

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

AND

INDEPENDENT AUDITORS' REPORT

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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Letter of Representation

In 2007 (from January 1 to December 31, 2007), 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 26, 2008

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, 2007 and 2006, 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 regulations 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, 2007 and 2006, 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 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.

March 26, 2008
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, 2007 AND 2006
(amounts expressed in thousands of New Taiwan dollars)

	2007		2006	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 4(1))	\$ 2,376,616	17	1,607,262	14
Financial assets at fair value through profit or loss — current (Note 4(2))	160,058	1	85,100	1
Accounts receivable, net	12,734	-	2,241	-
Other financial assets — current	160,879	1	299,657	2
Inventories	112,849	1	79,699	1
Deferred income tax assets — current (Note 4(11))	2,990	-	3,179	-
Restricted assets — current (Note 6)	405,401	3	302,872	3
Other current assets	78,996	-	44,914	-
	<u>3,310,523</u>	<u>23</u>	<u>2,424,924</u>	<u>21</u>
FUNDS AND INVESTMENTS				
Long-term investments under equity method (Note 4(3))	-	-	69,196	1
Financial assets at fair value through profit or loss — noncurrent (Notes 4(2))	84,760	1	-	-
Held-to-maturity financial assets — noncurrent (Note 4(2))	36,210	-	36,210	-
Financial assets carried at cost — noncurrent (Note 4(2))	38,752	-	38,868	-
	<u>159,722</u>	<u>1</u>	<u>144,274</u>	<u>1</u>
PROPERTY AND EQUIPMENT (Notes 4(4) and 6)				
Land	79,937	1	79,937	1
Buildings and structures	30,127	-	30,127	-
Transportation equipment	6,460	-	5,300	-
Vessel equipment	11,591,249	82	10,103,516	88
Office furniture and equipment	3,308	-	3,128	-
Leasehold improvements	-	-	7,078	-
Prepayments for business facilities	1,505,120	11	820,713	8
Other equipment	47,382	-	41,062	-
Less: Accumulated depreciation	(2,699,329)	(19)	(2,407,696)	(21)
	<u>10,564,254</u>	<u>75</u>	<u>8,683,165</u>	<u>76</u>
INTANGIBLE ASSETS				
Deferred pension costs (Note 4(6))	697	-	1,359	-
OTHER ASSETS				
Deposits-out (Note 7)	50,839	-	110,485	1
Deferred charges	116,309	1	63,580	1
	<u>167,148</u>	<u>1</u>	<u>174,065</u>	<u>2</u>
TOTAL ASSETS	\$ 14,202,344	100	11,427,787	100
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term debt (Note 4(5))	\$ 506,545	4	210,000	2
Notes payable	8,775	-	-	-
Accounts payable	65,070	-	71,962	1
Income tax payable (Note 4(11))	9,963	-	38,621	-
Accrued expenses	78,114	-	74,257	1
Financial liabilities at fair value through profit or loss — current (Note 4(2))	886	-	-	-
Unearned revenue (Note 7)	1,046,798	7	62,446	-
Current portion of long-term liabilities (Note 4(7))	1,060,610	8	543,651	5
Deferred income tax liabilities — current (Note 4(11))	125,000	1	-	-
Other current liabilities	3,710	-	4,011	-
	<u>2,905,471</u>	<u>20</u>	<u>1,004,948</u>	<u>9</u>
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))	4,521,712	32	4,432,851	39
	<u>4,521,712</u>	<u>32</u>	<u>4,827,250</u>	<u>42</u>
OTHER LIABILITIES				
Accrued pension liability (Note 4(6))	17,386	-	14,674	-
Deposits-in	157	-	219	-
	<u>17,543</u>	<u>-</u>	<u>14,893</u>	<u>-</u>
Total Liabilities	<u>7,444,726</u>	<u>52</u>	<u>5,847,091</u>	<u>51</u>
STOCKHOLDERS' EQUITY				
Capital stock				
Common stock (Note 4(9))	3,369,857	24	2,784,970	24
Capital collected in advance (Note 4(9))	-	-	318,110	3
	<u>3,369,857</u>	<u>24</u>	<u>3,103,080</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	371,904	2	68,110	1
Capital surplus — stock option (Note 4(8))	-	-	105,555	1
	<u>764,287</u>	<u>5</u>	<u>278,548</u>	<u>3</u>
Retained earnings				
Legal reserve	443,788	3	302,453	3
Unappropriated retained earnings	2,231,149	16	1,859,194	16
	<u>2,674,937</u>	<u>19</u>	<u>2,161,647</u>	<u>19</u>
Cumulative translation adjustment	(43,437)	-	42,557	-
Net loss not recognized as pension cost	(8,026)	-	(5,136)	-
Total Stockholders' Equity	<u>6,757,618</u>	<u>48</u>	<u>5,580,696</u>	<u>49</u>
COMMITMENTS AND CONTINGENCIES (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 14,202,344	100	\$ 11,427,787	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, 2007 AND 2006
(amounts expressed in thousands of New Taiwan dollars)

	2007		2006	
	Amount	%	Amount	%
Operating revenue, net	\$ 3,397,744	100	3,251,534	100
Operating costs	1,669,855	49	1,927,745	59
Gross operating profit	1,727,889	51	1,323,789	41
Operating expenses	136,673	4	132,982	4
Operating income	1,591,216	47	1,190,807	37
Non-operating income				
Interest income	115,093	4	59,462	2
Investment gain—equity method (Note 4(3))	-	-	13,476	-
Cash dividends (Note 4(2))	49,626	1	130,528	4
Gain on disposal of property and equipment (Notes 4(4) and 5)	258,947	8	265,683	8
Gain on disposal of investments (Note 4(3))	166,686	5	-	-
Foreign exchange gain	-	-	26,285	1
Gain on valuation of financial assets (Note 4(2))	9,527	-	6,326	-
Gain on valuation of financial liabilities (Notes 4(2) and 8)	32,192	1	2,430	-
Other income	39,984	1	50,171	2
	672,055	20	554,361	17
Non-operating expenses				
Interest expense (Note 4(4))	263,165	8	245,842	8
Foreign exchange loss	19,288	1	-	-
Other expenses	5,929	-	14,565	-
	288,382	9	260,407	8
Income before income tax	1,974,889	58	1,484,761	46
Income tax expense (Note 4(11))	(150,706)	(4)	(71,409)	(2)
Total consolidated net income	<u>\$ 1,824,183</u>	<u>54</u>	<u>1,413,352</u>	<u>44</u>
Distributed to:				
Consolidated net income	\$ 1,824,183	54	1,413,352	44
Minority interest income	-	-	-	-
	<u>\$ 1,824,183</u>	<u>54</u>	<u>1,413,352</u>	<u>44</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(12))				
-Primary earnings per share, current period	<u>\$ 6.01</u>	<u>5.55</u>	<u>5.33</u>	<u>5.07</u>
-Primary earnings per share, retroactively adjusted			<u>5.07</u>	<u>4.82</u>
-Diluted earnings per share, current period	<u>\$ 5.90</u>	<u>5.45</u>	<u>5.31</u>	<u>5.06</u>
-Diluted earnings per share, retroactively adjusted			<u>5.05</u>	<u>4.81</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, 2007 AND 2006
(amounts expressed in thousands of New Taiwan dollars)

	Capital stock	Capital collected in advance	Capital surplus	Retained earnings			Unappropriated earnings	Cumulative translation adjustment	Net loss		Total
				Legal reserve	Special reserve	Unappropriated earnings			not recognized as pension cost		
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)	
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	\$ 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	172,377	-	198,239	-	-	-	-	-	-	370,616	
Capitalization of cash	250,000	(318,110)	287,500	-	-	-	-	-	-	219,390	
Net income for 2007	-	-	-	-	-	1,824,183	-	-	-	1,824,183	
Net loss not recognized as pension cost	-	-	-	-	-	-	-	(	2,890)	(2,890)
Cumulative translation adjustment	-	-	-	-	-	-	(	85,994)	-	(85,994)
Balance, December 31, 2007	\$ 3,369,857	-	764,287	443,788	-	2,231,149	(43,437)	(8,026)	6,757,618

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

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total consolidated net income	\$ 1,824,183	1,413,352
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	521,857	498,151
Amortization	58,528	73,787
Transfer of deferred charges to operating expenses	2,644	1,655
Recovery of liquidating dividends — financial assets at cost (noncurrent)	-	(480)
Investment gain — equity method	-	(13,476)
Gain on disposal of property and equipment	(258,947)	(265,683)
Gain on disposal of investments	(166,686)	-
Gain on valuation of financial asset	(9,527)	(6,326)
Gain on valuation of financial liability	(32,192)	(2,430)
Interest expenses of convertible bonds	12,611	2,384
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	(84,832)	18,856
Notes and accounts receivable, net	(10,657)	25,047
Other financial assets — current	139,464	(256,220)
Inventories	(33,962)	(5,714)
Deferred income tax asset — current	189	664
Other current assets	(45,239)	(3,490)
Notes payable	8,774	-
Accounts payable	(6,638)	(5,227)
Income tax payable	(28,658)	(21,301)
Accrued expenses	4,184	(12,406)
Deferred income tax liabilities — current	125,000	-
Other current liabilities	44,078	(20,220)
Accrued pension liability	484	634
Net cash provided by operating activities	<u>2,064,658</u>	<u>1,421,557</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from repayment of long-term investments under equity method	236,520	7,319
Purchases of held-to-maturity financial assets — noncurrent	-	(33,210)
Increase in financial liabilities at fair value through profit or loss — current	(3,304)	-
Increase in financial assets at fair value through profit or loss — noncurrent	(65,700)	-
Proceeds from repayment by investee company carried at cost	-	24,020
Sale of property and equipment	590,963	507,921
Purchases of property and equipment	(2,799,304)	(1,702,846)
Unearned receipts in sale of vessel	964,357	-
Decrease in deposits-out	59,967	62,370
Increase in deferred charges	(122,379)	(60,036)
Increase in restricted assets	(108,198)	(286,863)
Net cash used in investing activities	<u>(1,247,078)</u>	<u>(1,481,325)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term debt	298,091	210,000
Increase in long-term liabilities	640,352	272,604
Increase in convertible bonds	-	500,000
(Decrease) increase in deposits-in	(61)	34
Capitalization of cash	219,390	-
Increase in capital collected in advance	-	318,110
Distribution of cash dividends	(1,122,233)	(631,243)
Employee bonuses and compensation to directors and supervisors	(26,150)	(20,000)
Net cash provided by financing activities	<u>9,389</u>	<u>649,505</u>
EXCHANGE RATE EFFECT	<u>(57,615)</u>	<u>(30,569)</u>
Net increase in cash and cash equivalents	769,354	559,168
Cash and cash equivalents, beginning of period	1,607,262	1,048,094
Cash and cash equivalents, end of period	<u>\$ 2,376,616</u>	<u>1,607,262</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest (excluding capitalized interest)	<u>\$ 259,201</u>	<u>247,548</u>
Cash paid during the period for income tax	<u>\$ 54,175</u>	<u>92,046</u>
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:		
Reclassification of long-term liabilities due in one year	<u>\$ 1,060,610</u>	<u>543,651</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, 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 38 companies. In August 2006, the Company invested in a wholly owned (100%) subsidiary, FORTUNATE MARITIME S.A. (PANAMA). As of December 31, 2007, the Company and its subsidiaries owned 28 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), Glaring, Pharos SW, and Beacon SW Bulker.

The Company and its subsidiaries' main business scope includes

- (1) Shipping agency business.
- (2) Sea transportation and related businesses.
- (3) Ships and their spare parts wholesale businesses.
- (4) 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, 2007, the number of employees was 643.

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, 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 (PANAMA) S.A.	Oct. 21, 1991	Investee company of the Company's subsidiary	"	Direct ownership of 100% by the Company's subsidiary
ELEGANT PESCADORES S.A. (PANAMA)	Oct. 07, 1993	"	"	"
BRAVE PESCADORES S.A.	Dec. 12, 1993	"	"	"
JACKSON STEAMSHIP S.A.	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 CORPORATION	Dec. 03, 1992	"	"	"
GALLANT PESCADORES S.A.	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	"	"	"

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

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, 2007
UNICORN BRILLIANT S.A. PANAMA	Jan. 02, 2004	Investee company of the Company's subsidiary	International sea transportation and shipping agent-related businesses	International sea transportation and shipping agent-related businesses
VALOR PESCADORES S.A. PANAMA	Apr. 08, 2004	"	"	"
PHAROS PESCADORES S.A. PANAMA	Jul. 27, 2004	"	"	"
POSEIDON PESCADORES S.A. PANAMA	Jul. 27, 2004	"	"	"
BEACON PESCADORES S.A. PANAMA	Sep. 08, 2004	"	"	"
LEADER PESCADORES S.A. PANAMA	Aug. 03, 2004	"	"	"
WELL PESCADORES S.A. PANAMA	Mar. 24, 2005	"	"	"
GLARING 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	"	"	"
WISE PESCADORES S.A. PANAMA	May. 11, 2007	"	"	"
MODEST PESCADORES S.A. PANAMA	May. 11, 2007	"	"	"
PENGHU PESCADORES S.A. PANAMA	June. 1, 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 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.

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

- b. Change in subsidiary's investments: The Company's subsidiary DONG LIEN MARITIME S.A. PANAMA invested in PATRIOT PESCADORES S.A. PANAMA, WISE PESCADORES S.A. PANAMA, MODEST PESCADORES S.A. PANAMA, and PENGHU PESCADORES S.A. PANAMA during 2007, and the subsidiary company has a 100% shareholding. In addition, the Company's subsidiary DONG LIEN MARITIME S.A. PANAMA closed FOURSEAS MARITIME S.A. PANAMA, in which it had a 100% shareholding.
- c. Related information on the subsidiaries that are not included in the consolidated financial statements: None.
- d. Subsidiary's accounting year-end differs from the Company's: None.
- e. Subsidiary's accounting policies and controlling companies differ from the Company's: None.
- f. Special operating risk of foreign subsidiaries: None.
- g. Legal or contract restrictions on distribution of earnings of the subsidiaries: None.
- h. Method and duration of amortization of consolidated debit or credit: None.
- i. Other important items in the consolidated financial statements of subsidiaries: None.

(2) Accounting estimation

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

(3) Foreign currency transactions

The Company's reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into reporting currency at the foreign exchange rates at the date 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 gains or

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

losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

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

(4) Classification as current and noncurrent assets and liabilities

Current assets are those expected to be converted to cash, sold or consumed within 12 months from the balance sheet date. Current liabilities are obligations due on demand within 12 months from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

(5) Asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the 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 goodwill and intangible assets that have indefinite lives or that are not yet available for use 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.

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

(7) Financial instruments

Financial instruments are recognized at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. A regular way purchase or sale of financial assets is recognized and derecognized using the trade date. Subsequent to initial recognition, financial instruments are measured as described below:

(a) Financial assets/liabilities measured at fair value through profit of loss

These include financial assets held for trading and financial assets designated as at fair value through profit or 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.

If a financial instrument that the Group holds is a hybrid instrument that includes an embedded derivative and non-derivative host contract, the embedded derivative shall be separated from its host contract and recorded separately. If the embedded derivative is unable to be measured at fair value separately either at the acquisition date or at a subsequent financial reporting date, the hybrid instrument shall be recorded as financial assets designated as at fair value through profit or loss as of the acquisition date.

(b) Held-to-maturity financial assets

Held-to-maturity financial assets are measured at amortized cost using the effective interest method. If there is objective evidence which indicates that a financial asset is impaired, a loss is 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. The reversal may not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been determined if no impairment loss had been recognized.

(c) Financial assets carried at cost

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

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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 difference between its investment and the amount of investee net worth calculated by the stockholding ratio has been handled as follows since January 1, 2006.

- (a) If the source of the difference between investment cost and net assets of the investee has been identified, the Company shall amortize such difference over the estimated remaining underlying period. However, the amortization of goodwill is not permitted after December 31, 2005.
- (b) If the source of the difference between investment cost and net assets of the investee has never been identified and has been amortized over a specific period, the Company shall account for the difference using the same method as for goodwill.
- (c) If the net assets of the investee exceeded investment cost and the Company had treated the excess as "deferred credit account" and the Company amortized the excess over a specific period, then after December 31, 2005, the remaining balance in the "deferred credit account" is still permitted to be amortized over the remaining period.

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

The Company assesses goodwill on an annual basis. The Company executes an impairment test when certain things occur or there is an environmental change that shows goodwill may have been impaired, and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

The differences between selling price and carrying value are recorded as gain or loss on disposal of long-term equity investments. If there is capital surplus generated by long-term equity investment, it should be directly recorded as current gain or loss in proportion to the amount sold. For long-term equity investments in which the Company has over 20% ownership of voting shares (or less than 20% but has significant influence), their financial statements should be included in the Company's quarterly consolidated financial statements, and the Company should also recognize investment gain or loss under the equity method.

Unrealized inter-company profits or losses resulting from transactions between the Company and an investee accounted for under the equity are deferred. Inter-company profits or losses arising from fixed asset transactions are recognized over the estimated economic lives of such assets. Inter-company profits or losses arising from transactions involving other assets are recognized when realized.

If an investee company accounted for under the equity method issues new shares and the Company does not purchase new shares proportionately, then the investment percentage, and therefore the equity in net assets of the investment, will be changed. Such difference shall be used to adjust capital surplus or retained earnings and long-term equity investments.

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

Property and equipment are stated at cost. Major additions, betterments and renewals, including related interest incurred up to the point when the fixed assets can be placed into service, are capitalized. Maintenance and repairs are recorded as current expense.

Depreciation of property and equipment is calculated by the straight-line method. For property and equipment still in use after full depreciation, estimated salvage value may continue to be depreciated over their estimated useful lives. The estimated useful lives of property and equipment are 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

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

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 of 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.

(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 Bank of Taiwan. After July 1, 2005, the Labor Pension Act took effect. 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.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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.

(17) Income tax

The Company adopted SFAS No. 22, "Income Taxes". The amounts for deferred tax liabilities or assets are calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable currently or in future years 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. Deferred tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability relating to the deferred item or, for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date.

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.

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

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(12).

4. SUMMARY OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 200	393
Bank deposits		
Checking accounts	47,697	49,076
Savings accounts	101,235	518,899
Foreign currency deposits	122,033	34,169
Time deposits	2,105,361	1,004,725
Total	<u>\$ 2,376,616</u>	<u>1,607,262</u>

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

(2) Financial instruments

	<u>2007</u>	<u>2006</u>
Financial assets at fair value through profit or loss – current:		
Financial assets held for trading		
Beneficiary certificates	\$ 155,000	62,315
Corporate bonds	5,000	-
Securities	58	-
Total	<u>\$ 160,058</u>	<u>62,315</u>
Financial assets designated as at fair value:		
Structured notes	<u>\$ -</u>	<u>22,785</u>
Financial assets at fair value through profit or loss – noncurrent:		
Financial assets held for trading		
Beneficiary certificates	<u>\$ 20,000</u>	<u>-</u>
Financial assets designated as at fair value:		
Structured notes	<u>\$ 64,760</u>	<u>-</u>
Held-to-maturity financial assets – noncurrent:		
Financial bond investments – The Chinese Bank	\$ 3,000	3,000
Bond investments – Deutsche Bank Aktiengesellschaft	33,210	33,210
	<u>\$ 36,210</u>	<u>36,210</u>
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 – HARMONY SUCCESS S.A. (PANAMA) (original investment cost: US\$653,600)	21,163	21,275
Investment in stock – LANDO CO., LTD. (original investment cost: JPY 3,000,000)	868	872
Total	<u>\$ 38,752</u>	<u>38,868</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, 2007 and 2006:

Item	2007		2006	
	Book Value	Nominal Principal	Book Value	Nominal Principal
Derivative financial assets				
Equity-linked notes	\$ -		-	JPY 766,340 thousand
9 Months Absolute Return Notes on a Basket of United States and European Securities	-	-	16,275	USD 500 thousand
1 Year Absolute Return Notes on a Basket of Global Securities	-	-	6,510	USD 200 thousand
30 Months Debentures, series 2007	64,760	65,123	-	-
	<u>\$ 64,760</u>		<u>22,785</u>	
Derivative financial liabilities:				
Foreign options	\$ 886	JPY1, 343,500 thousand	-	USD 1,200 thousand
Foreign exchange forward contracts	-	USD 16,090 thousand	-	-
	<u>\$ 886</u>		<u>-</u>	

- a. Derivative financial assets—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 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.
- b. Derivative financial assets and liabilities—The Company and subsidiaries bought a 14-day foreign option with an assured rate in US dollars (JPY) from Hua Nan Bank, Land 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 thousand 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 thousand (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 gain (loss) on valuation of financial assets resulting from derivative financial instruments was \$9,527 thousand and \$6,326 thousand for the years ended December 31, 2007 and 2006, respectively. The gain (loss) on valuation of financial liabilities resulting from derivative financial instruments was (\$4,202 thousand) and \$0 thousand for the years ended December 31, 2007 and 2006, respectively.
- 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 thousand (US\$518,545 thousand) as of December 31, 2007. During 2007 and 2006, the Company received cash dividends of \$23,412 thousand and \$13,168 thousand (including liquidating dividends of \$480), 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 thousand (US\$461 thousand). During 2006, the Company's subsidiary received cash dividends of \$98,682 (US\$34 thousand).
- 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. As of December 31, 2007, the Company invested \$21,163 (US\$654 thousand) in HARMONY SUCCESS S.A. PANAMA. During 2007 and 2006, the Company received cash dividends of \$26,214 thousand (US\$798 thousand) and \$18,678 (US\$574 thousand), 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, 2007, the subsidiary company had 18.75% ownership and had paid \$868 (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

December 31, 2006	Share	Amount	Ownership
EUROASIA II INC., PANAMA	45	\$ 69,196	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 thousand (US\$6,180) for EUROASIA III INC., whose assets, liabilities, and equities were transferred to EUROASIA II INC., PANAMA. As of December 31, 2006, the subsidiary company had 45% ownership and had paid \$33,026 thousand (US\$1,022,173). Investment gain (loss) recognized for the years 2007 and 2006 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors is detailed below:

Investee company	2007 Investment gain	2006 Investment gain
EUROASIA II INC., PANAMA	\$ -	13,476

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

- b. The Company's subsidiary DONG LIEN MARITIME S.A. PANAMA disposed of EUROASIA II INC., PANAMA at a sale price of US\$7,200 thousand to DANSK REDERI A/S COPENHAGEN in March 2007. On April 4, 2007, the Company received the entire sales price. The gain on disposal was \$166,686.

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>
2007			
Land	\$ 79,937	-	79,937
Buildings and structures	30,127	4,430	25,697
Transportation equipment	6,460	2,100	4,360
Vessel equipment	11,591,249	2,662,534	8,928,715
Office furniture and equipment	3,308	1,889	1,419
Prepayments for business facilities	1,505,120	-	1,505,120
Other equipment	47,382	28,376	19,006
Total	\$ 13,263,583	2,699,329	10,564,254
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

- a. For the acquisition or disposal of property and equipment with related parties during 2007 and 2006, please refer to Note 5.
- b. The Company's subsidiary UNICORN BRILLIANT PESCADORES S.A. PANAMA disposed of its own vessel "Unicorn Brilliant" at a sales price of US\$12,500 thousand during January 2007. The Company has received all the sales price, and the gain on disposal of the vessel was US\$5,076 thousand.
- c. The Company's subsidiary ELEGANT PESCADORES S.A. (PANAMA) disposed of its own vessel "Elegant" at a sales price of US\$5,290 thousand during February 2007. The Company has received all the sales price, and the gain on disposal of the vessel was US\$2,801 thousand.
- d. As of December 31, 2007 and 2006, the Company's interest resulting in prepayment for purchases of vessels had been capitalized in the amount of \$8,514 thousand and \$1,691 thousand, respectively.

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

(5) Short-term debt

<u>Item</u>	<u>Period</u>	<u>Amount</u>
<u>2007</u>		
Credit loans	Current portion	\$ 186,545
Secured loans	"	320,000
		<u>\$ 506,545</u>
<u>2006</u>		
Secured loans	Current portion	<u>\$ 210,000</u>

The Company provided restricted assets—foreign currency deposits as collateral for the above secured loans. The loans bore interest of 2.50%~6.11% and 2.42%~2.50% for 2007 and 2006, respectively.

(6) Pension reserve

a. As of December 31, 2007 and 2006, the Company's pension expenses were as follows:

	<u>2007</u>	<u>2006</u>
Pension reserve account balance, end of year	\$ 6,581	6,548
Pension expenses:		
Defined benefit net pension cost	2,191	2,171
Defined contribution net pension cost	2,692	2,230
Accrued pension liabilities	17,386	14,674

b. In 2007 and 2006, under the defined contribution pension plan, the Company contributed pension expenses amounting to \$2,692 thousand and \$2,230 thousand, respectively, to the Bureau of Labor Insurance.

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

d. The Company has acquired actuarial reports as of December 31, 2007 and 2006.

e. Components of net periodic pension cost for the year

	<u>2007</u>	<u>2006</u>
Service cost	\$ 599	613
Interest cost	787	724
Projected return on plan assets	(213)	(158)
Amortization	1,018	992
Net periodic pension costs	<u>\$ 2,191</u>	<u>2,171</u>

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

f. Reconciliation of the funded status of the plan and accrued pension cost at December 31, 2007 and 2006

	2007	2006
Discount rate	3.25%	3.25%
Future salary increase rate	2.00%	2.00%
Expected rate of return on pension fund assets	3.25%	3.25%
	2007	2006
Benefit obligation		
Vested benefit obligation	(\$ 11,866)	(9,245)
Non-vested benefit obligation	(12,100)	(11,977)
Accumulated benefit obligation	(23,966)	(21,222)
Additional benefits based on future salaries	(2,983)	(2,988)
Projected benefit obligation	(26,949)	(24,210)
Fair value of plan assets	6,581	6,548
Funded status	(20,368)	(17,662)
Unrecognized net transitional obligation	47	59
Unrecognized prior service cost	650	1,300
Unrecognized net loss	11,008	8,124
Additional minimum pension liability	(8,723)	(6,495)
Accrued pension liability	<u>(\$ 17,386)</u>	<u>(14,674)</u>

As of December 31, 2007 and 2006, vested benefit obligation under the pension plan amounted to \$12,271 and \$9,551, respectively.

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

	2007	2006
Secured loans	\$ 5,416,662	4,706,524
Credit loans	165,660	270,248
Less: current portion	(1,060,610)	(543,651)
Net amount	<u>\$ 4,521,712</u>	<u>4,432,851</u>

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 1.85%~7.15% and 0.862%~6.99% for 2007 and 2006, respectively.

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

(8) Corporate bonds payable

As of December 31, 2007 and 2006, the Company's corporate bonds payable were as follows:

	<u>2007</u>	<u>2006</u>
Issue amount	\$ 500,000	500,000
Converted amount	(500,000)	(131,951)
Unamortized discount	-	-
	<u>-</u>	<u>368,049</u>
Less: current portion	-	-
Total	<u>\$ -</u>	<u>368,049</u>

On November 30, 2006, 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>2007</u>	<u>2006</u>
Issue amount	\$ -	500,000
Equity component	-	(105,555)
Liability component	-	394,455
Evaluation	(36,394)	(2,430)
Interest expense	12,611	2,384
Total	<u>(\$ 23,783)</u>	<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 and bonds payable.

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 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.

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

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.

(9) Capital stock

As of December 31, 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 3,369,857 and 2,784,970 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 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.

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

During 2007, the Company's board of directors approved a resolution for booked convertible bonds to convert into 17,238 thousand shares of common stock. The common stock issuance dates were March 31, June 30, September 30, and December 21, 2007. The stock issuance was authorized by and registered with the government authorities on April 16, August 1, and October 18, 2007, and January 9, 2008, 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.

(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.

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:

Item	2006	2005
Legal reserve	\$ 141,335	145,879
Directors' and supervisors' compensation	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

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

Following is the relevant information on distribution of retained earnings as shareholder dividends of the Company in the years 2006 and 2005:

Shareholder Dividends	(amounts expressed in New Taiwan dollars)	
	2006	2005
Cash	\$ 3.66	2.50
Stock	0.50	1.00
Total	\$ 4.16	3.50

(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.

(11) Income tax

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

	2007	2006
Increase income tax payable	\$ 9,963	37,813
Decrease in deferred income tax assets—current	189	664
Increase in deferred income tax liabilities—current	125,000	-
Income tax prepayment and withholding	15,074	35,471
Under (over)-accrual of prior years' income tax expense	480	(2,539)
Income tax expense	\$ 150,706	71,409

The components of income tax expense were as follows:

	2007	2006
Income tax currently payable	\$ 25,037	28,700
Deferred income tax expense (revenue)	125,189	664
Under (over)-accrual of prior years' income tax expense	480	(2,539)
Additional 10% surtax on undistributed earnings	-	44,584
Income tax expense	\$ 150,706	71,409

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

- b. The Company adopted the ROC "Income Basic Tax Act" 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 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Income tax effects of income before income tax calculated using the actual tax rate (25%)	\$ 493,712	371,180
Permanent difference		
Investment income— equity method	(336,644)	(339,689)
Gain on valuation of financial asset	(1,215)	(1,581)
Gain on valuation of financial liability	(9,098)	(607)
Other	3,271	61
Temporary difference		
Foreign exchange gain	(311)	(822)
Pension expense	122	158
Estimated cash dividend from investment income— equity method	(125,000)	-
Income tax currently payable	<u>\$ 25,037</u>	<u>28,700</u>

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

	<u>2007</u>	<u>2006</u>
Foreign exchange gain	(\$ 311)	(822)
Pension expense	122	158
Estimated cash dividend income— equity method	(125,000)	-
Deferred income tax expense	<u>(\$ 125,189)</u>	<u>(664)</u>

- d. As of December 31, 2007 and 2006, deferred income tax assets and liabilities due to temporary differences and income tax effects were as follows:

	<u>2007</u>	<u>2006</u>
Total deferred tax assets	<u>\$ 2,990</u>	<u>3,179</u>
Total deferred tax liabilities	<u>\$ 125,000</u>	<u>-</u>

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

	<u>2007</u>		<u>2006</u>	
	<u>AMOUNT</u>	<u>Tax effect</u>	<u>AMOUNT</u>	<u>Tax effect</u>
Deferred income tax assets — current:				
- Bad debt expense	\$ 1,800	450	1,800	450
- Pension expense	8,979	2,245	8,494	2,123
- Loss on foreign exchange	1,180	295	2,421	606
Less: Valuation of deferred tax assets	-	-	-	-
Net amount		<u>\$ 2,990</u>		<u>3,179</u>
Deferred income tax liabilities — noncurrent:				
- Estimated cash dividend income				
— equity method	\$ 500,000	<u>125,000</u>	-	<u>-</u>

- 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.

- g. Related information on imputation tax:

	<u>2007</u>	<u>2006</u>
Balance of stockholders' imputation credit account	<u>\$ 36,273</u>	<u>59,517</u>
Estimated (actual) imputation credit ratio of earnings distribution	<u>(estimated) 2.09%</u>	<u>(actual) 5.30%</u>

- h. Related information on undistributed earnings

	<u>2007</u>	<u>2006</u>
Undistributed earnings of 1997 and before	\$ -	-
Undistributed earnings of 1998 and after	2,231,149	1,859,194
Total	<u>\$ 2,231,149</u>	<u>1,859,194</u>

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 2007 and 2006 were calculated as follows:

	Unit: NTD'000s/Shares'000s; Earnings per share: NTD			
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
Primary earnings per share				
— Current period				
Consolidated net income attributed to common shareholders	\$ 1,974,889	1,824,183	1,487,761	1,413,352
Weighted-average number of shares outstanding	328,524	328,524	278,497	278,497
Primary earnings per share	\$ 6.01	5.55	5.33	5.07
— Retroactively adjusted				
Weighted-average number of shares outstanding			292,928	292,928
Primary earnings per share—retroactively adjusted			5.07	4.82
Diluted earnings per share				
Net income	\$ 1,974,889	1,824,183	1,484,761	1,413,352
Effect of dilutive potential common stock—convertible bonds	12,611	9,458	2,384	1,788
Net income—diluted	\$ 1,987,500	1,833,641	1,487,145	1,415,140
— Current period				
Weighted-average number of shares outstanding	\$ 328,524	328,524	278,497	278,497
Effect of dilutive potential common stock—convertible bonds	8,174	8,174	1,398	1,398
Weighted-average number of shares outstanding—diluted	\$ 336,698	336,698	279,895	279,895
— Retroactively adjusted				
Weighted-average number of shares outstanding			292,928	292,928
Effect of dilutive potential common stock—convertible bonds			1,466	1,466
Weighted-average number of shares outstanding—diluted			\$ 294,394	294,394
Diluted earnings per share—current period	\$ 5.90	5.45	5.31	5.06
Diluted earnings per share—retroactively adjusted			\$ 5.05	4.81

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

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 accrued 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 December 31, 2007 and 2006, is as follows:

Non-Derivative Financial Instruments	2007			2006		
	Book Value	Fair Value		Book Value	Fair Value	
		Based on quoted market prices	Determined by using valuation techniques		Based on quoted market prices	Determined by using valuation techniques
Financial Assets						
Financial assets at fair value through profit or loss — current	\$ 160,058	160,058	-	62,315	65,815	-
Long-term investment under equity method (including long-term prepaid investment)	-	-	-	69,196	-	-
Financial assets at fair value through profit or loss — noncurrent	20,000	20,253	-	-	-	-
Held-to-maturity financial assets — noncurrent	36,210	-	37,481	36,210	-	36,210
Financial assets carried at cost — noncurrent	38,752	Refer to (iii) below	-	38,868	Refer to (iii) below	-
Deposits-out	50,839	-	50,839	110,485	-	110,485
Financial Liabilities						
Bonds payable	-	-	-	368,049	-	368,049
Long-term loans	5,582,322	-	5,582,322	4,976,502	-	4,976,502
Derivative Financial Instruments						
Financial Assets						
Equity-linked notes	-	-	-	-	-	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	-
30 Months Debentures, series 2007	64,760	65,123	-	-	-	-
Financial Liabilities						
Financial assets at fair value through profit or loss — current						
Equity-linked notes	886	1,804	-	-	456	-
Forward contract	-	-	7,116	-	-	-
Financial assets at fair value through profit or loss — noncurrent	-	-	-	26,350	-	26,350

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 are determined using valuation techniques incorporating estimates and assumptions that are 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 December 31, 2007 and 2006, please refer to Note 6.
- d. As of December 31, 2007 and 2006, the financial assets exposed to fair value interest rate risk were \$2,543,972 thousand and \$1,340,807 thousand, respectively. The financial liabilities were \$0 and \$368,049 thousand, respectively. The financial assets exposed to cash flow interest rate risk were \$226,358 thousand and \$556,068 thousand, respectively, and the financial liabilities were \$6,088,867 thousand and \$5,186,502 thousand, respectively.
- e. For the years ended December 31, 2007 and 2006, the evaluation gain on financial assets and liabilities at fair value through profit or loss amounted to \$41,719 thousand and \$8,756 thousand, respectively.

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

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 \$607 thousand.

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.

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, 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 \$60,889 thousand and \$51,865 thousand, 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 Company subsidiary (disposed of in March 2007).
DONG LIEN SHIPPING CO., LTD.	The company's president was a Company director.
LUO PAN INVESTMENTS CO., LTD.	"
HUO DA INVESTMENTS CO., LTD.	"
HUAN SHIN INVESTMENTS CO., LTD.	"
GREENDANCE BARONY	"

(2) Significant transactions with related parties

a. Sales

<u>Name of related party</u>	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ 8,578	-	33,856	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. 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>2007</u>	<u>2006</u>
DONG LIEN SHIPPING CO., LTD.	\$ -	64
LUO PAN INVESTMENTS CO., LTD.	29	15
HUO DA INVESTMENTS CO., LTD.	24	-
HUAN SHIN INVESTMENTS CO., LTD.	12	-
GREENDANCE BARONY	6	-
Total	\$ 71	79

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

f. The disposal agreements for vessel M/V ROMANTIC signed by DONG LIEN SHIPPING CO., LTD. amounted to NT\$300 at December 28, 2006. The Company had received the entire sale price and delivery of the vessel by September 30, 2007. The gain on disposal of the vessel and its equipment was NT\$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 December 31, 2007 and 2006.

Name of asset	2007	2006
Property and equipment (net book value)		
-Land	\$ 79,937	79,937
-Buildings and structures	25,697	26,712
-Vessel equipment	7,715,630	7,223,778
Prepayment for vessel equipment	530,195	177,722
Restricted assets	405,401	302,872
Total	\$ 8,756,860	7,811,021

7. COMMITMENTS AND CONTINGENCIES

As of December 31, 2007 and 2006, the Company's commitments and contingencies were as follows:

(1) The Company had significant contracts as follows:

Contract Title	Contracting Party	Period Covered	Contents
Management Contract	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) 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 thousand to the family, and also paid compensation of \$480 thousand according to the "Seaman's Contract". The victim's family asserted that the Company and the killer should pay compensation of \$6,916 thousand to the victim's family according to Article No. 188,

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

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 thousand to the victim's family. However, the Company was not content with the ruling of the court and appealed to the Supreme Court. These suits were settled out of court on December 17, 2007. The Company should pay compensation of \$950 thousand to the victim's family in this settlement agreement. However, compensation paid by the insurance company was \$886 thousand and the Company should pay the residual \$64 thousand.

- (3) The construction and purchase agreements for vessels signed by the subsidiaries of a Company subsidiary amounted to JPY50,845,700 thousand and US\$26,000 thousand as of December 31, 2007, and JPY31,769,700 thousand and US\$26,000 thousand as of December 31, 2006. They had paid JPY5,404,324 thousand as of December 31, 2007, and JPY2,405,836 thousand as of December 31, 2006 (recorded as prepayments for business facilities).
- (4) As December 31, 2007, the rental of the office building as follows:

Period	Rent Payable (Before Tax)	Paid	Unpaid	Deposit-Out
2007.11.15~2010.11.14	\$ 26,590	760	25,830	1,519

- (5) The Company's subsidiary GENIUS PESCADORES S.A. (PANAMA) disposed of its own vessel "SCAN BULKER" at a sales price of US\$29,850 thousand during December 2007. As of December 31, 2007, the Company had received the entire sales price (recorded as unearned receipts). The delivery of the vessel will be in January 2008, and the gain on disposal of the vessel is US\$17,698 thousand.

8. MAJOR DISASTER LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS: None.

10. OTHERS

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

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

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

	2007			2006		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expenses						
Payroll	\$ 315,722	60,262	375,984	318,952	54,137	373,089
Insurance	6,558	4,697	11,255	13,731	4,007	17,738
Retirement	-	4,883	4,883	-	4,401	4,401
Others	77,207	2,041	79,248	97,868	2,019	99,887
Depreciation	519,272	2,585	521,857	495,758	2,393	498,151
Depletion	-	-	-	-	-	-
Amortization	58,373	155	58,528	73,685	102	73,787

Some items on the financial statements of 2006 of the Company were reclassified to conform with the financial statements of 2007; the reclassification has no great influence on the financial statements.