and \$627, 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)**

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

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Secured loans	\$ 4,704,839	4,606,647
Credit loans	246,066	152,000
Less: current portion	( 751,291 )	( 526,336 )
Net amount	<b>\$ 4,199,614</b>	<b>4,232,311</b>

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 1.18%~6.88% and 0.86%~7.88% for the first half of 2007 and 2006, respectively.

(7) Corporate bonds payable

As of June 30, 2007, the Company's corporate bonds payable were as follows:

	<b>June 30, 2007</b>
Issue amount	\$ 500,000
Converted amount	( 334,900 )
Unamortized discount	( 39,809 )
	125,291
Less: current portion	-
Total	<b>\$ 125,291</b>

On November 30, 2006, the Company issued the 2<sup>nd</sup> 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:

	<b>The first half of 2007</b>
Issue amount	\$ 165,100
Equity component	( 34,854 )
Liability component	130,246
Evaluation	( 13,911 )
Interest expense	4,548
Total	<b>\$ 120,883</b>

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

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 \$4,408, bonds payable of \$125,291, and gain on valuation of financial liability of \$36,851.

The Company issued \$500,000 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 bonds in the period from three months after the date of issuance to the 40th day before the maturity date if 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 issue amount.

The Company has to send the notification of call provision by certified mail at least thirty trading days in advance to the bondholders and have it announced by the OTC.

- (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
  - C) Adjusted price: \$26.9

According to clause 11 of the conversion terms, if the Company declares a cash dividend equal to 1.5 percent of the market price per common share, the conversion price shall be reduced in accordance with the conversion formula on the record date (August 21, 2007).

- (v) Redemption at the option of bondholders:

The bondholders shall have the right to require the Company to redeem all or part of the bonds at 102.01% of the principal amount on November 30, 2008, or at 103.03% of the principal amount on November 30, 2009, and the Company should pay the amount of redemption by cash within five consecutive trading days.

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

(8) Capital stock

As of June 30, 2007 and 2006 the Company's authorized share capital consisted of 380,000 thousand shares of common stock, at NT\$10 par value per share, of which 314,735 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 2<sup>nd</sup> domestic unsecured convertible bonds amounting to \$500,000 to be the capital for the Company's investment in a wholly owned (100%) subsidiary, FORTUNATE MARITIME S.A. (PANAMA), following the approval of the Financial Supervisory Commission in Ruling Letters No. 0950148460 and No. 0950148462 on October 27, 2006.

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 January 5, 2007, the Company had received the entire amount. The stock issuance was authorized by and registered with the government authorities on January 19, 2007.

On April 10 and July 11, 2007, the Company's board of directors approved a resolution for booked convertible bonds to convert into 3,124 thousand shares and 8,114 thousand shares, respectively, of common stock. The common stock issuance date was March 31 and June 30, 2007, respectively. The stock issuance was authorized by and registered with the government authorities on April 16 and August 1, 2007, respectively.

On June 27, 2007, the Company's shareholders' meeting approved a resolution to increase capital with capitalization of retained earnings amounting to \$162,510 (including employee bonuses amounting to \$9,200). Following the approval of the Financial Supervisory Commission in Ruling Letter No. 0960034743, the Company's board of directors on July 11, 2007, approved a resolution to designate August 21, 2007, as the ex-rights date for the capital increase.

(9) 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 2006 and 2005 was approved in the stockholders' meetings on June 27, 2007, and June 23, 2006, respectively. The dates of distribution were August 21, 2007, and August 8, 2006, respectively, and the details were as follows:

<b>Item</b>	<b>2006</b>	<b>2005</b>
Legal reserve	\$ 141,335	145,879
Special reserve (revised)	-	( 37,586 )
Directors' and supervisors' remuneration	9,000	9,000
Employee bonuses — stock (recorded at par value)	9,200	7,500
Employee bonuses — cash	17,150	11,000
Capitalization of stockholders' bonuses — stock (recorded at par value)	153,310	252,497
Capitalization of stockholders' bonuses — cash	1,122,233	631,243
<b>Total</b>	<b>\$ 1,452,228</b>	<b>1,019,533</b>

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 2006 and 2005:

<b>Dividends per share</b>	<b>(amounts expressed in New Taiwan dollars)</b>	
	<b>2006</b>	<b>2005</b>
Cash	\$ 3.66	2.50
Stock	0.50	1.00
<b>Total</b>	<b>\$ 4.16</b>	<b>3.50</b>

(Note: Based on the shareholders list on the record date to execute the distribution of retained earnings for 2006, the cash dividends per share and stock dividends per share were \$3.55 and \$0.49, respectively.)

If the above employee bonuses and directors' and supervisors' compensation were paid in cash and considered current year's expense, the Company's primary earnings per share (after tax) for 2006 and 2005 would be NT\$4.95 (dollars) and NT\$5.67 (dollars), respectively. The above employee bonuses were 920 thousand and 750 thousand shares of capital stock constituting 0.33% and 0.30% of the Company's outstanding stock as of December 31, 2006 and 2005, 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.

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

(10) Income tax

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

	<b>January 1~June 30</b>	
	<b>2007</b>	<b>2006</b>
Increase in income tax payable	\$ 6,322	65,950
(Increase) decrease in deferred income tax assets—current	( 969 )	632
Increase in deferred income tax liabilities—current	62,500	-
Income tax prepayment and withholding	440	583
Under-accrual of prior years' income tax expense	480	3
Income tax expense	<b>\$ 68,773</b>	<b>67,168</b>

The components of income tax expense were as follows:

	<b>January 1~June 30</b>	
	<b>2007</b>	<b>2006</b>
Income tax currently payable	\$ 6,762	21,948
Deferred income tax expense (revenue)	61,531	632
Under-accrual of prior years' income tax expense	480	3
Additional 10% surtax on undistributed earnings	-	44,585
Income tax expense	<b>\$ 68,773</b>	<b>67,168</b>

b. The Company adopted the ROC "Income Basic Tax Act" to calculate the income tax expense beginning 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 2007 and 2006 was as follows:

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

	<b>January 1~June 30</b>	
	<b>2007</b>	<b>2006</b>
Income tax effects of income before income tax calculated using the actual tax rate (25%)	\$ 275,465	139,610
Permanent difference		
Investment income—equity method	( 200,024 )	( 116,968 )
Difference between book and tax on depreciation of assets	58	58
Cash (liquidating) dividend—cost method	-	( 120 )
Other	( 7,206 )	-
Temporary difference		
Foreign exchange loss (gain)	904	( 718 )
Pension expense	65	86
Estimated cash dividend from investment income— equity method	( 62,500 )	-
Income tax currently payable	<b>\$ 6,762</b>	<b>21,948</b>

c. For the first half of 2007 and 2006, the components of deferred income tax revenue were as follows:

	<b>January 1~June 30</b>	
	<b>2007</b>	<b>2006</b>
Foreign exchange loss (gain)	\$ 904	( 718 )
Pension expense	65	86
Estimated cash dividend income—equity method	( 62,500 )	-
Deferred income tax expense	<b>( \$ 61,531 )</b>	<b>( 632 )</b>

d. As of June 30, 2007 and 2006, deferred income tax assets and liabilities due to temporary differences and income tax effects were as follows:

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Total deferred tax assets	<b>\$ 4,148</b>	<b>3,211</b>
Total deferred tax liabilities	<b>\$ 62,500</b>	<b>-</b>

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

	<b>Taxable temporary differences</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Deferred income tax assets — current		
- Bad debt expense	\$ 1,800	1,800
- Pension expense	8,756	8,206
- Loss on foreign exchange	6,035	2,836
Net amount	<b>\$ 16,591</b>	<b>12,842</b>
Deferred income tax liabilities — noncurrent		
- Estimated cash dividend income — equity method	250,000	-
Net amount	<b>\$ 250,000</b>	<b>-</b>
	<b>Tax effect</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Deferred income tax assets — current		
- Bad debt expense	\$ 450	450
- Pension expense	2,189	2,051
- Loss on foreign exchange	1,509	710
Net amount	<b>\$ 4,148</b>	<b>3,211</b>
Deferred income tax liabilities — noncurrent		
- Estimated cash dividend income — equity method	62,500	-
Net amount	<b>\$ 62,500</b>	<b>-</b>

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

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

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

- f. As of June 30, 2007 and 2006, the Company's income tax payable of prior years was \$0 and \$3,350, respectively.

- g. Related information on imputation tax:

	<b>June 30, 2007</b>	<b>June 30, 2006</b>
Balance of stockholders' imputation credit account	<b>\$ 99,057</b>	<b>77,496</b>
	<b>2006</b>	<b>2005</b>
Estimated (actual) imputation credit ratio of earnings distribution	<b>(estimated) 5.30%</b>	<b>(actual) 5.16%</b>

- h. Related information on undistributed earnings

	<b>2006</b>	<b>2005</b>
Undistributed earnings of 1997 and before	\$ -	-
Undistributed earnings of 1998 and after	1,440,094	937,154
Total	<b>\$ 1,440,094</b>	<b>937,154</b>

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

(11) Earnings per share

The Company's primary and diluted earnings per share for the first half of 2007 and 2006 are calculated as follows:

	Unit: NTD'000s/Shares'000s; Earnings per share: NTD			
	<b>January 1~June 30</b>			
	<b>2007</b>		<b>2006</b>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
<b>Primary earnings per share</b>				
— Current period				
Consolidated net income attributed to common shareholders	\$ 1,101,901	1,033,128	558,480	491,312
Weighted-average number of shares outstanding	306,450	306,450	278,497	278,497
Primary earnings per share	\$ 3.60	3.37	2.01	1.76
<b>Diluted earnings per share</b>				
Net income	\$ 1,101,901	1,033,128	558,480	491,312
Effect of dilutive potential common stock— convertible bonds	10,291	7,718	-	-
Net income— diluted	\$ 1,112,192	1,040,846	558,480	491,312
— Current period				
Weighted-average number of shares outstanding	\$ 306,450	306,450	278,497	278,497
Income to bonds assumed to be converted	13,273	13,273	-	-
Weighted-average number of shares outstanding— diluted	\$ 319,723	319,723	278,497	278,497
Diluted earnings per share	\$ 3.48	3.26	2.01	1.76
— Retroactively adjusted				
Net income			\$ 558,480	491,312
Weighted-average number of shares outstanding			278,497	278,497
Primary earnings per share			\$ 2.01	1.76
— Retroactively adjusted(diluted)				
Net income			\$ 558,480	491,312
Weighted-average number of shares outstanding— diluted			278,497	278,497
Diluted earnings per share			\$ 2.01	1.76

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

Assuming stock dividends were issued on June 30, 2007, the Company's pro-forma retroactive diluted earnings per share for the first half of 2007 and 2006 would be calculated as follows:

	<b>January 1~June 30</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Before Tax</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>After Tax</b>
Net income	\$ 1,101,901	1,033,128	558,480	491,312
Weighted-average number of shares outstanding	322,237	322,237	292,928	292,928
Primary earnings per share	\$ 3.42	3.21	1.91	1.68
Net income	\$ 1,112,192	1,040,846	\$ 558,480	491,312
Weighted-average number of shares outstanding	336,154	336,154	292,928	292,928
Diluted earnings per share	\$ 3.31	3.10	\$ 1.91	1.68

(12) Information on financial instruments

a. Information on fair value of financial instruments

The company's non-derivative financial instruments include cash, cash equivalents, accounts receivable (payable), other financial assets—current, restricted assets, income tax payable, other financial liabilities, and accrual expense, whose fair values were estimated by book value on the balance sheet date. Because such financial instruments will become due shortly, their face value should be a reasonable basis for estimating their fair value.

In addition to the above, the information on the fair value of the Company's financial assets and liabilities as of June 30, 2007 and 2006, was as follows:

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

<b>Non-Derivative Financial Instruments</b>	<b>June 30,2007</b>			<b>June 30,2006</b>		
	<b>Book Value</b>	<b>Fair Value</b>		<b>Book Value</b>	<b>Fair Value</b>	
		<b>Based on quoted market prices</b>	<b>Determined by using valuation techniques</b>		<b>Based on quoted market prices</b>	<b>Determined by using valuation techniques</b>
<b>Financial Assets</b>						
Financial assets at fair value through profit or loss — current	\$ 194,273	198,356	-	32,320	33,245	-
Financial assets at fair value through profit or loss — noncurrent	20,000	20,248	-	-	-	-
Held-to-maturity financial assets — noncurrent	36,210	-	36,077	3,000	-	3,030
Financial assets carried at cost — noncurrent	39,045	Refer to (iii) below	-	53,620	Refer to (iii) below	-
Deposits-out	71,561	-	71,561	151,420	-	151,420
<b>Financial Liabilities</b>						
Bonds payable	125,291	-	125,291	-	-	-
Long-term loans	4,950,905	-	4,950,905	4,758,647	-	4,758,647
<b>Derivative Financial Instruments</b>						
<b>Financial Assets</b>						
Equity-linked notes	-	-	195	-	-	-
1 Year Absolute Return Notes on a Basket of Global Securities	6,562	6,608	-	-	-	-
Sale of forward contract — for trading purposes	-	-	24,843	-	-	-
Financial assets at fair value through profit or loss — noncurrent (call and redemption and price adjustment option of convertible bond issuer)	4,408	-	4,408	-	-	-
<b>Financial Liabilities</b>						
Equity-linked notes	-	-	157	-	-	-
Foreign options	230	-	856	-	-	-
Sale of forward contract — not for trading purposes	-	-	-	-	-	693

**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. 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.
  - ii. 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.
  - 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 value, and it is not significant. According to the Criteria Governing the Preparation of Financial Reports by Securities Issuers, it should be measured by cost.
  - iv. It is hard to identify the maturity date of deposits-out and impossible to estimate the fair value, so the face value should be a reasonable basis for estimating the 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.
- c. For the financial assets provided by the Company as collateral as of June 30, 2007 and 2006, please refer to Note 6.
- d. As of June 30, 2007 and 2006, the financial assets exposed to fair value interest rate risk were \$2,117,423 and \$1,087,636, respectively. The financial liabilities were \$125,291 and \$0, respectively. The financial assets exposed to cash flow interest rate risk were \$319,085 and \$92,821, respectively, and the financial liabilities were \$4,950,905 and \$4,758,647, respectively.

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

e. For the half-years ended June 30, 2007 and 2006, the evaluation gain on financial assets and liabilities at fair value through profit or loss amounted to \$36,636 and \$0, respectively.

f. 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 \$973.

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 June 30, 2007 and 2006, 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 June 30, 2007 and 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 \$49,509 and \$15,006, respectively, 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 a Company subsidiary. (disposed of in March 2007)
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.
LUO PAN INVETMENTS CO., LTD.	"
HUO DA INVETMENTS CO., LTD.	"
HUAN SHIN INVETMENTS CO., LTD.	"

(2) Significant transactions with related parties

a. Sales

<u>Name of related party</u>	<u>January 1~June 30</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ 8,578	-	16,648	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. Advance receipts (recorded as other current liabilities)

<u>Name of related party</u>	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ -	-	2,885	-

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

<u>Name of related party</u>	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
HARMONY SUCCESS S.A., PANAMA	\$ 1,604	-	1,580	-

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

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

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

Name of related party	January 1~June 30	
	2007	2006
DONG LIEN SHIPPING CO., LTD.	\$ -	48
LUO PAN INVESTMENTS CO., LTD.	17	-
HUO DA INVESTMENTS CO., LTD.	12	-
HUAN SHIN INVESTMENTS CO., LTD.	6	-
Total	<b>\$ 35</b>	<b>48</b>

f. The disposal agreements for vessels M/V ROMANTIC signed by the DONG LIEN SHIPPING CO., LTD. amounted to \$300 at December 28, 2006. As of June 30, 2007, the Company had received the entire sale price, and delivery of the vessel was in August 2007. The gain on disposal of the vessel and its equipment was \$176.

**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, 2007 and 2006.

Name of asset	June 30, 2007	June 30, 2006
Property and equipment (net book value)		
-Land	\$ 79,937	79,937
-Buildings and structures	26,204	27,047
-Vessel equipment	7,112,957	7,276,147
Prepayment for vessel equipment	672,068	-
Restricted assets	13,397	-
Total	<b>\$ 7,904,563</b>	<b>7,383,131</b>

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

**7. COMMITMENTS AND CONTINGENCIES**

As of June 30, 2007, 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	"

(2) As of June 30, 2007 and 2006, the Company was provided endorsement guarantees by other companies amounting to zero and US\$10,413 thousand, respectively.

(3) 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. At the first hearing in August 2007, the Panchiao District Court ruled the Company and the killer should pay compensation of \$2,582 to the victim's family. However, the Company was not content with the ruling of the court and appealed to the Supreme Court.

(6) The construction and purchase agreements for vessels signed by the subsidiaries of a Company subsidiary amounted to JPY44,795,700 thousand and US\$26,000 thousand as of June 30, 2007, and JPY17,845,000 thousand as of June 30, 2006. They had paid JPY 4,291,913 thousand as of June 30, 2007, and JPY 1,230,175 thousand as of June 30, 2006 (recorded as prepayments for business facilities).

**8. MAJOR DISASTER LOSSES: None.**

**9. SIGNIFICANT SUBSEQUENT EVENTS: None.**

**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

January 1 ~ June 30						
2007				2006		
	Operating cost	Operating expense	Total	O p e r a t i n g c o s t	Operating expense	Total
<b>Employee expenses</b>						
<b>Payroll</b>	\$ 152,750	30,398	183,148	154,784	25,103	179,887
<b>Insurance</b>	3,338	2,389	5,727	6,144	1,826	7,970
<b>Retirement</b>	-	2,389	2,389	-	1,713	1,713
<b>Others</b>	38,306	943	39,249	44,381	994	45,375
<b>Depreciation</b>	254,694	1,254	255,948	243,042	1,175	244,217
<b>Depletion</b>	-	-	-	-	-	-
<b>Amortization</b>	26,175	58	26,233	41,559	34	41,593