

**Shih Wei Navigation Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2010 and 2009 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Shih Wei Navigation Co., Ltd. (the "Corporation") and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation and subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Shih Wei Navigation Co., Ltd and its subsidiaries as of December 31, 2010 and 2009, 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 and accounting principles generally accepted in the Republic of China.

Deloitte & Touche

March 14, 2011

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Note 4)	\$ 2,548,703	12	\$ 3,238,304	16	Short-term bank loans (Notes 9 and 19)	\$ 1,160,805	6	\$ 396,895	2
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	120,757	1	39,012	-	Notes and accounts payable	64,085	-	74,196	-
Accounts receivable (Note 2)	19,461	-	9,327	-	Income tax payable (Notes 2 and 14)	25,150	-	540,865	3
Inventories (Note 2)	87,612	-	104,855	1	Accrued expenses	110,130	-	108,426	-
Pledged time deposits - current (Notes 9 and 19)	1,001,164	5	137,719	1	Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	108,686	-	368	-
Other current assets (Notes 2 and 14)	<u>166,729</u>	<u>1</u>	<u>186,116</u>	<u>1</u>	Current portion of long-term bank loans (Notes 11 and 19)	1,182,609	6	1,734,916	9
Total current assets	<u>3,944,426</u>	<u>19</u>	<u>3,715,333</u>	<u>19</u>	Other current liabilities (Notes 2 and 14)	<u>122,246</u>	<u>1</u>	<u>128,923</u>	<u>1</u>
					Total current liabilities	<u>2,773,711</u>	<u>13</u>	<u>2,984,589</u>	<u>15</u>
INVESTMENTS					LONG-TERM LIABILITIES				
Held-to-maturity financial assets - noncurrent (Notes 2 and 6)	14,565	-	15,995	-	Financial liabilities at fair value through profit or loss - noncurrent (Notes 2, 5 and 10)	8,685	-	-	-
Financial assets carried at cost - noncurrent (Notes 2 and 7)	<u>47,975</u>	<u>-</u>	<u>38,487</u>	<u>-</u>	Convertible bonds payable (Notes 2 and 10)	410,713	2	-	-
Total investments	<u>62,540</u>	<u>-</u>	<u>54,482</u>	<u>-</u>	Long-term bank loans (Notes 11 and 19)	<u>9,677,268</u>	<u>46</u>	<u>8,004,740</u>	<u>40</u>
					Total long-term liabilities	<u>10,096,666</u>	<u>48</u>	<u>8,004,740</u>	<u>40</u>
PROPERTY AND EQUIPMENT (Notes 2, 8, 11, 19 and 20)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 12)	13,789	-	14,948	-
Land	920,495	4	912,532	5	Guarantee deposits received	45,201	-	25,248	-
Buildings	30,906	-	30,906	-	Deferred income tax liabilities - noncurrent (Notes 2 and 14)	148,865	1	117,265	1
Transportation equipment	1,160	-	6,460	-	Others (Note 20)	<u>197,110</u>	<u>1</u>	<u>138,223</u>	<u>1</u>
Vessel equipment	15,942,772	76	15,736,221	79	Total other liabilities	<u>404,965</u>	<u>2</u>	<u>295,684</u>	<u>2</u>
Office equipment	2,766	-	2,242	-	Total liabilities	<u>13,275,342</u>	<u>63</u>	<u>11,285,013</u>	<u>57</u>
Leasehold improvements	<u>5,675</u>	<u>-</u>	<u>5,675</u>	<u>-</u>	STOCKHOLDERS' EQUITY				
Total cost	16,903,774	80	16,694,036	84	Capital stock - par value NT\$10, authorized - 500,000 thousand shares; issued - 2010: 366,350 thousand shares, 2009: 356,350 thousand shares	<u>3,663,500</u>	<u>18</u>	<u>3,563,500</u>	<u>18</u>
Less: Accumulated depreciation	<u>3,114,252</u>	<u>15</u>	<u>3,096,864</u>	<u>16</u>	Capital surplus				
	13,789,522	65	13,597,172	68	Additional paid-in capital from share issuance in excess of par	676,495	3	392,383	2
Prepayments for equipment	<u>2,665,623</u>	<u>13</u>	<u>2,294,701</u>	<u>12</u>	Convertible bonds converted at a price in excess of the common stock's par value	371,904	2	371,904	2
Net property and equipment	<u>16,455,145</u>	<u>78</u>	<u>15,891,873</u>	<u>80</u>	Employee stock options	-	-	11,235	-
					Equity component of convertible bonds	42,864	-	-	-
INTANGIBLE ASSETS					Others	<u>20,041</u>	<u>-</u>	<u>12,918</u>	<u>-</u>
Deferred pension cost (Notes 2 and 12)	<u>12</u>	<u>-</u>	<u>24</u>	<u>-</u>	Total capital surplus	<u>1,111,304</u>	<u>5</u>	<u>788,440</u>	<u>4</u>
					Retained earnings				
OTHER ASSETS					Legal reserve	1,151,902	6	1,027,300	5
Refundable deposits - noncurrent	32,471	-	29,986	-	Special reserve	70,431	-	-	-
Deferred charges (Note 2)	143,075	1	119,435	1	Unappropriated earnings	<u>2,739,882</u>	<u>13</u>	<u>3,265,296</u>	<u>16</u>
Pledged time deposits - noncurrent (Notes 11 and 19)	<u>357,171</u>	<u>2</u>	<u>47,985</u>	<u>-</u>	Total retained earnings	<u>3,962,215</u>	<u>19</u>	<u>4,292,596</u>	<u>21</u>
Total other assets	<u>532,717</u>	<u>3</u>	<u>197,406</u>	<u>1</u>	Other equity				
					Cumulative translation adjustments	(1,011,559)	(5)	(64,329)	-
TOTAL	<u>\$ 20,994,840</u>	<u>100</u>	<u>\$ 19,859,118</u>	<u>100</u>	Net loss not recognized as pension cost	<u>(5,962)</u>	<u>-</u>	<u>(6,102)</u>	<u>-</u>
					Total other equity	<u>(1,017,521)</u>	<u>(5)</u>	<u>(70,431)</u>	<u>-</u>
					Total stockholders' equity	<u>7,719,498</u>	<u>37</u>	<u>8,574,105</u>	<u>43</u>
					TOTAL	<u>\$ 20,994,840</u>	<u>100</u>	<u>\$ 19,859,118</u>	<u>100</u>

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010		2009	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 18)	\$ 4,195,953	100	\$ 3,887,945	100
OPERATING COSTS (Note 15)	<u>2,423,409</u>	<u>58</u>	<u>2,314,369</u>	<u>59</u>
GROSS PROFIT	1,772,544	42	1,573,576	41
OPERATING EXPENSES (Notes 15 and 18)	<u>200,508</u>	<u>5</u>	<u>191,280</u>	<u>5</u>
OPERATING INCOME	<u>1,572,036</u>	<u>37</u>	<u>1,382,296</u>	<u>36</u>
NONOPERATING INCOME AND GAINS				
Interest income	16,004	-	29,260	1
Dividend income	26,011	1	45,517	1
Gain on disposal of property and equipment (Note 2)	234,875	6	35,601	1
Gain on sale of investments, net (Notes 2 and 5)	4,326	-	-	-
Exchange gain, net (Notes 2 and 5)	-	-	117,309	3
Gain on valuation of financial assets, net (Notes 2 and 5)	252	-	9,389	-
Gain on valuation of financial liabilities, net (Notes 2 and 5)	-	-	1,249	-
Miscellaneous income (Notes 17 and 18)	<u>84,669</u>	<u>2</u>	<u>194,333</u>	<u>5</u>
Total nonoperating income and gains	<u>366,137</u>	<u>9</u>	<u>432,658</u>	<u>11</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 2 and 8)	122,072	3	149,430	4
Loss on sale of investments, net (Notes 2 and 5)	-	-	4,521	-
Exchange loss, net (Notes 2 and 5)	339,113	8	-	-
Loss on valuation of financial liabilities, net (Notes 2 and 5)	117,869	3	-	-
Miscellaneous expense	<u>18,936</u>	<u>-</u>	<u>28,482</u>	<u>1</u>
Total nonoperating expenses and losses	<u>597,990</u>	<u>14</u>	<u>182,433</u>	<u>5</u>
INCOME BEFORE INCOME TAX	1,340,183	32	1,632,521	42
INCOME TAX (Notes 2 and 14)	<u>205,164</u>	<u>5</u>	<u>386,505</u>	<u>10</u>
CONSOLIDATED NET INCOME	<u>\$ 1,135,019</u>	<u>27</u>	<u>\$ 1,246,016</u>	<u>32</u>

(Continued)

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars, Except Cash and Stock Dividends Per Share)

	Capital Stock Issued and Outstanding (Note 13)		Capital Surplus (Notes 2 and 13)	Retained Earnings (Notes 13 and 14)			Other Equity (Notes 2, 12 and 13)		Total Stockholders' Equity
	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	
BALANCE, JANUARY 1, 2009	347,260	\$ 3,472,603	\$ 764,287	\$ 626,207	\$ 51,463	\$ 4,192,027	\$ 107,784	\$ (8,290)	\$ 9,206,081
Appropriation of the 2008 earnings									
Legal reserve	-	-	-	401,093	-	(401,093)	-	-	-
Reversal of special reserve	-	-	-	-	(51,463)	51,463	-	-	-
Cash dividends - NT\$5 per share	-	-	-	-	-	(1,736,302)	-	-	(1,736,302)
Stock dividends - NT\$0.25 per share	8,682	86,815	-	-	-	(86,815)	-	-	-
Stock bonus to employees	408	4,082	12,918	-	-	-	-	-	17,000
Compensation recognized for employee stock options	-	-	11,235	-	-	-	-	-	11,235
Consolidated net income for the year ended December 31, 2009	-	-	-	-	-	1,246,016	-	-	1,246,016
Translation adjustments on long-term equity method investments	-	-	-	-	-	-	(172,113)	-	(172,113)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	2,188	2,188
BALANCE, DECEMBER 31, 2009	356,350	3,563,500	788,440	1,027,300	-	3,265,296	(64,329)	(6,102)	8,574,105
Appropriation of the 2009 earnings									
Legal reserve	-	-	-	124,602	-	(124,602)	-	-	-
Reversal of special reserve	-	-	-	-	70,431	(70,431)	-	-	-
Cash dividends - NT\$4 per share	-	-	-	-	-	(1,465,400)	-	-	(1,465,400)
Equity component of convertible bonds	-	-	42,864	-	-	-	-	-	42,864
Issuance of common stock for cash	10,000	100,000	280,000	-	-	-	-	-	380,000
Consolidated net income for the year ended December 31, 2010	-	-	-	-	-	1,135,019	-	-	1,135,019
Translation adjustments on long-term equity method investments	-	-	-	-	-	-	(947,230)	-	(947,230)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	140	140
BALANCE, DECEMBER 31, 2010	366,350	\$ 3,663,500	\$ 1,111,304	\$ 1,151,902	\$ 70,431	\$ 2,739,882	\$ (1,011,559)	\$ (5,962)	\$ 7,719,498

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 1,135,019	\$ 1,246,016
Depreciation	802,267	723,514
Amortization	64,979	62,040
Amortization of deferred charges classified as interest expense	750	-
Amortization of discounts on convertible bonds payable	8,877	-
Compensation cost of employee stock options	-	11,235
Gain on disposal of property and equipment	(234,875)	(35,601)
Loss (gain) on sale of investments, net	(4,326)	4,521
Deferred income tax	32,640	(232,277)
Gain on valuation of financial assets, net	(252)	(9,389)
Loss on valuation of financial liabilities, net	123,545	-
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(91,376)	61,099
Accounts receivable	(11,848)	3,300
Inventories	8,822	(13,920)
Other current assets	10,324	(58,328)
Notes and accounts payable	(3,987)	(33,979)
Income tax payable	(515,715)	399,177
Accrued expenses	7,009	(5,091)
Other current liabilities	4,356	48,199
Accrued pension cost	(1,007)	(367)
Other liabilities	<u>58,887</u>	<u>138,223</u>
Net cash provided by operating activities	<u>1,394,089</u>	<u>2,308,372</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets carried at cost	(11,434)	-
Proceeds from disposal of held-to-maturity financial assets	-	36,210
Acquisition of held-to-maturity financial assets	-	(16,520)
Proceeds from disposal of property and equipment, and deferred charges	537,235	125,552
Acquisition of property and equipment	(3,116,851)	(3,818,295)
Decrease (increase) in refundable deposits	(2,485)	13
Increase in deferred charges	(97,084)	(108,617)
Decrease (increase) in pledged time deposits	<u>(1,285,449)</u>	<u>245,074</u>
Net cash used in investing activities	<u>(3,976,068)</u>	<u>(3,536,583)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term bank loans	846,022	102,964
Issuance of convertible bonds	446,500	-
Increase in long-term bank loans	1,927,009	2,071,746
Increase in guarantee deposits received	19,967	25,091

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SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
Issuance of common stock	\$ 380,000	\$ -
Cash dividends	<u>(1,465,400)</u>	<u>(1,736,302)</u>
Net cash provided by financing activities	<u>2,154,098</u>	<u>463,499</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(261,720)</u>	<u>(78,230)</u>
NET DECREASE IN CASH	(689,601)	(842,942)
CASH, BEGINNING OF YEAR	<u>3,238,304</u>	<u>4,081,246</u>
CASH, END OF YEAR	<u>\$ 2,548,703</u>	<u>\$ 3,238,304</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 111,495</u>	<u>\$ 157,892</u>
Income tax paid	<u>\$ 688,239</u>	<u>\$ 219,605</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term bank loans	<u>\$ 1,182,609</u>	<u>\$ 1,734,916</u>

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

(Concluded)

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Shih Wei Navigation Co., Ltd. (the “Corporation”) was incorporated in March 1985 under the Company Act of the Republic of China. The Corporation mainly provides cargo shipping services, shipping agency, and sells and leases ships.

The Corporation’s shares began to be traded on the Taiwan GreTai Securities Market in July 2001 and then became listed on the Taiwan Stock Exchange in August 2003.

The Corporation and its subsidiaries’ investment relationship and percentage of ownerships as of December 31, 2010 and 2009 were as follows:



Subsidiaries mainly engage in providing cargo shipping services, shipping agency, and sell, lease and build ships and their spare parts.

As of December 31, 2010 and 2009, the Corporation and its subsidiaries had 784 and 777 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Corporation and its subsidiaries are required to make reasonable estimates and assumptions that affect the amounts of allowance for doubtful accounts, provision for loss on inventories, depreciation on property and equipment, amortization of deferred charges, impairment loss on assets, valuation of accrued pension cost, income tax, bonuses to employees, directors and supervisors, etc. Actual results could differ from these estimates.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include the English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB) for their oversight purposes.

The significant accounting policies of the Corporation and its subsidiaries are summarized as follows:

Basis of Consolidation

The consolidated companies are the Corporation's direct or indirect subsidiaries of which the Corporation holds more than 50% of their respective common shares and all other direct or indirect investees over which the Corporation has substantive control. All significant intercompany transactions or balances were eliminated during the consolidation.

Translation of Subsidiaries' Financial Statements

The subsidiaries' financial statements expressed in foreign currencies have been translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - year-end spot rate; stockholders' equity - historical exchange rate; and income statement accounts - current year's average rate. Differences resulting from the above translation are recorded as "cumulative translation adjustments" under the stockholders' equity.

Current and Noncurrent Assets and Liabilities

Current assets included cash and those held primarily for trading purpose or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property and equipment, and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading. The Corporation and its subsidiaries recognize a financial asset or a financial liability on its balance sheet when the Corporation and its subsidiaries become parties to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation and its subsidiaries have lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: publicly traded stocks and depositary receipts - at closing prices; open-end mutual funds - at net asset values; financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques; and derivatives - at values calculated using bank-quoted prices.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue is recognized when the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. The revenues from management services and vessel leases are recognized over the contract periods. Cargo revenues are recognized when the cargos are transported to the port of discharge.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Corporation and its subsidiaries and the customers for service rendered in the normal course of business. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectability of accounts receivable. The Corporation and its subsidiaries assess the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables, prior years' collectability of receivables and economic situation.

Inventories

Inventory is vessel fuel and stated at the lower of cost or net realizable value. Inventory write-downs are made by item.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost. Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks, are measured at their original cost. Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of property and equipment are capitalized as part of the cost of those assets. Major additions, replacements and betterments are capitalized, while maintenance and repairs are expensed currently.

Depreciation is provided on a straight-line basis over the estimated useful lives as follows: buildings, 50 years; transportation equipment, 5 years; vessel equipment, 3 to 25 years; office equipment, 3 to 8 years; leasehold improvements, lease terms. Property and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

The related cost and accumulated depreciation of property and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the period of disposal.

Deferred Charges

Deferred charges, mainly the costs of vessel overhaul, golf club memberships and syndicated loan fee, are initially recorded at cost and amortized using the straight-line method over 2 to 3 years, over 20 years and over loan terms, respectively.

Impairment of Assets

If the recoverable amount of an asset (mainly property and equipment and deferred charges) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings.

Employee Stock Options on Capital Increase

Capital increase reserved for subscription by the Corporation's employees is accounted for under SFAS No. 39, "Accounting for Share-based Payment" and Interpretation 2007-267 issued by the Accounting Research and Development Foundation. Under the statement and interpretation, the compensation cost of employee stock options was recognized on the grant-date using the fair value method, with a corresponding adjustment to capital surplus - employee stock options. As employees participate in share issuance for cash, the portion of participation is reclassified to the capital surplus - issue of stock in excess of par value while the portion of forfeiture is reclassified to the capital surplus - expired employee stock options.

Pension

Under the defined benefit pension plan, pension cost is recognized on the basis of actuarial calculation. Unrecognized net transition obligation and the unrecognized net actuarial gain or loss are amortized using the straight-line method over the average remaining service years of employees.

Under the defined benefit pension plan, the minimum amount of pension liability should be recognized in the balance sheet. If the accrued pension liability already shown in the book is less than the minimum amount, the difference should be recognized as additional pension liability. If the additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation, the deferred pension cost account should be charged. Deferred pension cost is classified as an intangible asset. If the additional liability exceeds this sum, the excess should be charged to the net loss not yet recognized as net pension cost account, which is classified as a reduction of stockholders' equity.

Under the defined contribution plan, the required monthly contributions to employees' individual pension accounts are recognized as pension cost.

Income Tax

The Corporation applies inter-year allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred income tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

Convertible Bonds

The Corporation first determines the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. The liability component (excluding embedded derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, the Corporation uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

Foreign-currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets that are carried at cost continue to be stated at exchange rates at trade dates.

3. ACCOUNTING CHANGES

Accounting for Inventories

On January 1, 2009, the Corporation and its subsidiaries adopted the newly revised Statement of Financial Accounting Standards No. 10 - "Inventories." The main revisions are that inventories are stated at the lower of cost or net realizable value and are written down to net realizable value by item, except when the grouping of similar or related items is appropriate and write-downs of inventories; and any reversal of write-downs is recorded as cost of goods sold for the period. This accounting change had no material effect on these consolidated financial statements for the year ended December 31, 2009.

4. CASH

	<u>December 31</u>	
	2010	2009
Cash on hand	\$ 360	\$ 211
Checking accounts and demand deposits	498,622	324,779
Time deposits	<u>2,049,721</u>	<u>2,913,314</u>
	<u>\$ 2,548,703</u>	<u>\$ 3,238,304</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2010	2009
Financial assets held for trading - current		
Mutual funds	\$ 114,733	\$ 39,012
Domestic quoted stocks	5,851	-
Depository receipts	<u>173</u>	<u>-</u>
	<u>\$ 120,757</u>	<u>\$ 39,012</u>
Financial liabilities held for trading - current		
Forward exchange contracts	\$ 107,821	\$ -
Currency option contracts	<u>865</u>	<u>368</u>
	<u>\$ 108,686</u>	<u>\$ 368</u>
Financial liabilities held for trading - noncurrent		
Liability component of convertible bonds (Note 10)	<u>\$ 8,685</u>	<u>\$ -</u>

The Corporation and its subsidiaries used forward exchange contracts and currency option contracts in the years ended December 31, 2010 and 2009 to manage exposures due to exchange rate fluctuations. These contracts were classified as financial instruments held for trading and were measured at fair value because the hedge accounting requirement does not apply to them.

Outstanding forward exchange contracts as of December 31, 2010 were as follows:

December 31, 2010	Currency	Maturity Date	Contract Amount (In Thousands)
Buy	Yen/USD	2012.10.31	JPY2,003,320/USD23,200
Buy	Yen/USD	2012.10.31	JPY500,888/USD5,800
Buy	Yen/USD	2013.12.20	JPY516,300/USD6,000
Buy	Yen/USD	2013.12.30	JPY512,880/USD6,000
Buy	Yen/USD	2013.12.30	JPY42,740/USD500

Outstanding currency option contracts as of December 31, 2010 and 2009 were as follows:

	Contract Amount (In Thousands)	Exercise Price	Maturity Date
<u>December 31, 2010</u>			
Sell USD call option	USD1,000	JPY87/USD1	2011.01.03
Sell EUR call option	EUR 749	USD1.335/EUR1	2011.01.03
Sell USD call option	USD2,000	JPY85.9/USD1	2011.01.03
Sell USD call option	USD1,500	JPY86.5/USD1	2011.01.04
Sell USD call option	USD1,000	JPY85/USD1	2011.01.05
Sell USD call option	USD1,000	JPY86.5/USD1	2011.01.11
Sell USD put option	USD1,000	JPY81/USD1	2011.01.12
Sell USD call option	USD1,000	JPY86.5/USD1	2011.01.10
Sell USD call option	USD2,000	JPY85.5/USD1	2011.01.11
Sell USD call option	USD1,000	JPY85.5/USD1	2011.01.11
Sell USD call option	USD1,000	USD1.28/EUR1	2011.01.13
<u>December 31, 2009</u>			
Sell USD call option	USD1,000	JPY92/USD1	2010.01.05
Sell USD call option	USD1,000	JPY94.5/USD1	2010.01.21
Sell USD call option	USD1,000	JPY94/USD1	2010.01.22

On financial assets held for trading, there were net losses of NT\$4,578 thousand and net gains of NT\$10,963 thousand in the years ended December 31, 2010 and 2009, respectively. Net losses and net gains on financial liabilities held for trading for the years ended December 31, 2010 and 2009 were NT\$117,819 thousand and NT\$4,419 thousand, respectively.

Net loss on financial assets designated as at FVTPL was NT\$5,000 thousand in the year ended December 31, 2009.

6. HELD-TO-MATURITY FINANCIAL ASSETS

	<u>December 31</u>	
	2010	2009
Bond investments - Deutsche Bank Aktiengesellschaft	<u>\$ 14,565</u>	<u>\$ 15,995</u>

The Corporation and its subsidiaries bought three-year corporate bonds issued by Deutsche Bank Aktiengesellschaft, with face values of US\$500 thousand on June 4, 2009, with coupon interest rates of 3%. Interest is calculated annually. The principal is fully repayable on the maturity date.

7. FINANCIAL ASSETS CARRIED AT COST

	<u>December 31</u>	
	2010	2009
Domestic unlisted common stocks		
Lustrous Technology Ltd.	\$ 11,434	\$ -
Overseas unlisted common stocks		
Harmony Success S.A. (original investment cost: US\$654 thousand)	19,039	20,909
K/S Danred I (original investment cost: US\$519 thousand)	16,721	16,721
Lando Co., Ltd. (original investment cost: ¥3,000 thousand)	<u>781</u>	<u>857</u>
	<u>\$ 47,975</u>	<u>\$ 38,487</u>

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

8. PROPERTY AND EQUIPMENT

Accumulated depreciation consisted of:

	<u>December 31</u>	
	2010	2009
Buildings	\$ 7,181	\$ 6,096
Transportation equipment	693	4,253
Vessel equipment	3,101,615	3,083,409
Office equipment	1,324	1,086
Leasehold improvements	<u>3,439</u>	<u>2,020</u>
	<u>\$ 3,114,252</u>	<u>\$ 3,096,864</u>

Information on capitalized interest was as follows:

	2010	2009
Capitalized interest	\$ 16,749	\$ 13,365
Capitalization rates	0.90%-1.49%	0.95%-2.20%

9. SHORT-TERM BANK LOANS

	December 31	
	2010	2009
Secured bank loans: ¥1,253,000 thousand; due in January 2011, 0.85%-0.88% interests per annum	\$ 448,843	\$ -
Secured bank loans: ¥1,046,750 thousand; due in July 2011, 0.97% interests per annum	374,961	-
Bank credit loans: Due in January to February 2011, 0.95%-1.20% interest per annum in 2010; due in January 2010, 0.80%-1.20% interest per annum in 2009	191,000	196,000
Bank credit loans: US\$3,290 thousand; due in May 2011, 1.04% interest per annum in 2010; due in May 2010, 1.01% interest per annum in 2009	95,851	105,262
Secured bank loans: ¥140,000 thousand; due in January 2011, 0.85% interests per annum in 2010; due in January 2010, 0.95% interest per annum	50,150	47,347
Secured bank loans: US\$541 thousand; due in January 2010, 0.92% interest per annum	-	17,292
Secured bank loans: Due in January 2010, 0.80% interest per annum in 2009	-	24,000
Secured bank loans: ¥20,000 thousand; due in November 2010, 0.95% interest per annum	-	6,994
	<u>\$ 1,160,805</u>	<u>\$ 396,895</u>

U.S. certificates of deposit were used as collaterals for the above secured bank loans.

10. CONVERTIBLE BONDS PAYABLE

On January 14, 2010, the Corporation issued third 5-year unsecured convertible bonds, with a face value of NT\$450,000 thousand and a coupon rate of 0%. The effective interest rate was 2.27%. On the third anniversary of issuance, the bondholders may require the Corporation to buy back their bonds at 103.03% of face value. The bondholders may request the Corporation to convert the bonds into the Corporation's common stock starting from one month after the issuance date to 10 days before the due date. The conversion price at the issuance of the bonds was set at NT\$46.2 which is required to be adjusted in accordance with the bond agreement. The Corporation should redeem the remaining bonds at face value upon maturity. During the period from one month after the issuance date to 40 days before the due date, if the closing price of the Corporation's common stock at the Taiwan Stock Exchange reaches 130% of the conversion price for a period of 30 consecutive trading days, or the total amount of outstanding bonds is less than 10% of the total issued amount, the Corporation may redeem the remaining bonds at a price calculated by a predetermined formula.

The Corporation has adjusted the conversion price for the capital increase by cash according to bond conversion terms. As of December 31, 2010, the adjusted conversion price was NT\$41.85.

As of December 31, 2010, bondholders did not exercise convertible rights and the Corporation did not redeem any outstanding convertible bonds.

According to SFAS No. 36, information about convertible bonds was as follows:

	December 31, 2010
Face value of convertible bonds	\$ 450,000
Liability component	(1,800)
Equity component	<u>(42,864)</u>
	405,336
Transaction costs	<u>(3,500)</u>
Carrying amount of convertible bonds payable	401,836
Amortized bonds discount	<u>8,877</u>
	<u>\$ 410,713</u>

11. LONG-TERM BANK LOANS

	December 31	
	2010	2009
a. Eight-year secured bank loans: US\$159,634 thousand and ¥ 5,155,094 thousand in 2010 and US\$152,096 thousand and ¥ 2,930,405 thousand in 2009, with interest from 0.86% to 1.96% and 0.95% to 1.99%, respectively; repayable in 32 quarterly installments between August 2011 and January 2019	\$ 6,495,815	\$ 5,882,953
b. Syndicated bank loans: Interest from 1.294% to 1.365%	1,080,000	-
c. Secured bank loans: US\$12,201 thousand and ¥1,008,000 thousand in 2010 and US\$17,439 thousand and ¥787,000 thousand in 2009, with interest from 0.92% to 1.01% and 0.98% to 1.05%, respectively; repayable in 32 quarterly installments from the date on which the final loan is granted	716,497	831,126
d. Eighteen-month credit bank loans: Interest from 0.92% to 0.95%; one-time repayment in June 2012	600,000	-
e. Two-year secured bank loans: interest rate from 1.39% to 1.49% and 1.40% to 1.85% in 2010 and 2009, respectively; originally due in October 2010 and renewed to December 2012 with one-time repayment	580,000	580,000
f. Ten-year secured bank loans: US\$13,060 thousand and US\$23,130 thousand, with interest of 1.11% and 1.09% to 1.58% in 2010 and 2009, respectively; repayable in 40 quarterly installments until December 2018	380,438	739,929
g. Five-year secured bank loans: US\$9,003 thousand in 2010 and US\$3,543 thousand in 2009, with interest from 0.98% to 1.05% and 1.01%, respectively; repayable in 20 quarterly installments from August 2011 to February 2015	262,243	113,325
h. Four-year and seven-month secured bank loans: Interest rate of 1.50%; repayable in 19 quarterly installments with a balloon repayment of \$120,000 thousand until August 2015	237,486	-
i. Seven-year secured bank loans: US\$7,310 thousand and US\$18,238 thousand in 2010 and 2009, with interest from 1.30% to 1.80% and 0.91% to 1.75%, respectively; repayable in 28 quarterly installments from March 2011 to August 2015	212,940	583,420

(Continued)

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
j. Fifteen-quarter secured bank loans: US\$4,227 thousand in 2010 and US\$4,922 thousand in 2009, with interest of 1.80% and 1.75%, respectively; repayable in 15 quarterly installments until September 2011	\$ 123,135	\$ 157,454
k. Three-year secured bank loans: ¥189,496 thousand in 2010 and US\$3,750 thousand and ¥ 407,858 thousand in 2009; with interest from 1.04% to 1.09% and 1.10% to 1.16%, respectively; repayable in 12 quarterly installments from July to November 2011	67,880	261,566
l. Three-year credit bank loans: Interest rate from 1.20% to 1.50% in 2010 and 1.20% to 2.69% in 2009, respectively; repayable in 36 monthly installments until August 2011	60,193	260,609
m. Four-year secured bank loans: US\$859 thousand in 2010 and US\$2,638 thousand in 2009, with interest of 1.00% and 0.95% to 1.03%, respectively; repayable in 16 quarterly installments from April 2010 to November 2011	25,032	84,390
n. Three-year secured bank loans: Interest rate of 1.20% in 2010 and 1.20% to 2.05% in 2009, respectively; repayable in 36 monthly installments until August 2011	18,218	156,384
o. Eight-year secured bank loans: Interest rate from 1.49% to 2.97% in 2009; originally repayable in 32 quarterly installments until June 2014 and early one-time repayment in October 2010	-	88,500
Less: Current portion	<u>(1,182,609)</u>	<u>(1,734,916)</u>
	<u>\$ 9,677,268</u>	<u>\$ 8,004,740</u> (Concluded)

In July 2010, the Corporation entered into a syndicated loan for the above loan (b) with Industrial Bank of Taiwan and 7 other banks as follow:

- a. The credit line is \$1.8 billion and the first loan use shall not be less than 60% of the credit line. The first period of the credit line is due 18 months from the first loan use date. The credit line will subsequent be decreased to zero over 4 periods semiannually.
- b. The credit period is 3 years from the first loan use date.
- c. Dong Lien Maritime S.A. Panama used its U.S. certificate of deposit as a collateral for the syndicated loan. Under the syndicated loan agreement, the Corporation shall hold directly 100% of ownerships of Dong Lien Maritime S.A. Panama and Fortunate Maritime S.A. Panama. The Corporation shall have the power to participate in the operating policy decisions of Dong Lien Maritime S.A. Panama and Fortunate Maritime S.A. Panama. Dong Lien Maritime S.A. Panama shall hold directly 100% of ownerships of 42 subsidiaries listed on the loan agreement.
- d. The Corporation shall maintain the following financial covenants under the syndicated loan agreement:
 - 1) Current ratio - the ratio of current assets to current liabilities shall not be less than 100%;
 - 2) Financial liabilities ratio - the ratio of financial liabilities plus contingent liabilities to tangible net assets shall not exceed 200%;
 - 3) Interest coverage ratio - income before taxes, interest expense, depreciation and amortization to interest expense shall not be less than 400%; and

4) Tangible net assets (equities minus intangible assets) shall not be less \$6.5 billion.

The ratios referring to the above covenants shall be tested and calculated based on the audited semi-annual and annual consolidated financial statements accepted by the documentary agent. As of December 31, 2010, the Corporation was in compliance with the syndicated loan agreement.

Land was used as collaterals for the above loan (e); vessel equipment and the common stock of Valor Pescadores S.A. Panama for loan (f); vessel equipment and the common stock of Grand Overseas S.A. Panama for loan (i); U.S. certificate of deposit, land and buildings for loan (n); and vessel equipment, for other secured bank loans.

12. PENSION PLANS

The pension plan adopted by the Corporation under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$3,314 thousand and NT\$2,841 thousand for the years ended December 31, 2010 and 2009, respectively.

Based on the defined benefit plan adopted by the Corporation under the Labor Standards Law are calculated on the length of services and average basic pay of the six months before retirement. The employee earns two base units each year for the first 15 years of service, and one base unit for each additional year thereafter, but not more than 45 base units in total.

The Corporation contributes amounts equal to 4.3% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name.

Other information on the defined benefit plan of the Corporation was as follows:

a. The changes in the pension funds:

	2010	2009
Balance, beginning of year	\$ 10,486	\$ 8,632
Contributions	1,907	1,793
Interest income	156	61
Payments	<u>(2,504)</u>	<u>-</u>
Balance, end of year	<u>\$ 10,045</u>	<u>\$ 10,486</u>

b. Components of net periodic pension cost

	2010	2009
Service cost	\$ -	\$ 169
Interest cost	640	704
Projected return on plan assets	(236)	(194)
Amortization	<u>495</u>	<u>747</u>
Net periodic pension cost	<u>\$ 899</u>	<u>\$ 1,426</u>

c. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2010 and 2009

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Benefit obligation		
Vested benefit obligation	\$ 15,065	\$ 17,264
Non-vested benefit obligation	8,769	8,170
Accumulated benefit obligation	<u>23,834</u>	<u>25,434</u>
Additional benefit based on future salaries	<u>3,027</u>	<u>3,026</u>
Projected benefit obligation	26,861	28,460
Fair value of plan assets	<u>(10,045)</u>	<u>(10,486)</u>
Funded status	16,816	17,974
Unrecognized net transitional obligation	(12)	(24)
Unrecognized net loss	(8,989)	(9,128)
Additional liability	<u>5,974</u>	<u>6,126</u>
Accrued pension cost	<u>\$ 13,789</u>	<u>\$ 14,948</u>
Vested benefit	<u>\$ 15,193</u>	<u>\$ 17,406</u>

d. Actuarial assumptions as of December 31, 2010 and 2009

	<u>December 31</u>	
	<u>2010</u>	<u>2009</u>
Discount rate used in determining present values	2.25%	2.25%
Future salary increase rate	2.00%	3.00%
Expected rate of return on plan assets	2.25%	2.25%

13. STOCKHOLDERS' EQUITY

For the Corporation to invest in its subsidiaries, the board of directors resolved on November 11, 2009 to have a capital increase by cash which was approved by the Securities and Futures Bureau on December 16, 2009. On December 30, 2009, the board resolved to issue 10,000 thousand common shares at NT\$38 per share, with a NT\$10 par value and the record date of March 5, 2010. The registration was finished on March 18, 2010.

The Corporation reserved 15% for subscription by the Corporation's employees for the above-mentioned capital increase according to the Company Law. On December 30, 2009, the board resolved the number of shares and price for subscription by the employees. Under Statement of Financial Accounting Standards No. 39 - "Share-based Payment", the compensation cost of employee stock options amounted to NT\$11,235 thousand was recognized on the grant-date using the fair value method, with a corresponding adjustment to capital surplus - employee stock options. As employees participated in share issuance for cash, the portion of participation amounting to NT\$4,112 thousand was reclassified to the capital surplus - issue of stock in excess of par value while the portion of forfeiture amounting to NT\$7,123 thousand was reclassified to the capital surplus - expired employee stock options.

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par may be capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital.

The Corporation's Articles of Incorporation provide that the annual net income (less any deficit) after the allocation of 10% as legal reserve should be appropriated in accordance with the earnings distribution proposed by the board of directors for approval at the stockholders' meeting, 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 reserve is appropriated.

The dividend policy of the Corporation is based on the prudence principle, which considers the Corporation's long-term financing structure and operation. Thus, when earnings and funds become sufficient for operating and expanding, then cash dividends or stock dividends will be distributed. The most recent dividend policy provides for the distribution of stock dividends at up to 50% of earnings and cash dividends of at least 50%.

For the years ended December 31, 2010 and 2009, earnings appropriations and related percentages were as follows: The bonuses to employees were NT\$23,000 thousand and NT\$24,000 thousand, respectively, and the remunerations to directors and supervisors were NT\$10,000 thousand and NT\$6,000 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represented 2.03%, 2.11%, 0.88% and 0.53%, respectively, of estimated appropriations of earnings. Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted for also in the following year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Based on a directive issued by the Securities and Futures Bureau (SFB), an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, and cumulative translation adjustments) should be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Corporation's paid-in capital, up to 50% thereof may be transferred to paid-in capital.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2009 and 2008 had been approved in the stockholders' meetings on June 18, 2010 and June 19, 2009, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2009	For Year 2008	For Year 2009	For Year 2008
Legal reserve	\$ 124,602	\$ 401,093	\$ -	\$ -
Appropriation to (reversal of) special reserve	70,431	(51,463)	-	-
Cash dividends	1,465,400	1,736,302	4.00	5.00
Stock dividends	-	86,815	-	0.25
	<u>\$ 1,660,433</u>	<u>\$ 2,172,747</u>	<u>\$ 4.00</u>	<u>\$ 5.25</u>

The bonus to employees and the remuneration to directors and supervisors for 2009 and 2008 approved in the stockholders' meetings on June 18, 2010 and June 19, 2009, respectively, were as follows:

	Year Ended December 31			
	2009		2008	
	Bonus to Employee Bonus	Remuneration to Directors and Supervisors	Bonus to Employee Bonus	Remuneration to Directors and Supervisors
Amounts approved in stockholders' meetings	\$ 30,500	\$ 10,000	\$ 38,500	\$ 10,000
Amounts recognized in respective financial statements	<u>24,000</u>	<u>6,000</u>	<u>39,382</u>	<u>10,618</u>
	<u>\$ 6,500</u>	<u>\$ 4,000</u>	<u>\$ (882)</u>	<u>\$ (618)</u>

The number of shares of 408 thousand for 2008 was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the day immediately preceding the stockholders' meeting.

The differences between the approved amounts of the bonus to employees and the remuneration to directors and supervisors and the accrual amounts reflected in the financial statements for the years ended December 31, 2009 and 2008 were primarily due to changes in estimates had been adjusted in profit and loss for the years ended December 31, 2010 and 2009, respectively.

The stockholders' meeting of the Corporation in 2009 resolved the transfer of NT\$86,815 thousand of unappropriated earnings and NT\$4,082 thousand of share bonus to employees to paid in capital. This capital increase was approved by the SFB and the board of directors approved August 3, 2009 as the distribution date.

Information on the bonus to employees, directors and supervisors is available on the Market Observation Post System web site of the Taiwan Stock Exchange.

14. INCOME TAX

- a. A reconciliation of income tax expense based on income before income tax and income tax expense was as follows:

	2010	2009
Income tax expense at the statutory rate	\$ 227,831	\$ 408,120
Tax effect on adjusting items:		
Permanent differences	(2,591)	(172,466)
Temporary differences	(52,296)	199,005
Additional 10% income tax on unappropriated earnings	<u>-</u>	<u>183,819</u>
Current income tax expense	172,944	618,478
Deferred income tax expense		
Temporary differences	47,645	(199,005)
Effect of tax law changes on deferred income tax	(15,005)	(33,272)
Adjustments for prior years' tax	<u>(420)</u>	<u>304</u>
Income tax expense	<u>\$ 205,164</u>	<u>\$ 386,505</u>

Income tax payables as of December 31, 2010 and 2009 were net of prepaid income taxes of NT\$147,794 thousand and NT\$77,613 thousand, respectively.

During the years ended December 31, 2010 and 2009, the Legislative Yuan passed the following amendments to tax laws:

- 1) In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010.
- 2) In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.

The Corporation recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense.

- b. Deferred income tax assets (liabilities) were as follows:

	December 31	
	2010	2009
Current		
Unrealized exchange gains	\$ (1,024)	\$ (98)
Allowance for doubtful accounts	<u> -</u>	<u> 360</u>
Deferred income tax assets (liabilities) (classified under other current assets (liabilities))	<u>\$ (1,024)</u>	<u>\$ 262</u>
Noncurrent		
Estimated cash dividend income - equity method	\$ (166,082)	\$ (135,175)
Cumulative translation adjustments	15,836	16,082
Accrued pension cost	<u>1,381</u>	<u>1,828</u>
Deferred income tax liabilities	<u>\$ (148,865)</u>	<u>\$ (117,265)</u>

- c. Information on the integrated income tax is as follows:

	December 31	
	2010	2009
Imputation credit account balance	<u>\$ 488,797</u>	<u>\$ 153,234</u>

The creditable ratio for distribution of earnings of 2010 and 2009 was 18.76% (estimate) and 21.24%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2010 earnings, with the current income tax payable taken into consideration, may be adjusted, depending on the ICA balance on the date of dividend distribution.

- d. Income tax returns through 2008 and undistributed earnings returns through 2007 of the Corporation have been assessed by the tax authorities.

e. Incomes of subsidiaries incorporated in Panama are tax-exempt.

15. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2010		
	Cost of Sales	Operating Expenses	Total
Personnel			
Payroll	\$ 538,158	\$ 104,679	\$ 642,837
Insurance	5,213	5,345	10,558
Pension	853	3,360	4,213
Others	<u>118,089</u>	<u>3,064</u>	<u>121,153</u>
	<u>\$ 662,313</u>	<u>\$ 116,448</u>	<u>\$ 778,761</u>
Depreciation	<u>\$ 798,629</u>	<u>\$ 3,638</u>	<u>\$ 802,267</u>
Amortization	<u>\$ 63,697</u>	<u>\$ 1,282</u>	<u>\$ 64,979</u>
	2009		
	Cost of Sales	Operating Expenses	Total
Personnel			
Payroll	\$ 511,443	\$ 98,642	\$ 610,085
Insurance	6,538	4,553	11,091
Pension	673	3,594	4,267
Others	<u>114,501</u>	<u>2,802</u>	<u>117,303</u>
	<u>\$ 633,155</u>	<u>\$ 109,591</u>	<u>\$ 742,746</u>
Depreciation	<u>\$ 719,391</u>	<u>\$ 4,123</u>	<u>\$ 723,514</u>
Amortization	<u>\$ 60,866</u>	<u>\$ 1,174</u>	<u>\$ 62,040</u>

16. EARNINGS PER SHARE

The numerators and denominators used in calculating basic EPS were as follows:

	Amounts (Numerator)		Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2010</u>					
Basic EPS					
Income attributable to common stockholders	\$ 1,340,183	\$ 1,135,019	364,597	<u>\$ 3.68</u>	<u>\$ 3.11</u>
Effect of dilutive potential common stock					
Bonuses to employees	-	-	907		
Convertible bonds	<u>15,762</u>	<u>15,762</u>	<u>10,753</u>		
	<u>\$ 1,355,945</u>	<u>\$ 1,150,781</u>	<u>376,257</u>	<u>\$ 3.60</u>	<u>\$ 3.06</u>

(Continued)

	<u>Amounts (Numerator)</u>		<u>Shares (Denominator) (In Thousands)</u>	<u>EPS (NT\$)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Year ended December 31, 2009</u>					
Basic EPS					
Income attributable to common stockholders	\$ 1,632,521	\$ 1,246,016	356,161	<u>\$ 4.58</u>	<u>\$ 3.50</u>
Effect of dilutive potential common stock					
Bonuses to employees	<u>-</u>	<u>-</u>	<u>522</u>		
	<u>\$ 1,632,521</u>	<u>\$ 1,246,016</u>	<u>356,683</u>	<u>\$ 4.58</u>	<u>\$ 3.49</u>
					(Concluded)

The Accounting Research and Development Foundation (ARDF) issued Interpretation 2007-052, which requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares, and, if the shares have a dilutive effect, the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

17. INDEMNIFICATION INCOME

The subsidiaries entered into vessel leasing agreements with other companies and collected rental revenue. As some of these companies prematurely terminated the agreements, subsidiaries collected indemnification income and recognized it as miscellaneous income for the year ended December 31, 2009.

18. RELATED-PARTY TRANSACTIONS

- a. Related parties and their relationships with the Corporation

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
Coreocean Maritime S.A. Panama (“Coreocean”)	Chairman is an immediate relative of the Corporation’s chairman
Transformer Maritime S.A. Panama (“Transformer”)	Chairman is an immediate relative of the Corporation’s chairman
Efficiency Ship Management Corporation (“Efficiency”)	Chairman is an immediate relative of the Corporation’s chairman
Greendance Barony Co., Ltd. (“Greendance”)	Chairman is the spouse of the Corporation’s chairman
Huo Da Investments Co., Ltd. (“Huo Da”)	Chairman is an immediate relative of the Corporation’s chairman
Huan Shin Investments Co., Ltd. (“Huan Shin”)	Chairman is an immediate relative of the Corporation’s chairman
Luo Pan Investments Co., Ltd. (“Luo Pan”)	Chairman is an immediate relative of the Corporation’s chairman
Lan, Jun-De	Chairman
Chen, Huo-Tsai	Supervisor
Lin, Hui-Ling	Senior manager

b. Significant related-party transactions (in addition to those disclosed in Note 20)

	2010		2009	
	Amount	%	Amount	%
Operating revenues				
Management income				
Coreocean	\$ 567	-	\$ 48	-
Transformer	567	-	48	-
Efficiency	136	-	-	-
Commission revenue				
Coreocean	1,714	-	-	-
Transformer	1,276	-	-	-
Efficiency	<u>461</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,721</u>	<u>-</u>	<u>\$ 96</u>	<u>-</u>

The management income and commission revenue are obtained from providing shipping services for related parties according to agreed terms.

	2010		2009	
	Amount	%	Amount	%
Rental revenue (classified under miscellaneous income)				
Luo Pan	\$ 24	-	\$ 24	-
Huo Da	24	-	24	-
Huan Shin	12	-	12	-
Greendance	<u>-</u>	<u>-</u>	<u>24</u>	<u>-</u>
	<u>\$ 60</u>	<u>-</u>	<u>\$ 84</u>	<u>-</u>

The rental revenue is obtained from leasing parts of the office.

c. Compensation of directors, supervisors and management personnel:

	2010	2009
Salaries	\$ 16,347	\$ 11,335
Incentives	2,309	2,255
Special compensation	384	338
Bonus	<u>6,865</u>	<u>5,560</u>
	<u>\$ 25,905</u>	<u>\$ 19,488</u>

19. MORTGAGED OR PLEDGED ASSETS

The following assets were mortgaged or pledged as collateral for bank guarantee and loans:

	December 31	
	2010	2009
Pledged time deposits	\$ 1,358,335	\$ 185,704
Property and equipment		
Land	920,495	912,532
Building, net	23,725	24,810
Vessel equipment, net	11,031,001	11,657,120
Prepayment for equipment	<u>1,835,689</u>	<u>1,579,936</u>
	<u>\$ 15,169,245</u>	<u>\$ 14,360,102</u>

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Corporation and its subsidiaries as of December 31, 2010 were as follows:

- a. The Corporation entered into a joint construction contract with Wang Tai Construction Co., Ltd. (“Wang Tai”) on February 12, 2009. Under the contract, the Corporation provides land in the Chang-an section in Taipei and Wang Tai provides the construction fund. After the completion of construction, the Corporation and Wang Tai will own 61 percent and 39 percent of the entire land and building, respectively. Pursuant to the joint construction contract, the land, the buildings under construction and completed, the financing fund, the proceeds from sales of land and buildings, and the related interest income shall be trusted to Mega International Commercial Bank Co., Ltd.

In 2009, the Corporation entered into presold contracts with third parties and related parties for the third floor and above of the buildings, and the related land rights of the above-mentioned joint construction project amounted to NT\$1,567,550 thousand, including related parties transaction of NT\$135,800 thousand with Lan, Jun-De, Lin, Hui-Ling and Chen, Huo-Tsai. Proceeds from the presales of the residential buildings (and related land rights) are split between the Corporation and the Wang Tai by a ratio of 55.65% to 44.35%, while those from the presales of the parking spaces (and related land rights) are split by 52.44% to 47.56%. As of December 31, 2010 and 2009, the Corporation has collected NT\$197,110 thousand and NT\$138,223 thousand from the proceeds of the project, including those from related parties transaction amounted to NT\$18,546 thousand and NT\$12,235 thousand, respectively, and recognized as other liabilities - others.

- b. The subsidiaries entered into vessel construction contracts with some shipbuilding companies amounting to ¥37,975,700 thousand and US\$54,500 thousand. As of December 31, 2010, ¥8,148,130 thousand and US\$7,818 thousand have been paid.

21. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

	December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative instruments</u>				
Assets				
Financial assets at fair value through profit or loss - current	\$ 120,757	\$ 120,757	\$ 39,012	\$ 39,012
Financial asset carried at cost - noncurrent	47,975	-	38,487	-
Held-to-maturity financial assets - noncurrent	14,565	14,565	15,995	15,995
Refundable deposits	32,471	32,471	29,986	29,986
Pledged time deposits - noncurrent	357,171	357,171	47,985	47,985
Liabilities				
Long-term bank loans (including current portion)	10,859,877	10,859,877	9,739,656	9,739,656
Convertible bonds payable	410,713	410,713	-	-
Guarantee deposits received	45,201	45,201	25,248	25,248
<u>Derivative instruments</u>				
Financial liabilities at fair value through profit or loss				
Currency options contract	865	248	368	573
Forward exchange contract	107,821	107,821	-	-
Financial liabilities at fair value through profit or loss - noncurrent				
Liability component of convertible bonds	8,685	8,685	-	-

b. Methods and assumptions used in determining fair values of financial instruments

- 1) The balance sheet carrying amounts of cash, accounts receivable, pledged time deposits - current, short-term bank loans, notes and accounts payable, and accrued expenses, which were not included in the instruments mentioned above, approximate fair value because of their short maturities.
- 2) For financial instruments at fair value through profit or loss and held-to-maturity financial assets with an active market, the fair value is based on quoted market prices. For those financial instruments without an active market, the fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with those generally used by other market participants for instrument pricing.
- 3) For financial assets carried at cost, the fair value cannot be estimated because related stocks have no active market and a reliable determination of their fair value entails an unreasonably high cost; thus, their fair value is not presented.

- 4) For refundable deposits, pledged time deposits - noncurrent and guarantee deposits received, their future receipt, settlement or payment terms are uncertain; thus, their fair value is their book value.
 - 5) For long-term bank loans, their fair value is estimated using the present value of future cash flows discounted at interest rates the Corporation and its subsidiaries may obtain for similar loans (e.g., similar maturities).
 - 6) For convertible bonds payable, their fair value is estimated using the present value of future cash flows.
- c. As of December 31, 2010 and 2009, financial assets exposed to fair value interest rate risk amounted to NT\$14,565 thousand and NT\$15,995 thousand, respectively; financial liabilities exposed to fair value interest rate risk amounted to NT\$1,053,271 thousand and NT\$389,901 thousand, respectively; and financial liabilities exposed to cash flow interest rate risk amounted to NT\$11,378,124 thousand and NT\$9,746,650 thousand, respectively.

d. Financial risks

1) Market risk

Financial instruments at fair value through profit or loss are held by the Corporation and its subsidiaries for trading in active markets. Hence, the Corporation and its subsidiaries are exposed to market risks as a result of price fluctuations. The Corporation and its subsidiaries run a control system to mitigate this risk, and management does not anticipate any material loss due to this risk.

The Corporation and its subsidiaries also hold foreign-currency assets, liabilities, forward exchange contracts and currency option contracts. Hence, the Corporation and its subsidiaries are exposed to market risks as a result of exchange rate fluctuations. The Corporation and its subsidiaries run a control system and monitor the exchange rate fluctuations to reduce market risks.

2) Credit risk

The Corporation and its subsidiaries are exposed to credit risk on counter-parties' default on contracts. However, the amount of the Corporation and its subsidiaries' maximum exposure to credit risk on its financial instruments is equal to the book value. In addition, the Corporation and its subsidiaries transact only with selected financial institutions and corporations with good credit ratings. Thus, management does not anticipate any material losses on default on contracts.

3) Liquidity risk

The Corporation and its subsidiaries' operating funds are deemed sufficient to meet their cash flow demand; thus, liquidity risk is not considered significant.

In addition, the Corporation and its subsidiaries' financial instruments at fair value through profit or loss are publicly traded in an active market and can readily be sold in the market at their approximate fair values. However, their financial assets that are carried at cost are with significant liquidity risks because these assets do not have quoted market prices in an active market.

4) Cash flow interest rate risk

The Corporation and its subsidiaries' short-term and long-term loans are floating-rate loans. Effective interest rates and future cash flows of the Corporation and its subsidiaries will fluctuate as a result of changes in market interest rate.

The Corporation issued zero-coupon convertible bonds; thus, there is no cash flow interest rate risk due to interest rate fluctuations.

22. SEGMENT INFORMATION

a. Industry information

The Corporation and its subsidiaries are in the same industry and mainly provide cargo shipping services and shipping agency.

b. Geographical financial information

	2010			
	Domestic	America	Adjustments and Elimination	Consolidated
Sales to other than consolidated entities	\$ 189,021	\$ 4,006,932	\$ -	\$ 4,195,953
Sales among consolidated entities	<u>405,267</u>	<u>-</u>	<u>(405,267)</u>	<u>-</u>
Total sales	<u>\$ 594,288</u>	<u>\$ 4,006,932</u>	<u>\$ (405,267)</u>	<u>\$ 4,195,953</u>
Segment operating income	<u>\$ 366,487</u>	<u>\$ 1,095,768</u>	<u>\$ -</u>	\$ 1,462,255
Investment income recognized under equity method				-
Interest expense				<u>(122,072)</u>
Income before income tax				<u>\$ 1,340,183</u>
Identifiable assets	<u>\$ 2,052,043</u>	<u>\$ 19,426,068</u>	<u>\$ (483,271)</u>	\$ 20,994,840
Long-term investments				<u>-</u>
Total assets				<u>\$ 20,994,840</u>
	2009			
	Domestic	America	Adjustments and Elimination	Consolidated
Sales to other than consolidated entities	\$ 114,193	\$ 3,773,752	\$ -	\$ 3,887,945
Sales among consolidated entities	<u>395,013</u>	<u>-</u>	<u>(395,013)</u>	<u>-</u>
Total sales	<u>\$ 509,206</u>	<u>\$ 3,773,752</u>	<u>\$ (395,013)</u>	<u>\$ 3,887,945</u>
Segment operating income	<u>\$ 287,005</u>	<u>\$ 1,494,946</u>	<u>\$ -</u>	\$ 1,781,951
Investment income recognized under equity method				-
Interest expense				<u>(149,430)</u>
Income before income tax				<u>\$ 1,632,521</u>
Identifiable assets	<u>\$ 2,090,135</u>	<u>\$ 18,774,003</u>	<u>\$ (1,005,020)</u>	\$ 19,859,118
Long-term investments				<u>-</u>
Total assets				<u>\$ 19,859,118</u>

c. Export sales information

Due to the uniqueness of the industry, the Corporation and its subsidiaries do not differentiate their revenues by continents, but by domestic or export regarding where the consignor is based. The export revenues amounted to NT\$482,192 thousand and NT\$490,420 thousand for the years ended December 31, 2010 and 2009, respectively.

d. Major customers information

	Years Ended December 31			
	2010		2009	
	Amount	% to Sale	Amount	% to Sale
Company A	\$ 459,253	11	\$ 186,325	5
Company B	439,939	10	530,292	14

23. OTHERS

Information for significant financial assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009 are summarized as follows:

(In Thousands of Foreign Currencies and New Taiwan Dollars)

	2010			2009		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 132,286	29.13	\$ 3,853,480	\$ 107,917	31.99	\$ 3,452,270
JPY	180,773	0.3582	64,753	121,338	0.3472	42,128
EUR	1,249	38.92	48,599	444	46.10	20,466
THB	500	0.9753	488	-	-	-
HKD	3	3.748	9	3	4.126	10
SGD	6	22.73	140	1	22.84	23
CNY	468	4.4205	2,058	22	4.6858	101
ZAR	29	4.4	130	56	4.35	243
Non-monetary items						
USD	4,694	29.13	136,741	1,695	31.99	54,219
<u>Financial liabilities</u>						
Monetary items						
USD	214,189	29.13	6,240,084	232,782	31.99	7,446,717
JPY	8,823,211	0.3582	3,160,474	4,309,780	0.3472	1,496,356
EUR	20	38.92	769	18	46.10	848
SGD	67	22.73	1,520	106	22.84	2,422
CNY	222	4.4205	981	52	4.6858	245
Non-monetary items						
USD	3,701	29.13	107,821	-	-	-