



# YANG MING MARINE TRANSPORT CORPORATION

2006 ANNUAL REPORT APRIL 2007

<http://mops.tse.com.tw> ; <http://www.yml.com.tw>

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<http://www.yml.com.tw>

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# CONTENTS

	Page
<b>CHAPTER 1 LETTER TO SHAREHOLDERS .....</b>	<b>1</b>
<b>CHAPTER 2 COMPANY UPDATE .....</b>	<b>3</b>
1. About our Company .....	3
2. Organizational Structure .....	7
3. Capital and Shares Issuance .....	9
4. Issuance of Corporate Bonds .....	11
5. Issuance of GDR .....	13
<b>CHAPTER 3 BUSINESS UPDTAE .....</b>	<b>14</b>
1. Business Profile, Operating Fleet & Service Scope .....	14
2. Market Analysis .....	15
3. Employees Status .....	15
4. Environmental Protection .....	15
5. Relationship with Employees .....	16
6. Important Contracts .....	16
<b>CHAPTER 4 FUND UTILIZATION PLAN .....</b>	<b>17</b>
<b>CHAPTER 5 FINANCIAL STATEMENTS AND REPORTS .....</b>	<b>18</b>
1. Condensed Balance Sheets and Income Statements .....	18
2. Financial Statement Analysis .....	19
3. Financial Reports As of Dec.31,2006 .....	20
4. Parents and Subsidiaries Financial Reports As of Dec.31,2006 .....	59





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YANG MING GROUP

YANG MING MARINE TRANSPORT CORP.

# CHAPTER 1 LETTER TO SHAREHOLDERS

## 1. Business Report for 2006

2006 was a down-turning year for the shipping industry. Yang Ming has faced the business cycle squarely. The entire staff at Yang Ming was very pleased to carry out another milestone in success with 2.71 million TEU at a significant growth rate of 13% in 2006. Furthermore, consolidated revenues amounted to NT\$107.2 billion accounting for a 9.6% increase. However, a high percentage of year-on-year growth in container throughput and revenues were not enough to ensure a healthy profit. The net profit for the same year closed at NT\$1.14 billion, which signified a substantial slump due to the lack of market confidence, a sliding freight rate and high fuel costs.

## 2. Business Outlook and Strategies for 2007

Regarding prospects for 2007, the global economy was considered to be steadily on the rise, and the entire container shipping industry was looking forward to maintaining the strong growth of 2006.

For container transportation, the growth gap between supply and demand will continue to reduce and be kept in balance. Since the supply-demand situation has improved, the prospects of both carriers and shippers' markets are gradually being recognized as well, and thus, most parties involved in Far East/Europe, Transpacific, and Intra-Asia routes already have 2007 freight-rate increase on the drawing board. At the beginning of 2007, the fourth U-type container ship, the YM Ultimate with a capacity of 8,200 TEU was delivered and deployed into the AE1 service, and there are still six I-type vessels, which will be delivered during 2007 to enhance our competitiveness in the Intra-Asia market.

As for the tramp business, the Baltic Dry Index rose fast from the second half of 2006 and maintained a level around 4,000 points during the fourth quarter. Taking a glance at 2007, the strong growth from emerging countries such as China and India seems to be driving the raw materials transportation demand, and hence the tramp business will keep flourishing for this year's outlook.

As to the cost aspect, though inland transportation costs and canal tolls would be climbing, it was expected that average fuel costs will be lower than last year. In summary, although 2007 is still a struggling and competitive market environment, we believe that it will turn for the better.

Yang Ming will continue to enhance strategic cooperation with our alliance partners and to implement service restructurings in the shipping business. Besides that, Yang Ming

will devote more efforts to cope with the business opportunities that deserve to be invested in and developed. Our business strategies for 2007 are as follows:

- a. To enhance strategic cooperation and vessels management, and to expand non-liner services at the right time to enlarge our source of profits.
- b. To enlarge the capacities of Far East/Europe and MED routes and strengthen the efficiency and rationality of the U.S. East Coast, U.S. West Coast, and Intra-Asia businesses to improve our core competency and performances there.
- c. To cope with long-term business planning and market opportunities to engage in new shipbuilding projects at the right time.
- d. To seek new undertaking opportunities to diversify our investments, enhance service capabilities, and lower the risks resulting from the business cycle in the shipping industry.
- e. To control fuel and relevant transportation costs rigorously to ensure operational efficiency and stability.
- f. To be devoted to serving as a responsible corporate citizen for our communities by protecting the environment from pollution and by being more involved in oceanic cultural education.

Until market prospects change for the better to allow the trend of recovering freight rates and declining fuel costs, Yang Ming will continue to make great efforts to carry out "Advancing Quality, Fostering Innovation" to enhance our core competency at the same time. We are confident that we could continuously take the critical position among the keen competition. Yang Ming is extremely grateful to all of our shareholders, customers and employees for their significant contributions and hope that our whole-hearted endeavors will continue to earn your trust and support.

Yours truly,

W. H. Huang  
Chairman

## CHAPTER 2 COMPANY UPATE

### 1. About our company

#### 1972-1981

- Yang Ming Marine Transport Corporation is established on Dec.29 with a capital of NT\$100,000,000.
- A 28,700 D.W.T.bulk carrier, Ming Joy, is completed and put into service.
- Four multiple-purpose ships are added to Yang Ming's first container fleet.
- Launches a new Asia/U.S. West Coast full-container liner service.
- New full-container liner service between Asia/U.S. East & West Coast is inaugurated, with a fleet of seven 2,054 TEU full-container vessels serving the route.
- YANG MING leases Dock No.70 at Kaohsiung Harbor for its exclusive use.
- Inaugurates new liner service from Asia to Mediterranean.

#### 1982-1991

- Four more 2,054 TEU full-container vessels join Yang Ming's fleet. Extends Mediterranean-bound liner service to North Europe and also inaugurates the Asia/Europe full-container liner services.
- Three 66,000 D.W.T. Panamax-class bulk carriers, Ming Wisdom, Ming Mercy and Ming Courage, are completed and put into service.
- Other than being named as one of the world's "most satisfactory marine transporters in service and reliability," Yang Ming is also cited by the American press as one of the top ten liner services in the world.
- Eight 3,266 TEU full-container ships are completed. With the inauguration of the Asia / Australia and also Asia / Northeastern Asia liner service, a radial service network is accomplished.
- Yang Ming is cited by the London- based British Shipper Consultation ( part of the Freight Transport Association Ltd.) as the world's "Second Most Acclaimed Shipping Company" in client service.
- Intra-Asia full-Container liner service is inaugurated.
- A joint liner service with Hanjin Line is formed, serving the route between Asia and U.S. East Coast.

#### 1992-2001

- Yang Ming Shares are listed on the Taiwan Stock Exchange.
- Three 3,604 TEU full-container ships are completed and join Yang Ming's worldwide service.
- YANG MING Shipping Europe GmbH is established.
- Five 3,725 full-container vessels, including Ming East, Ming West, Ming South,

Ming North, and Ming Zenith are completed and put into service.

- The China Merchants Steam Navigation Co., Ltd. is merged into Yang Ming.
- Completes privatization in 1996.
- In 1996, Yang Ming obtains ISO 9002 / ISM CODE accreditation and also the ROC's National Outstanding Quality Case Award.
- Yang Ming establishes subsidiary companies in Japan ( Yangming (Japan) Co., Ltd. ) and the U.K. ( Yangming (UK) Ltd. ) .
- Young-Carrier Co., Ltd. is established in Shanghai.
- Off-shore transshipment link service between Kaohsiung / Xiamen and weekly service routes in Asia / Persian Gulf ( U.A.E. ) / Sub-continent ( India / Pakistan ) full-container liner service are inaugurated.
- Honming Terminal & Stevedoring Co., Ltd. is established.
- Jing Ming Transportation Co., Ltd. is established.
- Yang Ming establishes a subsidiary company in H.K.( Yang Ming Line (Hing Kong) Ltd. ) to enhance the whole transportation service in Pearl River Delta and H.K. areas.
- YES Logistics Co., Ltd. is established to join the total logistics service.
- Yang Ming establishes subsidiary companies in Singapore ( Yangming Shipping (Singapore) Pte. Ltd. ) and Malaysia( Yang Ming Line (M) Sdn. Bhd. ) to enhance the whole transportation service.
- Seven 5,500 TUE Post-panamax full-container vessels, Ming Plum, Ming Orchid, Ming Bamboo, Ming Pine, Ming Cosmos, Ming Cypress and Ming Green are completed and join Yang Ming's fleet service.
- Yang Ming Marine Transport Cooperation, COSCO Container Lines Ltd., Kawasaki Kisen Kaisha, Ltd., and Hanjin Shipping Co., Ltd. (also representing Senator Lines GmbH) mutually agree to establish CKYH consortium in order to provide the best services to their customers.
- On-Line electronic services is constructed, providing instant and interactive services to customers.

## **2002**

- The Global Logistics Center in Kaohsiung Harbor is completed.
- Yang Ming sets up 「Taiwan Business Department」 to manage all shipping affairs in Taiwan.

## **2003**

- Becomes a certificated member of the Customs-Trade Partnership Against Terrorism ( C-TPAT ) , authorized by U.S. Customs.
- Rejuvenates bulk carriers by ordering two new vessels, Ming Equality and Ming Virtue, and replacing Ming Mercy and Ming Courage with a newly purchased 77,000-ton vessel, Medi Taipei.



- Inaugurates the Taipei Port Container Terminal Corporation.
- Mr. T.H. Chen, chairman of Yang Ming, retires and Yang Ming's board of directors elects Dr. Lu Feng-hai (Frank Lu) as its new chairman.
- Establishes Yang Ming (America) Corporation on July 1, 2003 .
- Obtains the certification ISO 9001 : 2000 .
- The stock became a component of "Taiwan 50 Index" on Nov. 20, 2003, due to outstanding operational performance.

## **2004**

- Sets up Yang Ming (Netherlands) B.V. on January 1 to develop and strengthen its regional business in Europe.
- Leases Terminal 7D at the Port of Tacoma on the U.S. West Coast for Yang Ming's exclusive use.
- Obtains the ISPS Code Certificate for all self-owned vessels, keeping Yang Ming at the forefront among domestic and world competitors.
- Be rated as having comparatively transparent information by the Securities and Futures Institute.
- Acquires the Certificate of the ISO14001 Environmental Management System covering the corporate headquarters, Keelung and Kaohsiung branch offices, Keelung port-wharf, Kaohsiung port-wharf 70 & 120 and container fleet (34 vessels).
- Be credited as one of the most reputable enterprises in the marine industry by the *Common Wealth Magazine*, cited by the *Euromoney Magazine* as governance model in the emerging market, and also awarded a Gold Medal at the 7<sup>th</sup> WinXin Awards sponsored by the Council of Culture Affairs.
- Establishes the YM Oceanic Culture and Art Museum in Keelung to develop our oceanic culture business.

## **2005**

- YM HAWK, YM HORIZON, YM HARAMONY, and YM HEIGHTS join Yang Ming's fleet on January 7, March 28, June 3, and July 15 respectively.
- Yang Ming Group - Olympic Container Terminal LLC (OCT) starts its service in Tacoma Terminal 7D on 2005/07/21.
- Yang Ming's board of directors elects Mr. W. H. Huang, the incumbent president of Yang Ming, as its new chairman on September 30.
- Acquires the Certification of the OHSAS 18001 ( Occupational Health and Safety Assessment Serial ) and ISO 14001:2004 Environmental Management System on November 1st.
- Establishes Yang Ming Cultural Foundation to promote the national awareness of the oceanic ecology and culture.

## 2006

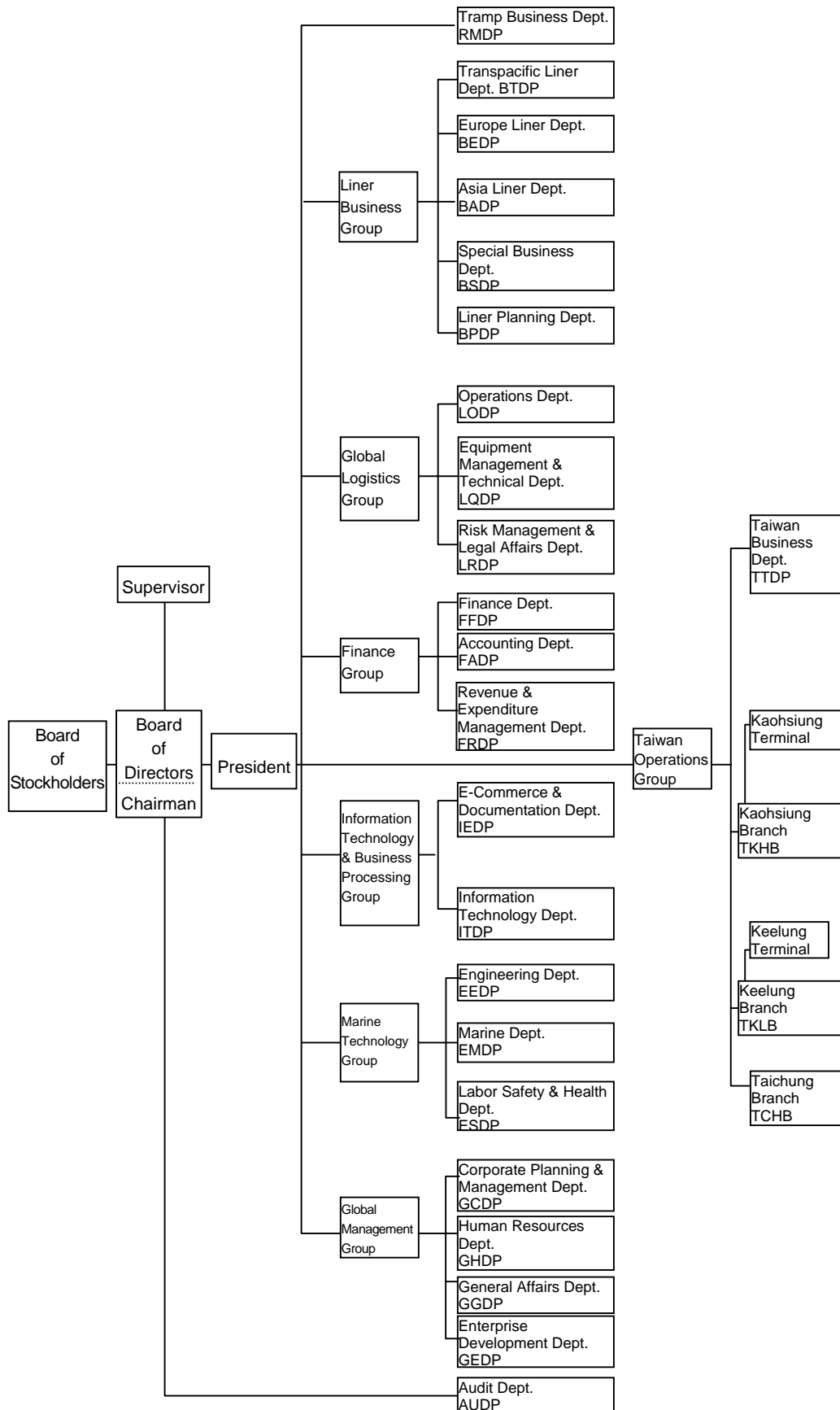
- The Antwerp International Terminal is in operation.
- Seven 1,805TUE full container vessels, YM Intelligent, YM Ideals, YM Immense, YM Increment, YM Inception, YM Image and YM Initiative, and three 8,200TEU full container vessels, YM Unity, YM Utmost, YM Unison, are delivered to join Yang Ming's fleet.
- Invests in the My Xuan Industrial Area, container terminal and logistics park in Ba Ria Yung Tan Province of Hochiminh City.
- Establishes Yang Ming (Korea) Corporation to strengthen the business operations.
- Reintegrates Yang Ming's company structure into 7 business groups to cope with the rapidly expanding business operations.
- CKYH Alliance and Europe Container Terminals sign a Memorandum of Understanding to invest in the Euromax Terminal in the Port of Rotterdam.
- Cited as one of the best corporate citizens by the *Common Wealth* magazine, making Yang Ming the only one to receive such honor among domestic shipping-related industries.
- Wins the Gold Prize of the Eighth Winxin Award.

## 2007

- The 8,200 TUE full container vessel, YM Ultimate, and the 1,805 TUE full container vessels, YM Inventive and YM Instruction, join Yang Ming's fleet.
- Wins the 15<sup>th</sup> place in the Corporate Social Responsibility evaluation conducted by the *Common Wealth* magazine.

## 2. Organizational Structure

2.1 Yang Ming organizational structure is shown below:



2.2 Yang Ming organizational structure is shown below

APR. 30, 2007

Position	Chairman Board of Directors	Director	Director	Director	Director	Executive Supervisor	Supervisor	Director	Director
Name	Wong-hsiu Huang	Jin-yuan Chen	Chen-dong Hong	Fu-meei Ju	Nuan-hsuan Ho	Pin-Jan Ku	Her-guey Chen	Benny T. Hu	Wing-Kong Leung, Joseph
Date appointed	Jun. 24, 2004	Jun. 24, 2004	Dec. 28, 2005	Jun. 24, 2004	NOV.7, 2006	Jun. 24, 2004	Jun. 24, 2004	Jun. 24, 2004	Apr. 20, 2007
Term of appointment	Reelection upon expiration of effectual period								
Holding shares	shares	Directors and Supervisors herein as representatives of the MOTC, and holding a total of 820,603,367 shares (Note )						971,875	53,874,366
	ratio of holding shares(%)	which represent 35.69 % of the company's stocks						0.04%	2.34%
Spouse, under-aged children's holding shares	shares	805	-	-	-	-	-	-	-
	ratio of holding shares(%)	-	-	-	-	-	-	-	-

Note: 1. The holding shares of the MOF shifted to the MOTC on June 26, 2006.

2. MOTC appointed Mr. Nuan-hsuan Ho to be the director on Nov.7, 2006.

3. Taiwan Chinachem Investment Corp. appointed Wing-Kong Leung, Joseph to be the director on Apr. 20, 2007.



## 2.3 Top management

APR. 30, 2007

Position	Name	Date appointed	Entitled for other companies presently
President	Wong-hsiu Huang	Aug. 1, 2001	Chairman of Ching Ming Investment Co., Ltd.
Senior Executive Vice President	Robert Shuh-shun Ho	APR. 1, 2006	Chairman of All Oceans Transportation Inc.
Senior Executive Vice President	R.B. Chiou	APR. 1, 2006	Director of Yang Ming Shipping Europe GmbH Hamburg
Executive Vice President	J.S. Wang	JUN. 10, 2006	Director of Honming Terminal & Stevedoring Co., Ltd.
Executive Vice President	Herbert Lin	APR. 1, 2006	Director of Yes Logistic Corporation

## 3. Capital and Shares Issuance

### 3.1 Capital and shares

#### 3.1.1 Shares category

Apr. 30, 2007

Shares category	Authorized capital					Amount of shares of convertible bonds
	Shares Issued			Non-issuance shares	Total shares	
	Listed	Unlisted	Total			
Common stock	2,289,834,417	9,170,796	2,299,005,213	100,994,787	2,400,000,000	14,206,030

#### 3.1.2 Shares issuance

Date	Par value (NT\$)	Authorized capital		Actual capital received		Notes	
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Sources of capital	Capital source other than cash
Jan.2005	10	2,400,000,000	24,000,000,000	2,268,754,549	22,687,545,490	Convertible bonds transformation 22,016,416 Shares	
May 2005	10	2,400,000,000	24,000,000,000	2,276,103,048	22,761,030,480	Convertible bonds transformation 7,348,499 Shares	
Aug.2005	10	2,400,000,000	24,000,000,000	2,289,127,926	22,891,279,260	Convertible bonds transformation 13,024,878 shares	
Nov.2005	10	2,400,000,000	24,000,000,000	2,289,816,718	22,898,167,180	Convertible bonds transformation 688,792 Shares	
May 2006	10	2,400,000,000	24,000,000,000	2,289,834,417	22,898,344,170	Convertible bonds transformation 17,699 Shares	

Date	Par value (NT\$)	Authorized capital		Actual capital received		Notes	
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Sources of capital	Capital source other than cash
May 2007	10	2,400,000,000	24,000,000,000	2,294,211,277	22,942,112,770	2007Q1 Convertible bonds transformation 4,376,860 Shares	
July 2007	10	2,400,000,000	24,000,000,000	2,299,005,213	22,990,052,130	2007 Apr. Convertible bonds transformation 4,793,936 Shares	

### 3.2 Market price per share, net worth, earnings, and dividends during the latest 2 years

Unit : NT Dollars

Year		2005	2006	Jan. 1, 2007~ Apr. 30, 2007
Market-price per share	Highest price	33.40	22.40	26.00
	Lowest price	18.30	15.95	17.20
	Average price	26.29	18.97	21.22
Net worth per share	Unappropriated	20.81	18.71	18.76
	Appropriated	18.24	-	-
Earnings per share	Weighted average number of outstanding shares	2,252,812(Note) thousand shares	2,286,533(Note) thousand shares	2,292,075(Note) thousand shares
	Earnings per share	4.11	0.50	-
Dividends per share	Cash dividend	2.50	0.32	-
	Stock dividend	0	0.08	-
Return on Investment	Price / Earnings ratio	6.40	37.94	-
	Price / Cash dividends ratio	10.52	59.28	-
	Cash dividends/ Price ratio	0.095	0.017	-

Note : The Shares are weighted average shares after Treasury stock deduction.

## 4. Issuance of Corporate Bonds

### 4.1 Status of Corporate Bonds Issuance :

April 30,2007

Bond Category	Sixth Debenture Bonds	Seventh Debenture Bonds	Eighth Debenture Bonds	Ninth Debenture Bonds	Second Domestic Convertible Bonds	Tenth Debenture Bonds	Eleventh Debenture Bonds	Twelfth Debenture Bonds	Thirteenth Debenture Bonds
Date of Issuance	June 1, 2000	Nov. 20, 2000	July 16, 2001	Jun 27, 2002	Aug. 7, 2003	Jun 18, 2004	Oct 8, 2004	Dec 8, 2004	Oct 23, 2006
Par Value	NTD 1 million	NTD 1 million	NTD 1 million	NTD 1 million	NTD 100 thousand	NTD 10million	NTD 10 million	NTD 10 million	NTD 1 million
Place of Issuance and Exchange	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.
Issuance Price	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value
Total Amount	NTD 3,000 million	NTD 2,400 million	NTD 1,100 million	NTD 3,000 million	NTD 8,000 million	NTD 1,600 million	NTD 5,000 million	NTD 2,500 million	NTD 6,000 million
Interest Rate	7 years ( 1,200 million ) -5.70% 10 years( 1,800 million )-6.09%	6.02%	4.49%	3.85%	0%	Note1	3.30%	2.99%	5 years ( 3,000 million ) -2.09% 7 years ( 3,000 million ) -2.32%
Terms of Reimbursement	7 years, Date of maturity: June 7, 2007 10 years, Date of maturity: June 9, 2010	12years,Date of maturity: Nov. 29, 2012	7years, Date of maturity: July 20, 2008	5years, Date of maturity: July 5, 2007	5years, Date of maturity: Aug 6, 2008	7years, Date of maturity: Jun 18, 2011	7years, Date of maturity: Oct 20, 2011	7years, Date of maturity: Dec 14, 2011	5 years, Date of maturity: Oct 23, 2011 7 years, Date of maturity: Oct 23, 2013
Guarantor	Nil	Nil	Nil	First Commercial Bank Keelung Branch, Land Bank of Taiwan Business Dept. Mega International Commercial Bank Foreign Dept. and Business Dept., Hua Nan Commercial Bank Chi Du Branch.	Nil	Nil	Nil	Nil	Nil
Trustee	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Land Bank Of Taiwan Trust Dep.	Bank SinoPac Trust Division	Bank SinoPac Trust Division	Bank SinoPac Trust Division	Chinatrust Commercial Bank
Underwriter	Taiwan International Securities Corp., Taiwan Securities Corp., Capital Securities Corp., MasterLink Securities Corp., Core Securities Corp.	Jih Sun Securities Corp. Taiwan Securities Corp.	Yuanta Core Pacific Securities	Nil	KGI Securities Co.Ltd	Nil	Nil	Nil	Nil
Audit Lawyer	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin
Audit Accountant	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche
Way of Reimbursement	Maturity : 7years:For5,6,7years, 33%, 33%,34% due respectively. 10years: For8,9,10 years, 33%, 33%, 34% due respectively.	Maturity : For 10,11,12 years, 20%, 40%,40% due respectively.	Maturity : For 5,6,7 years, 20%, 40%,40% due respectively.	Reimbursed in cash upon maturity	Reimbursed in cash upon maturity	Reimbursed in cash upon maturity	Reimbursed in cash upon maturity	Reimbursed in cash upon maturity	Reimbursed in cash upon maturity
Unreimbursed Amount	NTD 2,208 million	NTD 2,400 million	NTD 880 million	NTD 3,000 million	NTD 282.7 million	NTD 1,600 million	NTD 5,000 million	NTD 2,500 million	NTD 6,000 million
Conditions of Recall or Recall in Advance	Nil	Nil	Nil	Nil	Yes	Nil	Nil	Nil	Nil
Conditions of Restriction	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Credit Rating Agency, Rating Date, Rating	Taiwan Ratings Corporation, Mar. 6, 2000 twA	Taiwan Ratings Corporation, Sep. 26, 2000 twA	Taiwan Ratings Corporation, June 21, 2001 twA	Nil	Taiwan Ratings Corporation, Jan. 27, 2003 twBBB+	Taiwan Ratings Corporation, May. 11, 2004 twA	Taiwan Ratings Corporation, Sep 3, 2004 twA	Taiwan Ratings Corporation, Nov 9, 2004 twA	Taiwan Ratings Corporation, Sep 12, 2006 twA
Amount of Converted Common Stock , GDR or other valuable securities	Nil	Nil	Nil	Nil	NTD 7,654.9 million	Nil	Nil	Nil	Nil

Note 1: Tranche A: 2.46% p.a.

Tranche B: If 6 Month USD LIBOR resets < 1.15%, 6 Month USD LIBOR Flat

If 1.15% < = 6 Month USD LIBOR < = 3.5%, 4.40% p.a.

If 6 Month USD LIBOR > 3.5%, { NTD 6.00% p.a. less 6 Month USD LIBOR } , subject to a Floor of 0%

NTD Floating Interest Rate is Quarterly Reset and Reset Dates are 2 business days prior to the start of each relevant quarterly interest rate period.

Tranche C: 4.5% $\times$ (Range/Total) p.a. on the Nominal Amount in NTD.

"Range" is Number of observations that USD 6 Month LIBOR is Equal to or Higher that LO LIMIT AND Equal to or Lower that HI LIMIT within its Relevant Year for the corresponding Calculation Period. Each observation of LIBOR is made 2 London Business Days prior to the 18<sup>th</sup> of each calendar month in a year. NTD Floating Interest Rate is Monthly Reset.

"LO LIMIT, HI LIMIT "are as following:

<u>Relevant Year</u>	<u>LO LIMIT</u>	<u>HI LIMIT</u>
Year 1	1.10%	3.00%
Year 2	1.10%	3.50%
Year 3	1.10%	4.00%
Year 4	1.10%	4.50%
Year 5	1.10%	5.00%
Year 6	1.10%	5.25%
Year 7	1.10%	5.50%



## 4.2 Issuance of Convertible Bonds

Bond Category		Second Domestic Convertible Bonds					
		2A			2B		
Items	Period	2005	2006	Jan. 1, 2007~ Apr.30, 2007	2005	2006	Jan. 1, 2007~ Apr.30, 2007
	Market Price	the highest	135.00	100.50	129.00	138.00	126.45
the lowest		100.00	96.55	100.00	100.50	95.50	100.10
the average		117.05	99.45	115.00	114.38	102.43	116.59
Convertible Price		22.60	19.90	19.90	22.60	19.90	19.90
Issuance Date		Aug. 7, 2003					
Convertible Price at Issuance Date		NT\$26.13					

## 5. Issuance of GDR

### Conditions of the issuance of GDR

Apr. 30, 2007

Items		Date of Issuance	Nov. 14, 1996
Place of Issuance and Exchange		London Stock Exchange	
Total amount of Issuance		USD 116,392,201.2	
Issuance price		USD 11.64	
Total units of Issuance		9,999,330 units of GDR	
Underling security		Capital increase by public offering of common shares	
Units of underling security		99,993,300 common shares	
The right & obligation of GDR holders		Same right & obligation with the YMTC'S common shares	
Depository		Citibank N. A.	
Custodian		Citibank N. A. Taipei branch	
Outstanding shares (Apr 30,2007)		45,052,157 shares	
Allocation of related expenses for issuance and During existence.		To be borne by the company	
Major covenants of deposit agreement and Custody agreement		In accordance with the law of R.O.C. and State of New York, U.S.A.	
Market price per unit	2006	the highest	USD 6.94
		the lowest	USD 4.89
		the average	USD 5.85
	From Jan. 1, 2007 to Apr.30, 2007	the highest	USD 7.76
		the lowest	USD 5.23
		the average	USD 6.47

## CHAPTER 3 BUSINESS UPDATE

### 1. Business Profile, Operating Fleet & Service Scope

#### 1.1 Business Profile

- 1.1.1 Domestic and overseas marine shipment service.
- 1.1.2 Domestic and overseas marine passenger service.
- 1.1.3 Warehouse, pier, tug boat, barge, container freight station and terminal operations.
- 1.1.4 Maintenance and repairs, chartering, sales and purchase of ships.
- 1.1.5 Maintenance and repairs, lease, sales and purchase of containers as well as chassis.
- 1.1.6 Shipping agency.
- 1.1.7 G402011 Ocean freight forwarding service.
- 1.1.8 Besides licensed business, all other business items that are not banned or restricted.

#### 1.2 Operating Fleet & Service Scope

As of Dec. 31, 2006, YML operates 92 vessels consisting of 82 full container vessels, 8 panamax bulk carriers and 2 tankers.

The service scope of year 2006 includes the following three categories:

- Container Liner Service

Offering frequent fixed-day weekly services for the trades of Asia / US East Coast, Asia / US West Coast, USEC / ECSA, Asia / North Europe, Asia / Mediterranean, US East Coast / North Europe, US East Coast / Mediterranean, and Intra-Asia regional routes.

- Tramp Service

Providing bulk cargo service.

- Proxy Service

Operating 2 tankers on behalf of other Carriers.

#### 1.3 Liner Services for full container vessels from 2004 to 2006

Unit : TEU

Items	2004	Pct.	2005	Pct.	2006	Pct.
Cargo for Trans-ocean	1,466,646	63	1,576,623	65	1,823,967	67
Cargo for Intra-Asia	851,698	37	839,078	35	895,867	33
Total	2,318,344	100	2,415,701	100	2,719,834	100

## 2. Market Analysis

### 2.1 Transpacific Trade

Due to the expansion of YML's Transpacific service in 2006, YML's market share in 2006 has been slightly enhanced up to 5.2% according to the JOC PIERS report.

The eastbound transpacific trade has experienced a return due to shippers' regained confidence upon the reliability of West Coast gateways. Growth rate of 10.7% in year 2006 and 9.9% in year 2007 are expected for eastbound. Westbound growth rate reach 7.2% in year 2006 and it's estimated as 8.9% in year 2007.

### 2.2 F.E.-Europe/Mediterranean Trade

The annual westbound cargo growth for 2006 F.E.-Europe trade reached 12.8% and 23% for F.E-Mediterranean trade. Chinese export is still the leading contributor of exports from Asia to Europe.

Based on the relatively strong import in 2006 in a weak European economy, Drewry Report forecast demand growth of 12.1% for F.E-Europe trade and 20.9% for F.E. -Mediterranean for 2007.

### 2.3 Transatlantic Trade

Transatlantic trade is currently one of the few trade lanes where the trade imbalance is narrowing. The annual westbound cargo growth for 2006 went to 3.9% and 2.1% for eastbound.

### 2.4 Intra-Asia Trade

From the 2nd half of 2005, due to the arrival of many new vessels and the reassignment of numerous ships from long haul routes to Intra-Asia services, ocean freight in Intra-Asia trade remained at low levels till the end of 2006, especially for trade between the Fareast, the Middle East and India.

## 3. Employees Status

Year		2005	2006	Apr. 30, 2007
Number of employees	Office service	996	1,069	1,070
	Sea service	227	244	232
	Total	1,223	1,313	1,302
Average age		40.37	40.37	40.4
Average service years		12.10	12.00	12.00
Education level	Ph. D	3	2	1
	Master's degree	123	153	151
	College degree	905	952	957
	High school degree	140	156	144
	Middle school and below	52	50	49

## 4. Environmental Protection

All of our company's vessels are installed with pollution prevention equipment which is periodically inspected in order to meet the requirements of international conventions.

## 5. Relationship with Employees

The employment relationship is good and there is no significant dispute amongst our employees with our management.

## 6. Important Contracts

Apr. 30, 2007

Name of contract	Party	Contract Period	Primary content
Vessel Sharing and Slot Allocation Agreement	K LINE HJS	3/22/2002 ~ the indefinite duration	Asia/U.S. West Coast ; Asia/U.S. East Coast ; Asia/Med/Europe ; U.S. East Coast / North Europe ; U.S. East Coast / Med liner service
Slot Release Agreement	MOL	4/29/2007 ~ 04/30/2008	Asia/West Med liner service
Slot Exchange Agreement	HMM	5/29/2003 ~ 11/19/2007	Asia / West Med liner service Asia / North Europe
Slot Exchange Agreement	CNC	9/16/2005 ~ 9/15/2007	Intra-Asia service
Vessel Sharing and Slot Allocation Agreement	CNC / SYMS	8/25/2005~8/24/2007	China-Indonesia Liner Service
Slot Exchange Agreement	EMC	9/1/2005 ~ 8/31/2007	Intra-Asia service
Vessel Sharing and Slot Allocation Agreement	EMC / YTL	9/1/2005 ~ 8/31/2007	Taiwan-Hong Kong Liner Service
Slot Charter Agreement	TNC	12/16/2005 ~ 12/15/2007	Taiwan – China liner service
Slot Charter Agreement	TNC	12/28/2005 ~ 12/27/2007	Taiwan – China liner service
Joint Service Agreement	WHL / HLCL	2/24/2006 ~ 2/23/2008	Taiwan-Middle East Service
Slot Exchange Agreement	MOL	4/16/2006 ~ the indefinite duration	Intra-Asia Service
Vessel Sharing and Slot Allocation Agreement	OOCL / EMC	4/4/2005 ~ 4/3/2007	Intra-Asia Service
Slot Charter Agreement	Seacon	10/5/2006 ~ 4/5/2007	Taiwan –Indonesia liner service
Long-term Charter-in Vessels	SHOEI / Imabari	2003/Jun~2013/Jun 2003/Jul~2013/Jul 2003/Sep~2013/Sep	3 x 1620 TEU Long-term Charter-in Container Vessels
Long-term Charter-in Vessels	SHOEI / Imabari	2004/Apr~2014/Apr 2004/May~2014/May	2 x 5500 TEU Long-term Charter-in Container Vessels
Long-term Charter-in Vessels	Zodiac Maritime Agencies Ltd.	2004/Sep~2012/Sep 2004/Nov~2012/Nov 2005/Jan~2013/Jan	3 x 4000 TEU Long-term Charter-in Container Vessels
Long-term Charter-in Vessels	SHOEI / Imabari	2006/4Q~2016/4Q 2006/4Q~2016/4Q	2 x 4920 TEU Long-term Charter-in Container Vessels
Long-term Charter-in Vessels	Continental Chartering GmbH & Co. KG	2006/Mar~2011/Mar 2006/Jul~2011/Jul	2 x 4300 TEU Long-term Charter-in Container Vessels
Long-term Charter-in Vessels	Danaos Shipping Co. Ltd. (HHI)	2007/Mar~2019/Mar 2007/Sep~2019/Sep	2 x 4300 TEU Long-term Charter-in Container Vessels
Long-term Charter-in Vessels	Danaos Shipping Co. Ltd. (Samsung)	2007/Sep~2019/Sep 2007/Nov~2019/Nov	2 x 4300 TEU Long-term Charter-in Container Vessels
Long-term Charter-in Vessels	Peter Doehle Schiffahrts-KG	2007/Sep~2019/Sep	1 x 4444 TEU Long-term Charter-in Container Vessels
Long-term Charter-in Vessels	SHOEI / Imabari	2010/Oct~2025/Oct 2010/Nov~2025/Nov 2011/Jan~2026/Jan	3 x 6250 TEU Long-term Charter-in Container Vessels
Space Allocation & Operating Agreement	K LINE	3/22/2002~3/21/2012	Asia / U.S. West Coast ; Asia / Med / Europe



## CHAPTER 4 FUND UTILIZATION PLAN

### 1. Fund Utilization for the Eleventh Debenture Bonds and Twelfth Debenture Bonds issued in 2004

UNIT : NT\$1,000

Items of Plan	Utilization		Accumulated
Build four 1,500 TEU container vessels	Expenditure	Planned	2,253,506
		Actual	2,169,155
	Completion	Planned	100%
		Actual	96.26%
Build four 1,799 TEU container vessels	Expenditure	Planned	2,689,675
		Actual	2,714,132
	Completion	Planned	100%
		Actual	100.90%
Build four 1,799 TEU container vessels	Expenditure	Planned	1,643,690
		Actual	2,719,595
	Completion	Planned	61.11%
		Actual	101.11%
Total	Expenditure	Planned	6,586,871
		Actual	7,602,882
	Completion	Planned	86.30%
		Actual	99.61%

### 2. Fund Utilization for the Thirteenth Debenture Bonds issued in 2006

UNIT : NT\$1,000

Items of Plan	Utilization		Accumulated
Repayment of the bank loan and corporate bond	Expenditure	Planned	2,152,000
		Actual	2,152,000
	Completion	Planned	35.86%
		Actual	35.86%

# CHAPTER 5 FINANCIAL STATEMENTS AND REPORTS

## 1. Condensed Balance Sheets and Income Statements

### 1.1 Balance Sheet

UNIT : NT\$1,000

Year		Accounting data for the recent 5 years					
		Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	Mar. 31, 2007
Current Assets		13,993,990	29,895,976	39,891,136	31,249,907	24,183,162	17,919,343
Investments in Shares of Stock		7,761,195	10,357,106	13,354,483	16,784,797	18,800,905	21,986,966
Net Properties		12,538,377	13,208,046	17,030,994	12,886,377	15,363,071	16,243,907
Other Assets		12,108,382	7,424,229	7,524,106	19,117,753	24,198,088	27,376,799
Total Assets		46,401,944	60,885,357	77,800,719	80,038,834	82,545,226	83,527,015
Current Liabilities	Unappropriated	6,553,383	8,962,103	11,221,109	11,248,681	15,838,297	16,510,843
	Appropriated	7,677,086	13,750,601	18,151,099	17,079,693	-	-
Total Long-Term Debts		13,917,769	16,633,644	19,976,133	18,459,943	20,562,215	20,558,818
Other Liabilities		1,573,808	1,999,666	2,765,909	3,132,230	3,306,902	3,152,291
Total Liabilities	Unappropriated	22,044,960	27,595,413	33,963,151	32,840,854	39,707,414	40,221,952
	Appropriated	23,168,663	32,383,911	40,893,141	38,671,866	-	-
Capital stock		18,343,160	19,569,299	22,687,545	22,898,167	22,898,344	22,942,113
Capital surplus		2,400,244	4,316,068	7,908,492	8,496,473	8,774,975	8,819,091
Retained earnings	Unappropriated	3,981,532	9,506,926	13,490,305	15,816,055	11,128,198	10,724,914
	Appropriated	2,857,829	3,693,041	6,560,315	9,985,043	-	-
Unrealized loss on financial instruments		-	-	-	-	(35,588)	611,441
Unrealized loss on investments in shares of stock		(21,293)	(1)	(1)	-	-	-
Cumulative translation adjustments		186,469	338,729	28,301	191,616	168,626	304,247
Net loss not recognized as pension costs		(7,687)	(18,457)	(35,717)	(39,630)	(96,743)	(96,743)
Total Stockholders' Equities	Unappropriated	24,356,984	33,289,944	43,837,568	47,197,980	42,837,812	43,305,063
	Appropriated	23,233,281	28,501,446	36,907,578	41,366,968	-	-

### 1.2 Income Statement

UNIT : NT\$1,000

Year		Accounting data for the recent 5 years					
		Jan. 1, 2002~ Dec 31,2002	Jan. 1, 2003~ Dec 31,2003	Jan. 1, 2004~ Dec 31,2004	Jan. 1, 2005~ Dec 31,2005	Jan. 1, 2006~ Dec 31,2006	Jan. 1, 2007~ Mar. 31, 2007
Operating revenue		45,511,610	62,932,016	78,429,274	84,155,941	92,039,885	24,126,927
Gross profit (loss)		1,147,639	6,284,113	8,075,087	4,960,783	25,957	(740,582)
Operating income (loss)		159,815	4,500,875	6,035,003	3,031,936	(1,439,006)	(1,145,792)
Non-operating income		2,334,577	4,631,925	6,978,424	8,273,922	4,017,390	903,482
Non-operating expenses		1,350,002	894,274	1,113,750	1,280,799	949,389	303,222
Income (loss) before income tax		1,144,390	8,238,526	11,899,677	10,025,059	1,628,995	(545,532)
Cumulative effect of change in accounting principles		-	-	-	-	16,896	-
Net income (loss)		1,135,451	6,649,097	9,797,264	9,262,954	1,143,155	(403,284)
Earnings per share		0.64	3.70	4.57	4.11	0.50	(0.18)

### 1.3 CPA and Audit results for the past 5 years

Year	CPA name	Audit Opinion
Jan. 1, 2002 ~ Dec. 31, 2002	Chen Chin Hsiang、 Wang Chin San	Modify Unqualified
Jan. 1, 2003 ~ Dec. 31, 2003	Lin An Hwei、 Chen Chin Hsiang	Modify Unqualified
Jan. 1, 2004 ~ Dec. 31, 2004	Lin An Hwei、 Way Yung Do	Modify Unqualified
Jan. 1, 2005 ~ Dec. 31, 2005	Lin An Hwei、 Way Yung Do	Modify Unqualified
Jan. 1, 2006 ~ Dec. 31, 2006	Lin An Hwei、 Chen Chin Hsiang	Modify Unqualified

### 2. Financial Statement Analysis

Items		Year	Financial Analysis for the years from 2002 to 2007					
		Jan. 1, 2002~ Dec. 31, 2002	Jan. 1, 2003~ Dec. 31, 2003	Jan. 1, 2004~ Dec. 31, 2004	Jan. 1, 2005~ Dec. 31, 2005	Jan. 1, 2006~ Dec. 31, 2006	Jan. 1, 2007~ Mar. 31, 2007	
Financial conditions	Debt to Total Assets Ratio	47.51	45.32	43.65	41.03	48.10	48.15	
	Long-term funds to net properties	301.44	374.35	371.88	505.79	409.56	390.70	
Institutional solvency	Current ratio ( % )	213.54	333.58	355.50	277.81	152.69	108.53	
	Acid-test ratio ( % )	202.18	323.86	345.24	260.37	137.94	93.74	
	Time interest earned	2.59	13.45	18.72	13.63	3.08	(1.47)	
Operating performance	Receivables turnover	26.47	35.13	37.24	35.13	34.73	33.46	
	Average collection period(days)	13.79	10.39	9.80	10.39	10.51	10.91	
	Payables turnover	-	-	-	-	-	-	
	Turnover of the fixed assets	3.63	4.76	4.61	6.53	5.99	5.95	
	Turnover of the total assets	0.98	1.03	1.01	1.05	1.12	1.16	
Profitability	Return on total assets ( % )	3.65	13.32	14.86	12.49	2.13	(1.15)	
	Return on stockholder's equity ( % )	4.69	23.07	25.41	20.35	2.54	(3.75)	
	Ratio of income against paid-in capital ( % )	Operating income (Loss)	0.87	23.00	26.60	13.24	(6.28)	(19.98)
		Pre-tax income (Loss)	6.24	42.10	52.45	43.78	7.19	(9.51)
	Profit Margin ( % )	2.49	10.57	12.49	11.01	1.24	(1.67)	
	Earnings per share (note1)	0.64 0.64	3.70 3.24	4.57 4.34	4.11 4.06	0.50 -	(0.18) -	
Cash flow	Cash flow ratio ( % )	27.08	111.62	86.05	70.95	9.25	(4.42)	
	Cash flow adequacy ratio ( % )	60.80	91.30	62.25	60.64	54.57	48.08	
	Cash reinvestment ratio ( % )	3.10	13.36	5.96	1.23	(5.11)	(0.87)	
Leverage	Operation Leverage	37.80	2.40	2.01	2.97	(3.07)	(0.33)	
	Finance Leverage	(0.29)	1.17	1.13	1.35	0.65	0.84	

Note 1 : According to the adjusted outstanding shares.

### **3. Financial Reports as of Dec. 31,2006**

#### **3.1 INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and the Stockholders  
Yang Ming Marine Transport Corporation

We have audited the accompanying balance sheets of Yang Ming Marine Transport Corporation as of December 31, 2006 and 2005, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Yang Ming Line (Singapore) Pte. Ltd. and Yang Ming Line Holding Co. as of and for the years ended December 31, 2006 and 2005 in which the Corporation has long-term investments accounted for using equity method. As shown in the accompanying balance sheets, the carrying values of these investments were 2.7% (NT\$2,254,202 thousand) and 2.7% (NT\$2,138,562 thousand) of the Corporation's total assets as of December 31, 2006 and 2005, respectively. The equity in these investees' net income was 5.0% (NT\$82,188 thousand) and 1.5% (NT\$151,978 thousand) of the Corporation's income before income tax in 2006 and 2005, respectively. The financial statements of these investees were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of other auditors.

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 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Yang Ming Marine Transport Corporation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3, starting from January 1, 2006, the Corporation adopted the newly released ROC Statement of Financial Accounting Standards (SFAS) No. 34 "Accounting for Financial Instruments" and No. 36 "Disclosure and Presentation of Financial Instruments" and related revisions of previously issued SFASs.

We have also audited the consolidated financial statements of Yang Ming Marine Transport Corporation and subsidiaries as of and for the years ended December 31, 2006 and 2005 and have issued a modified unqualified opinion thereon in our report dated March 1, 2007.

March 1, 2007

Notice to Readers

*The accompanying 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 financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying 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 financial statements shall prevail.*

# YANG MING MARINE TRANSPORT CORPORATION

## 3.2 BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

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

ASSETS	2006		2005		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 3,446,118	4	\$ 9,610,270	12	Payable to related parties (Note 22)	\$ 964,258	1	\$ 1,301,446	2
Financial assets at fair value through profit or loss - current (Notes 2, 3, 5 and 21)	363,355	-	930,436	1	Income tax payable (Notes 2 and 17)	236,928	-	45,470	-
Available-for-sale financial assets - current (Notes 2, 3, 6 and 21)	7,410,950	9	7,471,609	9	Accrued expenses	5,676,273	7	4,603,548	6
Accounts receivable, net of allowance for doubtful accounts of \$25,443 thousand and \$45,828 thousand at December 31, 2006 and 2005 (Note 2)	603,466	1	770,061	1	Payable for equipment	1,547,845	2	678,792	1
Accounts receivable from related parties (Notes 2 and 22)	2,415,004	3	1,511,173	2	Advances from customers	1,309,267	2	1,005,435	1
Other receivable from related parties (Note 22)	6,980,450	9	8,271,880	10	Current portion of long-term interest-bearing debts (Notes 2, 9, 12 and 23)	4,460,232	5	1,397,151	2
Shipping fuel, net (Note 2)	1,967,934	2	1,676,704	2	Payable to shipping agents	1,561,060	2	2,091,656	2
Prepaid expenses (Note 22)	367,793	-	285,381	1	Other current liabilities	82,434	-	125,183	-
Advances to shipping agents (Note 22)	236,485	-	229,274	-					
Other current assets (Notes 2, 17, 22 and 23)	391,607	1	378,144	1	Total current liabilities	15,838,297	19	11,248,681	14
Total current assets	24,183,162	29	31,134,932	39					
<b>LONG-TERM INVESTMENTS (Notes 2, 3, 5, 7, 8 and 21)</b>					<b>LONG-TERM DEBTS, NET OF CURRENT PORTION</b>				
Financial assets at fair value through profit or loss - noncurrent	-	-	118,550	-	Hedging derivative financial liability - noncurrent (Notes 2, 3 and 21)	47,871	-	-	-
Financial assets measured at cost - noncurrent	794,818	1	804,146	1	Bonds (Notes 2, 12 and 23)	19,740,000	24	17,588,000	22
Investments accounted for using equity method	18,006,087	22	15,980,651	20	Capital lease obligations (Notes 2, 9 and 12)	294,705	-	392,304	-
Total long-term investments	18,800,905	23	16,903,347	21	Total long-term debts	20,082,576	24	17,980,304	22
<b>PROPERTIES (Notes 2, 9, 22 and 23)</b>					<b>RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)</b>	479,639	1	479,639	1
Cost					<b>OTHER LIABILITIES</b>				
Land	158,624	-	133,014	-	Accrued pension liabilities (Notes 2 and 20)	927,286	1	796,181	1
Buildings	626,004	1	572,029	1	Deferred income tax liabilities - noncurrent (Notes 2 and 17)	2,212,975	3	2,166,989	3
Containers and chassis	21,975,330	27	18,336,402	23	Others (Notes 2, 14 and 23)	166,641	-	169,060	-
Ships	6,227,717	8	5,564,775	7	Total other liabilities	3,306,902	4	3,132,230	4
Leased containers and chassis	2,041,688	2	2,041,688	3	Total liabilities	39,707,414	48	32,840,854	41
Leasehold improvements	209,070	-	209,070	-					
Miscellaneous equipment	2,011,434	2	2,024,620	2	<b>STOCKHOLDERS' EQUITY</b>				
Total cost	33,249,867	40	28,881,598	36	Capital stock - \$10 par value				
Accumulated depreciation					Authorized - 2,400,000 thousand shares				
	18,674,678	22	16,925,281	21	Issued - 2,289,835 thousand and 2,289,817 thousand shares at December 31, 2006 and 2005	22,898,344	28	22,898,167	28
Construction in progress	14,575,189	18	11,956,317	15	Capital surplus				
	787,882	1	930,060	1	Paid-in capital in excess of par value	7,286,090	9	7,285,865	9
Net properties	15,363,071	19	12,886,377	16	Treasury stock transactions	1,480,009	2	1,199,572	2
					From long-term equity-method investment	8,876	-	11,036	-
<b>OTHER ASSETS</b>					Total capital surplus	8,774,975	11	8,496,473	11
Assets leased to others, net (Notes 2 and 10)	2,836,788	4	2,879,254	4	Retained earnings				
Nonoperating assets, net (Notes 2, 11 and 23)	260,386	-	307,829	-	Legal reserve	3,098,505	4	2,172,931	3
Advances on long-term rent agreements	297,718	-	309,548	1	Special reserve	2,074,929	2	1,149,355	1
Deferred charges, net (Note 2)	87,027	-	67,971	-	Unappropriated earnings	5,954,764	7	12,493,769	16
Long-term receivables from related parties (Note 22)	20,564,098	25	15,368,741	19	Total retained earnings	11,128,198	13	15,816,055	20
Miscellaneous (Notes 22 and 23)	152,071	-	180,835	-	Other items of stockholders' equity				
Total other assets	24,198,088	29	19,114,178	24	Cumulative translation adjustments	168,626	-	191,616	-
					Net loss not recognized as pension cost	(96,743)	-	(39,630)	-
					Unrealized loss on financial instruments	(35,588)	-	-	-
					Total other items of stockholders' equity	36,295	-	151,986	-
					Treasury stocks - 22,248 thousand shares at December 31, 2005	-	-	(164,701)	-
<b>TOTAL</b>	<b>\$82,545,226</b>	<b>100</b>	<b>\$80,038,834</b>	<b>100</b>	Total stockholders' equity	42,837,812	52	47,197,980	59
					<b>TOTAL</b>	<b>\$82,545,226</b>	<b>100</b>	<b>\$80,038,834</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 1, 2007)

# YANG MING MARINE TRANSPORT CORPORATION

## 3.3 STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 22)	\$92,039,885	100	\$84,155,941	100
OPERATING COSTS (Notes 2, 18 and 22)	<u>92,013,928</u>	<u>100</u>	<u>79,195,158</u>	<u>94</u>
GROSS INCOME	<u>25,957</u>	<u>-</u>	<u>4,960,783</u>	<u>6</u>
OPERATING EXPENSES (Note 18)				
Selling	1,170,437	1	1,585,666	2
General and administrative	<u>294,526</u>	<u>-</u>	<u>343,181</u>	<u>-</u>
Total operating expenses	<u>1,464,963</u>	<u>1</u>	<u>1,928,847</u>	<u>2</u>
OPERATING INCOME (LOSS)	<u>(1,439,006)</u>	<u>(1)</u>	<u>3,031,936</u>	<u>4</u>
NONOPERATING INCOME AND GAINS				
Equity in investees' net income (Notes 2 and 8)	2,309,650	3	7,323,831	9
Interest (Note 22)	1,009,543	1	505,215	-
Foreign exchange gain, net	205,652	-	-	-
Gain on disposal of financial instruments	140,268	-	-	-
Rent (Note 22)	117,891	-	112,611	-
Gain on disposal of properties	79,311	-	46,698	-
Valuation gain on financial instruments, net (Notes 2, 3 and 4)	54,364	-	556,400	1
Others	<u>100,711</u>	<u>-</u>	<u>154,989</u>	<u>-</u>
Total nonoperating income and gains	<u>4,017,390</u>	<u>4</u>	<u>8,699,744</u>	<u>10</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	789,766	1	793,760	1
Loss on disposal of financial instruments	-	-	386,807	-
Foreign exchange loss, net	-	-	397,600	1
Others	<u>159,623</u>	<u>-</u>	<u>128,454</u>	<u>-</u>
Total nonoperating expenses and losses	<u>949,389</u>	<u>1</u>	<u>1,706,621</u>	<u>2</u>

# YANG MING MARINE TRANSPORT CORPORATION

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	\$ 1,628,995	2	\$10,025,059	12
INCOME TAX EXPENSE (Notes 2 and 17)	<u>502,736</u>	<u>1</u>	<u>762,105</u>	<u>1</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	1,126,259	1	9,262,954	11
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF INCOME TAX EXPENSE OF \$2,222 THOUSAND (Note 3)	<u>16,896</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME	<u>\$ 1,143,155</u>	<u>1</u>	<u>\$ 9,262,954</u>	<u>11</u>

	2006		2005	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
BASIC EARNINGS PER SHARE (Note 19)	<u>\$ 0.72</u>	<u>\$ 0.50</u>	<u>\$ 4.45</u>	<u>\$ 4.11</u>
DILUTED EARNINGS PER SHARE (Note 19)	<u>\$ 0.71</u>	<u>\$ 0.50</u>	<u>\$ 4.39</u>	<u>\$ 4.06</u>

Pro forma information assuming that the stocks of the Corporation held by subsidiaries are accounted for as investments rather than as treasury stocks (Notes 2, 16 and 19) is as follows:

	2006	2005
INCOME FROM CONTINUING OPERATIONS	<u>\$ 1,161,628</u>	<u>\$ 9,271,086</u>
NET INCOME	<u>\$ 1,178,524</u>	<u>\$ 9,271,086</u>
BASIC EARNINGS PER SHARE	<u>\$0.51</u>	<u>\$4.06</u>
DILUTED EARNINGS PER SHARE	<u>\$0.51</u>	<u>\$4.01</u>

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 1, 2007)



YANG MING MARINE TRANSPORT CORPORATION

3.4 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	Capital Stock		Capital Surplus (Notes 2 and 15)			Retained Earnings (Notes 2 and 15)			Other Items of Stockholders' Equity (Notes 2, 3 and 15)			Total Stockholders' Equity	
	(\$10 Par Value, Notes 2 and 15)		Paid-in Capital in Excess of Par Value	Treasury Stock Transactions	From Long-term Equity-method Investment	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain or Loss on Financial Instruments		Treasury Stocks (Notes 2 and 16)
	Shares (Thousands)	Amount											
BALANCE, JANUARY 1, 2005	2,268,755	\$22,687,545	\$6,986,846	\$ 915,830	\$ 5,816	\$1,193,205	\$1,141,939	\$11,155,161	\$ 28,301	\$(35,717)	\$ (1)	\$ (241,357)	\$43,837,568
Appropriation of 2004 earnings	-	-	-	-	-	979,726	-	(979,726)	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	(979,726)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	7,416	(7,416)	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(101,680)	-	-	-	-	(101,680)
Cash dividends - \$2.98203 per share	-	-	-	-	-	-	-	(6,828,310)	-	-	-	-	(6,828,310)
Cash dividends received by subsidiaries	-	-	-	139,909	-	-	-	-	-	-	-	-	139,909
Disposal of the Corporation's stocks held by subsidiaries	-	-	-	143,833	-	-	-	-	-	-	-	76,656	220,489
Net income for the year ended December 31, 2005	-	-	-	-	-	-	-	9,262,954	-	-	-	-	9,262,954
Reversal of unrealized loss on long-term investments accounted for using equity method	-	-	-	-	-	-	-	-	-	-	1	-	1
Translation adjustments on long-term investments accounted for using equity method	-	-	-	-	-	-	-	-	163,315	-	-	-	163,315
Increase in the equity in the net assets of equity-method investees resulting from not subscribing proportionally to the additional shares issued by the investees	-	-	-	-	5,220	-	-	(7,214)	-	-	-	-	(1,994)
Equity-method investees' recognition of net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	4,551	-	-	4,551
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	(8,464)	-	-	(8,464)
Domestic convertible bonds converted into capital stocks and capital surplus	21,062	210,622	299,019	-	-	-	-	-	-	-	-	-	509,641
BALANCE, DECEMBER 31, 2005	2,289,817	22,898,167	7,285,865	1,199,572	11,036	2,172,931	1,149,355	12,493,769	191,616	(39,630)	-	(164,701)	47,197,980
Adjustment of adopting newly released and revised statements of financial accounting standards	-	-	-	-	-	-	-	-	1,073	-	(32,559)	-	(31,486)
Appropriation of 2005 earnings	-	-	-	-	-	925,574	-	(925,574)	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	(925,574)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	925,574	(925,574)	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(106,426)	-	-	-	-	(106,426)
Cash dividends - \$2.5 per share	-	-	-	-	-	-	-	(5,724,586)	-	-	-	-	(5,724,586)
Disposal of the Corporation's stocks held by subsidiaries	-	-	-	280,437	-	-	-	-	-	-	-	164,701	445,138
Net income for the year ended December 31, 2006	-	-	-	-	-	-	-	1,143,155	-	-	-	-	1,143,155
Translation adjustments on long-term investments accounted for using equity method	-	-	-	-	-	-	-	-	(24,063)	-	-	-	(24,063)
Increase in the equity in the net assets of equity-method investees resulting from not subscribing proportionally to the additional shares issued by the investees	-	-	-	-	27,787	-	-	-	-	-	-	-	27,787
Changes in stockholders' equity accounted for using equity method	-	-	-	-	(29,947)	-	-	-	-	716	4	-	(29,227)
Changes in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	311	-	311
Changes in unrealized loss on cash flow hedging derivative	-	-	-	-	-	-	-	-	-	-	(3,344)	-	(3,344)
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	(57,829)	-	-	(57,829)
Domestic convertible bonds converted into capital stocks and capital surplus	18	177	225	-	-	-	-	-	-	-	-	-	402
BALANCE, DECEMBER 31, 2006	2,289,835	\$22,898,344	\$7,286,090	\$1,480,009	\$ 8,876	\$3,098,505	\$2,074,929	\$ 5,954,764	\$168,626	\$(96,743)	\$(35,588)	\$ -	\$42,837,812

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

(With Deloitte & Touche audit report dated March 1, 2007)

# YANG MING MARINE TRANSPORT CORPORATION

## 3.5 STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,143,155	\$ 9,262,954
Cumulative effect of changes in accounting principles	<u>(16,896)</u>	<u>-</u>
Income before cumulative effect of changes in accounting principles	1,126,259	9,262,954
Depreciation	2,288,860	2,146,827
Amortization	42,606	43,130
Loss (gain) on disposal of financial instruments	(107,669)	464,702
Gain on disposal of properties, net	(79,311)	(46,698)
Provision for pension cost	34,032	34,777
Equity in investees' net income	(2,309,650)	(7,323,831)
Cash dividends received on equity-method investee companies	2,079,144	5,916,427
Valuation gain on financial instruments	(54,364)	(556,400)
Deferred income taxes	107,777	301,093
Others	96	16,696
Net changes in operating assets and liabilities		
Financial assets held for trading	593,425	(166,256)
Accounts receivable	159,700	(11,820)
Accounts receivable from related parties	(903,831)	230,265
Other receivable from related parties	(1,705,617)	(1,617,869)
Shipping fuel	(281,705)	(813,260)
Prepaid expenses	(82,412)	35,736
Advances to shipping agents	(7,211)	(2,931)
Other current assets	(104,148)	116,174
Income tax payable	191,458	(1,081,188)
Payable to related parties	(337,188)	(521,155)
Accrued expenses	1,072,725	1,499,779
Payable to shipping agents	(530,596)	(149,789)
Advances from customers	303,832	103,535
Other current liabilities	(42,767)	(77,740)
Advances on long-term rent agreements	<u>11,830</u>	<u>11,829</u>
Net cash provided by operating activities	<u>1,465,275</u>	<u>7,814,987</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of designated as financial assets at fair value through profit or loss	(32,600)	(378,500)
Proceeds from disposal of designated as financial assets at fair value through profit or loss	366,997	38,630
Acquisition of available-for-sale financial assets	(36,384,068)	(29,701,795)
Proceeds from disposal of available-for-sale financial assets	36,547,019	37,777,097
Acquisition of investments accounted for using equity method	(297,156)	(1,957,775)
Proceeds from disposal of long-term investments	542	33,415
Proceeds from capital reduction of investments in shares of stock	-	1,917
Acquisition of properties and assets leased to others	(7,681,275)	(5,776,085)
Proceeds from disposal of properties and nonoperating assets	523,015	49,104

# YANG MING MARINE TRANSPORT CORPORATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
Decrease (increase) in long-term receivable from related parties	\$ 193,775	\$ (559,715)
Increase in deferred charges	(61,670)	(63,991)
Increase in other assets	(96,395)	(38,229)
Decrease (increase) in restricted assets	<u>236</u>	<u>(114,975)</u>
Net cash used in investing activities	<u>(6,921,580)</u>	<u>(690,902)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of bonds	6,000,000	-
Repayments of principal of long-term debts	-	(233,470)
Repayments of principal of bonds	(678,681)	(396,000)
Payments of capital lease obligations	(204,682)	(177,600)
Increase in other liabilities	6,511	311
Cash dividend and employees' bonus paid	<u>(5,830,995)</u>	<u>(6,930,978)</u>
Net cash used in financing activities	<u>(707,847)</u>	<u>(7,737,737)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,164,152)	(613,652)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9,610,270</u>	<u>10,223,922</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,446,118</u>	<u>\$ 9,610,270</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ 781,050</u>	<u>\$ 624,776</u>
Income tax paid	<u>\$ 271,895</u>	<u>\$ 1,542,100</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Reclassification of nonoperating assets into assets leased to others	<u>\$ 47,443</u>	<u>\$ -</u>
Reclassification of assets leased to others into properties	<u>\$ 71,065</u>	<u>\$ -</u>
Reclassification of investment into deduction to long-term receivables from related parties	<u>\$ 64,801</u>	<u>\$ 18,620</u>
Reclassification of properties into assets leased to others	<u>\$ -</u>	<u>\$ 74,872</u>
Current portion of interest-bearing long-term debts	<u>\$ 4,460,233</u>	<u>\$ 1,397,151</u>
Domestic unsecured convertible bonds converted into capital stock and capital surplus	<u>\$ 402</u>	<u>\$ 509,641</u>
<b>CASH PAID FOR ACQUISITION OF PROPERTIES AND ASSET LEASED TO OTHERS</b>		
Increase in properties and assets leased to others	\$ 9,201,776	\$ 5,831,819
Increase in payables for equipment	(869,053)	(55,734)
Decrease in payables to related parties	<u>(651,448)</u>	<u>-</u>
	<u>\$ 7,681,275</u>	<u>\$ 5,776,085</u>

# YANG MING MARINE TRANSPORT CORPORATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

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	2006	2005
PROCEEDS FROM SALE OF PROPERTIES		
Total contracted selling prices	\$ 4,605,444	\$ 7,802,551
Decrease in other receivables	-	27,531
Increase in long-term receivables from related parties	(5,930,806)	(9,401,682)
Decrease in other receivables from related parties	<u>1,848,377</u>	<u>1,620,704</u>
	<u>\$ 523,015</u>	<u>\$ 49,104</u>

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

(With Deloitte & Touche audit report dated March 1, 2007)

## 3.6 NOTES TO FINANCIAL STATEMENTS

### 1. ORGANIZATION AND OPERATIONS

Yang Ming Marine Transport Corporation (the "Corporation"), established in December 1972, was majority owned by the Ministry of Transportation and Communications (MOTC) of the Republic of China (ROC) until February 15, 1996 when MOTC reduced its holdings in the Corporation simultaneous to the Corporation's listing of its shares of stock on the ROC Taiwan Stock Exchange. To comply with the administration rule of the central government, MOTC transferred its holdings in the Corporation to the Ministry of Finance (MOF) of the Republic of China on March 8, 2005. Afterward, to comply with government policy, MOF returned its holdings to MOTC on June 26, 2006. Of the Corporation's outstanding capital stock, the MOTC owned 35.84% at December 31, 2006 and the MOF owned 35.84% at December 31, 2005.

The Corporation primarily provides marine cargo transportation services. It also provides services related to the maintenance of old vessels, lease and sale of old vessels, containers and chassis of vessels. Further, it acts as a shipping agent and manages ships owned by others.

The Corporation's shares have been listed on the ROC Taiwan Stock Exchange since April 1992. The Corporation issued global depositary receipts (GDRs), which have been listed on the London Stock Exchange (ticker symbol: YMTD) since November 1996.

As of December 31, 2006 and 2005, the Corporation had 1,313 and 1,223 employees, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC. In preparing financial statements in conformity with these laws, guidelines and principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of the allowance for doubtful accounts, evaluation of financial assets and liabilities, provision for losses on shipping fuel, depreciation of properties, income tax, pension cost, unsettled litigation cost, and payables to shipping agents. Actual results could differ from these estimates.

For the convenience of readers, the accompanying 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 financial statements shall prevail.

The Corporation's significant accounting policies are summarized as follows:

#### Current/Noncurrent Assets and Liabilities

Current assets include unrestricted cash or cash equivalents, assets held for operating purposes and other assets to be converted into cash or consumed within 12 months after the balance sheet date. Property and equipment and those not classified as current assets are noncurrent assets. Current liabilities are obligations to be settled within 12 months after the balance sheet date. All other assets and liabilities are classified as noncurrent.

#### Cash Equivalents

Commercial paper purchased under agreement to resell within three months from acquisition dates are classified as cash equivalents. The carrying values approximate their fair values.

#### Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or

loss. On initial recognition, the financial instruments are measured at fair value, with transaction costs expensed currently. Subsequent changes in fair value are recognized as current gain or loss. Any cash dividends received (including in the period of investment) are recognized as current income. Purchase or sale of financial assets under customary transactions is recognized and derecognized using trade date accounting.

Fair values of the listed stocks, mutual funds and bonds are based on the closing prices or the net asset values of the funds on the balance sheet date.

If there is no market value, the fair value of the asset will be estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

Hybrid contracts containing one or more embedded derivatives are designated as financial assets at fair value through profit or loss upon initial recognition.

### **Available-for-sale Financial Assets**

On initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs directly attributable to the acquisition of the assets. Gain or loss due to changes in fair value is recognized as adjustments to stockholders' equity, and the related cumulative gain or loss should be recognized in the current year when the financial asset is derecognized. Purchase or sale of financial assets under customary transactions is recognized and derecognized using trade date accounting.

Fair values of the listed stocks and mutual funds are based on the closing prices or the net asset values of the funds on the balance sheet date.

Any cash dividends received are recognized as income on the ex-dividend date, but cash dividends declared on the investee's net income before investment acquisition are recognized as a reduction of the carrying value of the investments.

Stock dividends received are accounted for only as an increase in the number of shares held but are not recognized as investment income. The carrying amount per share is recalculated on the basis of the total number of shares held after stock dividends are received.

An impairment loss should be recognized if there is objective evidence that a financial asset is impaired. This impairment loss of an equity instrument can be reversed to the extent of the original carrying value and recognized as adjustments to stockholders' equity. Recovery of impairment loss that is clearly attributable to an event which occurred after the impairment loss was recognized is recognized as current income.

### **Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts**

Revenue is recognized when the earnings process is completed and the revenue is realizable and measurable. The costs of providing services are recognized as incurred.

Cargo revenues are recognized using the completion of voyage method. Monthly rental revenues on ships leased to others and ship management revenue are recognized in the month the services are rendered.

Revenue is measured by the transaction price (after consideration of discount) agreed upon by the Corporation and its clients. The pro forma interest rate method is not used to measure fair value of revenue because the collectibility of accounts receivable on operating revenue is within one year, transaction volumes are huge, and the present value and fair value of receivables approximate each other.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of individual receivables. The Corporation's periodic review covers the aging status of the receivables, customers' credit and prevailing economic developments.

### **Shipping Fuel**

Shipping fuel is carried at the lower of aggregate cost (weighted-average method) or market value. Market value is based on replacement cost.

### **Financial Assets Measured at Cost**

Investments in equity instruments without quoted market prices in an active market, including investments in unlisted stocks and emerging stocks, are measured at cost upon initial recognition.

Any cash dividends received are recognized as income on the ex-dividend date, but dividends declared on income generated before the investment was made are recognized as a reduction of the carrying value of the investments. Stock dividends received are accounted for only as an increase in the number of shares held but are not recognized as investment income. The carrying amount per share is recalculated on the basis of the total number of shares held after stock dividends are received.

Cost of sale of financial assets measured at cost is determined using weighted-average method.

An impairment loss should be recognized as a charge to current income if there is objective evidence that a financial asset is impaired. This impairment loss cannot be reversed.

### **Investments Accounted for Using Equity Method**

Investments in companies in which the Corporation owns at least 20% of their outstanding common stock or exercises significant influence over their operating and financial policy decisions are accounted for by the equity method.

On the acquisition date or the adoption of the equity method for the first time, the difference between investment cost and underlying equity in net assets is amortized using the straight-line method over 5 years.

As required, however, by the revised ROC Statement of Financial Accounting Standards No. 5 - "Long Term Investments in Equity Securities," starting on January 1, 2006, the investment cost in excess of the fair value of identifiable net assets is recognized as goodwill. Goodwill is no longer amortized but instead tested annually for impairment. Starting on January 1, 2006, the unamortized balance of the investment cost in excess of the equity in investee's net assets is no longer amortized and subject to the same accounting treatment as that for goodwill; the negative goodwill previously acquired should be amortized over the remaining estimated economic life.

If an investee issues additional shares and the Corporation subscribes for these shares at a percentage different from its current equity in the investee, the resulting increase in the Corporation's equity in its investee's net assets is credited to capital surplus. Any decrease in the Corporation's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Starting on January 1, 2005 under the revised ROC Statement of Financial Accounting Standards No. 5, "Long-term Investments in Equity Securities," the Corporation started to recognize its equity in the net income or net loss of Transyang Shipping Pte. Ltd. in the current year. The equity in the net income or net loss of investees that also have investments in the Corporation (reciprocal holdings) is computed using the treasury stock method. An impairment loss should be recognized whenever the carrying amount of investments in shares of stock exceeds their recoverable amount, and this impairment loss should be charged to current income.

Long-term equity investment in which the Corporation can exercise significant influence but not control over the investee is evaluated based on the investee's book value.

Starting on January 1, 2005, any equity of the Corporation in a subsidiary's net loss in excess of the related investment is recognized by the Corporation unless the minority interest commits to share in the investee's losses. If the Corporation recognized all the investee's losses and the investee subsequently reports profits, the Corporation will also recognize all the profits until the previously recognized losses have been reversed.

### **Properties and Assets Leased to Others**

Properties and assets leased to others are stated at cost less accumulated depreciation. During construction, the interest on the payment for the construction is capitalized as cost of assets. Major

renewals and betterments are capitalized, while maintenance and repairs are expensed currently.

An impairment loss should be recognized whenever the carrying amount of properties and rental properties exceeds their recoverable amount, and this impairment loss should be charged to current income. The accumulated impairment loss recognized in prior years could be reversed if there is a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years.

Containers and chassis under capital lease and the corresponding obligation are recorded at the lower of the (a) fair market value of leased equipment, or (b) present value of the sum of the future minimum lease payables and the bargain purchase option price. The imputed interest on lease payment is recognized as current interest expense.

Depreciation is computed using the straight-line method over the service lives of properties initially estimated as follows (plus one year to represent the estimated salvage value): buildings, 52 to 55 years; containers and chassis, 6 to 8 years; ships, 13 to 20 years; leased containers and chassis, 5 to 9 years; leasehold improvements, 5 to 10 years; and miscellaneous equipment, 3 to 18 years. Properties being used by the Corporation beyond their initially estimated service lives are depreciated over their newly estimated remaining service lives.

Upon sale or other disposal of properties and assets leased to others, the related cost and accumulated depreciation are removed from the accounts, and resulting gain or loss is credited or charged to current income.

### **Nonoperating Assets**

Properties not currently used in operations are transferred to nonoperating assets at the lower of the carrying value or net fair value, with any reduction in carrying value charged to nonoperating expenses. Starting on January 1, 2006, based on related regulations, nonoperating assets are depreciated using the straight-line method over the estimated useful lives of the properties.

An impairment loss should be recognized whenever the carrying amount of nonoperating assets not currently used in operation exceeds their recoverable amount, and this impairment loss should be charged to current income. The accumulated impairment loss recognized in prior years could be reversed if there is a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years.

### **Deferred Charges**

Deferred charges refer to ship-overhaul costs and bond issuance expenses. These are capitalized and amortized using the straight-line method over periods ranging from 2.5 years to 12 years.

### **Convertible Bonds**

Convertible bonds issued before December 31, 2005 are recognized as liabilities including bond issuance expenses. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, is amortized using the effective interest method and is recognized as a liability. Bond issuance expenses are recognized as deferred charges and amortized over the term of the convertible bonds.

To convert bonds to common shares, the Corporation uses the book-value approach, which involves writing off the unamortized issuance costs, recognized interest-premium, unpaid accrued interests and par value of the convertible bonds. The capital stock should be valued at the net written-off carrying amount, and the difference of this amount from the par value of the common stock exchange certificate (capital stock) should be recognized as additional paid-in capital.



## **Pension**

The Corporation has two types of pension plans: Defined benefit and defined contribution.

Under the defined benefit pension plan, pension costs are recognized on the basis of actuarial calculations.

Under the defined contribution pension plan, the Corporation's monthly contributions to employees' individual pension accounts should be made at a fixed percentage of employees' salaries, which are recognized as pension cost.

## **Unrealized Gain (Loss) on Sale and Leaseback**

A gain or loss on the sale of containers, chassis and ships that are leased back by the Corporation is deferred and amortized over the term of the lease or their estimated service lives, whichever is shorter.

## **Treasury Stocks**

The shares of the Corporation held by subsidiaries were reclassified by the subsidiaries from investments to treasury stocks. The reclassification was based on carrying value of the investment as of January 1, 2002 as shown in their books.

## **Income Tax**

The inter-period and intra-period allocation methods are used for income taxes. Deferred income taxes are recognized for the tax effects of temporary differences, unused income tax credits, and operating loss carryforwards. Valuation allowance is recognized on deferred income tax assets that are not expected to be realized. Deferred tax liabilities and assets are classified as current or noncurrent on the basis of the classification of the related assets or liabilities for financial reporting. A deferred tax liability or asset that cannot be related to an asset or liability for financial reporting is classified as current or noncurrent according to the expected realization date of the temporary difference.

Income tax credits for certain purchases of eligible equipment, research and development expenses, personnel training expenditures and stock investments are accounted for as reduction of the current period's income tax expense.

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

Income taxes (10%) on undistributed earnings generated since 1998 are recorded as expense in the year when the stockholders resolve to retain the earnings.

## **Foreign Currency Transactions**

Foreign currency transactions (except derivative instruments) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of prevailing exchange rates when foreign-currency denominated monetary assets and liabilities are settled, are credited or charged to income in the period of settlement.

On the balance sheet dates, the balances of foreign-currency denominated nonmonetary assets and liabilities carried at fair value, such as equity instruments, are restated at the prevailing exchange rates on the date the fair value was determined, and the resulting differences are recorded as adjustment to stockholders' equity or as profit or loss in the current period. Financial assets and liabilities carried at cost are stated at historical exchange rates; while equity-method investments are translated at prevailing exchange rates with exchange differences recorded as cumulative translation adjustments under stockholders' equity.

## **Derivative Financial Instruments Designated as Hedge Items**

Derivative financial instruments designated as hedge items are measured at fair value. The changes in fair values of these instruments are debited or charged to either stockholders' equity or current income depending on the hedged items.

## Cash Flow Hedge Accounting

Cash flow hedge accounting involves the recognition of the offsetting effects on profit or loss of changes in fair values of the hedging instrument and the hedged item.

Under the cash flow hedge, the gains or losses from the change in fair value on the hedging instruments are recognized under stockholders' equity. If the hedged forecast transaction would give rise to a financial asset or a financial liability, the gain or loss should be recognized as current income within the period that the asset or liability affects the gains or losses. If a recognized adjustment to stockholders' equity results in irreversible losses, these losses should be immediately charged to current income.

## Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of financial statements as of and for the year ended December 31, 2006.

## 3. CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2006, the Corporation adopted the new ROC Statement of Financial Accounting Standards (SFAS) No. 34 - "Accounting for Financial Instruments," No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions to other SFASs.

### a. Effect of adopting the new and revised SFASs

According to the new and revised SFASs, the Corporation reclassified financial assets and financial liabilities (including derivative instruments). Adjustments to the carrying values of the financial assets at fair value through profit or loss are reported in cumulative effect of changes in accounting principles. Adjustments to the carrying values of available-for-sale financial assets and assets or liabilities in cash flow hedge are reported in stockholders' equity.

Moreover, equity investments in foreign currencies originally measured at cost and reclassified as financial assets measured at cost are remeasured at their historical exchange rates using trade date accounting. Related accumulated translation adjustments previously reported as reductions of stockholders' equity are then reversed.

The effects of first time adoption of new SFASs are as follows:

	<b>As Cumulative Effect of Changes in Accounting Principles (After Tax)</b>	<b>As Adjustments to Stockholders' Equity (After Tax)</b>
Financial assets at fair value through profit or loss	\$ 16,896	\$ -
Financial assets measured at cost	-	1,073
Hedging derivative financial liability	-	<u>(32,559)</u>
	<u>\$ 16,896</u>	<u>\$ (31,486)</u>

The accounting change decreased income from continuing operations by \$19,337 thousand, decreased net income by \$2,441 thousand, and decreased earnings per share after tax by \$0.001 dollar for the year ended December 31, 2006.

### b. Reclassifications that resulted from adopting the newly released and revised SFASs

According to the explanation of the Accounting Research and Development Foundation, at the initial

adoption of SFAS No. 34, certain accounts in the financial statements for the year ended December 31, 2005 should be reclassified to conform with the financial statement presentation for the year ended December 31, 2006. The 2005 financial statements shall not be retroactively adjusted.

The accounting policies on the valuation of financial instruments for the year ended December 31, 2005 are summarized as follows:

1) Short-term investments

Short-term investments that were publicly-traded, easily converted to cash, and not acquired for the purpose of controlling the investees or establishing close business relationship with the investees were carried at the lower of cost or market value at the balance sheet date, with any temporary decline in value charged to current income. The market value of publicly-traded stocks was determined using the average-closing prices for the last month of the period.

2) Long-term investments

Investments in unlisted companies in which the Corporation owns less than 20% equity interest and is unable to exercise significant influence are accounted for by the cost method. Investments in less than 20% owned listed companies are stated at the lower of cost or market value. Unrealized losses on these investments, if any, are reported as a separate component of stockholders' equity.

3) Foreign-currency long-term investments at cost method

Foreign-currency long-term investments at cost method are restated at exchange rates on balance sheet date, and the resulting difference are recorded as part of cumulative translation adjustments under stockholders' equity when the restated amounts are lower than their carrying amounts, otherwise, no adjustment is made.

4) Derivative financial instruments

a) Currency swaps

Currency swap contracts, which are used for trading purposes, are recorded at spot rates when the transactions occur. The corresponding forward-position assets or liabilities are recorded at the difference between the spot rate and the contracted forward rates. Premiums or discounts, computed using the foreign currency-amount of the contract multiplied by the difference between the contracted forward rate and the spot rate on the contract starting dates, is also recognized, and is amortized over the term of the currency swap contract using the straight-line method. The forward components of the contracts outstanding as of the balance sheet dates are marked to market, with the unrealized gains or losses arising from changes in market values recognized as current income. The carrying amounts (either assets or liabilities) of the contracts are credited or charged to income once the swap contracts are settled.

b) Interest rate swaps

The amounts of interest rate swap agreements are not recognized in the financial statements because these amounts are only notional and the agreements do not require the settlement of these amounts. On the balance sheet dates or settlement dates, the amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item.

c) Forward contract transactions

The foreign currency amounts of forward exchange contracts (the "contracts"), which are used for hedging purposes, are recorded in New Taiwan dollars at spot rates (forward rates if the contracts are used for trading purposes) on the starting dates of the contracts. The premium or discount, computed using the foreign-currency amount of the contract multiplied by the difference between the contracted forward rate and the spot rates on the starting date of the contract, is also recognized. The premium or discount is amortized using the straight-line

method over the term of the forward contract, with the amortization charged to income. On the balance sheet dates, the gains or losses on the contracts, computed by multiplying the foreign-currency amounts of the contracts by the difference between the spot rates on the contract starting dates and the balance sheet dates (or the spot rates last used to measure a gain or loss on that contract for an earlier period), are charged to income. For contracts open as of the balance sheet date, the balances of the receivables and payables are netted out, and the resulting net amount is classified as either an asset or a liability.

On the balance sheet date, if exchange loss is incurred on an open contract that is used for hedging, the recording of the loss may be deferred. In addition, when these contracts are settled, the costs of related commitments may be adjusted, but the adjusted costs of these commitments should not exceed the market value of the commitments on the settlement date.

Forward contract for trading purpose should be recorded at the forward rate as of the contract date. On the balance sheet dates or settlement dates, contract amounts are adjusted at the forward rate available for the remaining period of the contract, with the adjustments recognized as current income.

d) Equity-linked notes

The notional amounts paid on equity-linked notes (ELNs), which have redemption amounts tied to the market value of the underlying stock, are treated as assets. The difference between the carrying value and the redemption amount of ELNs is charged to income.

e) Interest-linked notes

The principals of interest-linked notes, which have no quoted market prices, are recorded as asset, and interest revenue is recognized over the term of these contracts. The difference between the carrying value and the redemption amount of these contracts is charged to income.

f) Credit-linked notes and structured time deposits

The notional amounts paid on credit-linked notes and structured time deposits, which have redemption amounts tied to the credit of the issuer of the underlying bonds, are recorded as assets. Interest revenue is recognized over the term of these contracts. The credit-linked notes and time deposit have interest rates higher than those for general time deposits. The difference between the carrying value and the redemption amount of these contracts is charged to income.

Based on the new SFASs, accounts in the financial statements as of and for the year ended December 31, 2005 were reclassified as follows:

	<b>December 31</b>	
	<b>Before Reclassification</b>	<b>After Reclassification</b>
<u>Balance sheet</u>		
Short-term investments	\$ 8,142,095	\$ -
Investments in shares of stock - cost method	804,146	-
Other current assets	259,950	-
Other assets - miscellaneous	118,550	-
Financial assets at fair value through profit or loss - current	-	930,436
Available-for-sale financial assets - current	-	7,471,609
Financial assets measured at cost - noncurrent	-	804,146
Financial assets at fair value through profit or loss - noncurrent	-	118,550

	<u>Year Ended December 31</u>	
	Before Reclassification	After Reclassification
<u>Income statement</u>		
Investment gain - reversal of allowance for unrealized losses on short-term investments	\$ 556,400	\$ -
Valuation gain on financial instruments, net	-	556,400

#### 4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2006	2005
Cash		
Petty cash and cash on hand	\$ 2,441	\$ 2,195
Checking deposits	125,179	94,314
Demand deposits	1,123,223	2,211,744
Time deposits: Interest - 0.27% to 4.95% in 2006 and 1.35% to 4.38% in 2005	<u>2,195,275</u>	<u>6,447,917</u>
	3,446,118	8,756,170
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 4.62% in 2005	<u>-</u>	<u>854,100</u>
	<u>\$ 3,446,118</u>	<u>\$ 9,610,270</u>

There were no deposits due over one year as of December 31, 2006 and 2005.

The overseas deposits as of December 31, 2006 and 2005 are summarized in the accompanying Schedules A and B.

#### 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2006	2005
Financial assets held for trading	\$ 330,735	\$ 670,486
Designated as financial assets at fair value through profit or loss	<u>32,620</u>	<u>259,950</u>
	<u>\$ 363,355</u>	<u>\$ 930,436</u>
a. <u>Financial assets held for trading</u>		
Marketable equity securities	\$ 193,926	\$ 612,968
Mutual funds	136,809	37,518
Convertible bonds	<u>-</u>	<u>20,000</u>
	<u>\$ 330,735</u>	<u>\$ 670,486</u>

Foreign exchange forward contracts and options are held mainly to hedge the exchange rate risks arising from net assets or liabilities denominated in foreign currency or to earn gains from exchange rates. The hedging strategy was developed with the objective to reduce the risk of market price or cash flow fluctuations. The derivative transactions entered into by the Corporation is based on forecasted cash flows, and the risk of the transaction can be controlled by the Corporation.

The purpose of holding the short crude oil swap is for spread trading. By shorting the swap the Corporation can hedge some energy fund investment risk, and make possible profit when the convergence of the two price series appears.

There are no outstanding foreign exchange contracts, options and oil swap contract of the Corporation as of December 31, 2006 and 2005.

Net gains arising from financial assets held for trading were \$71,996 thousand (including realized settlement gains of \$16,649 thousand and valuation gains of \$55,347 thousand) for the year ended December 31, 2006; net gains were \$64,828 thousand (including realized settlement losses of \$491,245 thousand and valuation gains of \$556,073 thousand) for the year ended December 31, 2005.

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
b. <u>Designated as financial assets at fair value through profit or loss</u>		
Credit-linked structured time deposit	\$ 32,620	\$ 98,550
Credit-linked notes	-	279,950
Less: Reclassified into noncurrent assets	<u>-</u>	<u>(118,550)</u>
	<u>\$ 32,620</u>	<u>\$ 259,950</u>

The Corporation uses equity-linked notes for trading purposes to earn investment income. The Corporation will settle the notes on contract value if the market value of underlying equity stock is higher than contract value; otherwise, the Corporation converts the notes to beneficiary certificates representing the shares of underlying equity stock and earns dividends before selling the stock in the market.

The Corporation uses interest-linked notes and credit-linked structured time deposit for trading purposes to earn higher interest income. The Corporation chooses commodities highly correlated to interest rates.

Net gains arising from designated as financial assets at fair value through profit or loss were \$727 thousand (including realized settlement losses of \$11,503 thousand, valuation losses of \$983 thousand and interest revenue of \$13,213 thousand) for the year ended December 31, 2006; net gains were \$16,998 thousand (including realized settlement gains of \$1,789 thousand and interest revenue of \$15,209 thousand) for the year ended December 31, 2005.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Current		
Bond fund	<u>\$ 7,410,950</u>	<u>\$ 7,471,609</u>

## 7. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
Common stock with no quoted market prices Taipei Port Container Terminal Co., Ltd.	\$ 76,640	10.00	\$ 76,640	10.00
Preferred stock with no quoted market prices New Century Infocomm Co., Ltd.	659,200	1.68	669,600	1.68
Overseas common stock with no quoted market prices Antwerp International Terminal	<u>58,978</u>	16.33	<u>57,906</u>	16.33
	<u>\$ 794,818</u>		<u>\$ 804,146</u>	

The above stock investments have no market value and fair value cannot be reliably measured since the quoted market prices are not available.

## 8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2006		2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
All Oceans Transportation, Inc.	\$ 7,916,891	100.00	\$ 6,668,028	100.00
Yang Ming Line (B.V.I.) Holding Co., Ltd.	3,901,236	100.00	3,933,733	100.00
Yang Ming Line (Singapore) Pte. Ltd.	2,024,491	100.00	1,879,384	100.00
Ching Ming Investment Co., Ltd.	1,576,459	100.00	1,217,936	100.00
Chunghwa Investment Co., Ltd.	795,760	40.00	775,554	40.00
Yes Logistics Corp.	514,181	46.04	484,153	78.93
Honming Terminal & Stevedoring Co., Ltd.	348,092	79.17	357,371	79.17
Kuang Ming Shipping Corp.	306,112	100.00	269,281	100.00
Ming Giant (Shanghai) International Logistics Co., Ltd.	228,200	100.00	-	-
Yang Ming Line Holding Co.	229,711	100.00	259,178	100.00
Jing Ming Transportation Co., Ltd.	97,009	50.98	84,522	50.96
Transyang Shipping Pte. Ltd.	67,945	49.00	51,511	24.99
Yang Ming (Liberia) Corp.	<u>(64,801)</u>	100.00	<u>(18,620)</u>	100.00
	17,941,286		15,962,031	
Add: Investment deducted from long-term receivables from related parties	<u>64,801</u>		<u>18,620</u>	
	<u>\$ 18,006,087</u>		<u>\$ 15,980,651</u>	(Concluded)

As of December 31, 2006 and 2005, equity in investees' net income (loss) was as follows:

Investee	Years Ended December 31	
	2006	2005
All Oceans Transportation, Inc.	\$ 2,128,863	\$ 6,589,468
Yang Ming Line (Singapore) Pte. Ltd.	142,131	126,439
Kuang Ming Shipping Corp.	57,720	24,752
Ching Ming Investment Co., Ltd.	46,631	15,168
Chunghwa Investment Co., Ltd.	20,508	14,800
Honming Terminal & Stevedoring Co., Ltd.	13,050	19,764
Jing Ming Transportation Co., Ltd.	12,451	10,299
Transyang Shipping Pte. Ltd.	2,473	13,980
Yes Logistics Corp.	1,780	(56,932)
Yang Ming Line (B.V.I.) Holding Co., Ltd.	(9,808)	561,996
Yang Ming (Liberia) Corp.	(46,206)	(21,442)
Yang Ming Line Holding Co.	<u>(59,943)</u>	<u>25,539</u>
	<u>\$ 2,309,650</u>	<u>\$ 7,323,831</u>

The Corporation's equity in the net income or net loss of Transyang Shipping Pte Ltd. ("Transyang") was recognized using the financial statements of the immediately preceding year. However, starting on January 1, 2005, under the revised ROC Statement of Financial Accounting Standards (SFAS) No. 5, "Long-term Investments in Equity Securities," the Corporation started to recognize its equity in the net income or net loss of Transyang Shipping Pte. Ltd. in 2005. As a result, the Corporation's investment income from Transyang was based on Transyang's audited financial statement as of and for the years ended December 31, 2005 and 2004.

Ming Giant (Shanghai) International Logistics Co., Ltd. was established in 2006 and had not yet started operations as of December 31, 2006. Except for the investee Ming Giant (Shanghai) International Logistics Co., the carrying amounts of the investments accounted for using the equity method and the related net income or losses of equity method investee were determined based on the audited financial statements of the investee as of and for the same periods as the Corporation.

Yang Ming (Liberia) Corp. incurred a loss of \$46,206 thousand for the year ended December 31, 2006, because of huge interest expense on bank loan, which was used to buy vessels and to start operations in 2006. The Corporation committed to support ship building plan of Yang Ming (Liberia) Corp. The credit balance of \$64,801 thousand and \$18,620 thousand on this investment was reclassified as deduction from long-term receivables from related parties as of December 31, 2006 and 2005.

Under the revised ROC SFAS No. 7, "Consolidated Financial Statements," control is presumed to exist when the parent company owns, directly or indirectly through subsidiaries, more than half of the voting rights of an entity unless it can be clearly shown that such ownership does not constitute as a control interest. Thus, the consolidated financial statements as of and for the years ended December 31, 2006 and 2005 include the accounts of the Corporation and its direct and indirect subsidiaries, except Transyang Shipping Pte. Ltd. and Chunghwa Investment Co., Ltd. The intercompany transactions have been eliminated in consolidation.

## 9. PROPERTIES

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Accumulated depreciation		
Buildings	\$ 92,481	\$ 73,013
Containers and chassis	10,732,084	9,422,989
Ships	4,892,014	4,819,263
Leased containers and chassis	1,739,048	1,531,974
Leasehold improvements	158,862	143,680
Miscellaneous equipment	<u>1,060,189</u>	<u>934,362</u>
	<u>\$ 18,674,678</u>	<u>\$ 16,925,281</u>

The Corporation leases containers and chassis under capital lease agreements. The related information for future rentals is shown in Note 24. The terms of the leases were from five years to nine years for containers and from five years to eight years for chassis. The annual rent payable on leased containers under the agreements is US\$5,471 thousand. The Corporation has the option to buy, at the end of the lease terms, all leased containers at a bargain purchase price of US\$1 per unit. The annual rent payable on leased chassis is based on contract terms, and, at the end of the lease terms, the ownership of all the leased chassis will be transferred to the Corporation at no additional cost. The details of these leases as of December 31, 2006 and 2005 were as follows:

	<u>December 31</u>			
	<u>2006</u>		<u>2005</u>	
	<u>U.S. Dollars (Thousands)</u>	<u>New Taiwan Dollars (Thousands)</u>	<u>U.S. Dollars (Thousands)</u>	<u>New Taiwan Dollars (Thousands)</u>
Total capital lease obligations (undiscounted)	\$ 15,046	\$ 490,504	\$ 21,272	\$ 698,771
Less: Unamortized interest expense	<u>(1,623)</u>	<u>(52,909)</u>	<u>(1,720)</u>	<u>(56,494)</u>
	<u>\$ 13,423</u>	<u>\$ 437,595</u>	<u>\$ 19,552</u>	<u>\$ 642,277</u>

Depreciation expenses for the years ended December 31, 2006 and 2005 were \$2,270,014 thousand and \$2,128,301 thousand, respectively.



## 10.ASSETS LEASED TO OTHERS, NET

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Cost		
Land	\$ 2,061,639	\$ 2,039,805
Buildings	<u>867,023</u>	<u>920,737</u>
	2,928,662	2,960,542
Accumulated depreciation - buildings	<u>91,874</u>	<u>81,288</u>
	<u>\$ 2,836,788</u>	<u>\$ 2,879,254</u>

Depreciation expenses for the years ended December 31, 2006 and 2005 were \$18,846 thousand and \$18,526 thousand, respectively.

## 11.NONOPERATING ASSETS, NET

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Cost		
Land	\$ 260,043	\$ 307,487
Buildings	<u>4,894</u>	<u>5,154</u>
	264,937	312,641
Accumulated depreciation - buildings	<u>4,551</u>	<u>4,812</u>
	<u>\$ 260,386</u>	<u>\$ 307,829</u>

## 12.INTEREST-BEARING LONG-TERM DEBTS

	<b>Current</b>	<b>Long-term</b>	<b>Total</b>
<u>December 31, 2006</u>			
Domestic unsecured bonds	\$ 848,000	\$ 19,740,000	\$ 20,588,000
Domestic secured bonds	3,000,000	-	3,000,000
Domestic unsecured convertible bonds	465,200	-	465,200
Interest premium - domestic unsecured convertible bonds	4,142	-	4,142
Capital leases	<u>142,890</u>	<u>294,705</u>	<u>437,595</u>
	<u>\$ 4,460,232</u>	<u>\$ 20,034,705</u>	<u>\$ 24,494,937</u>
<u>December 31, 2005</u>			
Domestic unsecured bonds	\$ 616,000	\$ 14,588,000	\$ 15,204,000
Domestic secured bonds	-	3,000,000	3,000,000
Domestic unsecured convertible bonds	528,000	-	528,000
Interest premium - domestic unsecured convertible bonds	3,178	-	3,178
Capital leases	<u>249,973</u>	<u>392,304</u>	<u>642,277</u>
	<u>\$ 1,397,151</u>	<u>\$ 17,980,304</u>	<u>\$ 19,377,455</u>

### Domestic Unsecured Bonds

On various dates, the Corporation issued domestic unsecured bonds; the dates and the aggregate face values were as follows: \$3,000,000 thousand on June 1, 2000 (the "June 2000 Bonds"); \$2,400,000 thousand on November 20, 2000 (the "November 2000 Bonds"); \$1,100,000 thousand on July 16, 2001 (the "July 2001 Bonds"), \$1,600,000 thousand on June 18, 2004 (the "June 2004 Bonds"), \$5,000,000 thousand from October 8 to October 20 in 2004 (the "October 2004 Bonds"); \$2,500,000 thousand from December 8 to December 14 in 2004 (the "December 2004 Bonds") \$6,000,000 thousand on October 23, 2006 (the "October 2006 Bonds").

Other bond features and terms are as follows:

June 2000 Bonds	Type A - Aggregate face value: \$1,200,000 thousand; repayments: 33% - June 1, 2005, 33% - June 1, 2006, and 34% - June 1, 2007; 5.7% annual interest. The Corporation had repaid \$792,000 thousand as of December 31, 2006.  Type B - Aggregate face value: \$1,800,000 thousand; repayments: 33% - June 1, 2008, 33% - June 1, 2009, and 34% June 1, 2010; 6.09% annual interest.
November 2000 Bonds	Repayments: 20% - November 20, 2010, 40% - November 20, 2011, and 40% - November 20, 2012; 6.02% annual interest.
July 2001 bonds	Repayments: 20% - July 2006, 40% - July 2007, and 40% - July 2008; 4.49% annual interest. The Corporation had repaid 220,000 thousand as of December 31, 2006.
June 2004 bonds	Type A - Aggregate face value of \$600,000 thousand and maturity on June 18, 2011; 2.46% annual interest.  Type B - Aggregate face value of \$500,000 thousand and maturity on June 18, 2011 at USD 6-month LIBOR rate (the target rate) when the target rate is smaller than 1.15%; at 4.4% when the target rate is between 1.15% and 3.5%; at 6% less the target rate when the target rate is greater than 3.5%. The interest rate should not be smaller than 0% and will be reset quarterly.  Type C - Aggregate face value of \$500,000 thousand and maturity on June 18, 2011 at 4.5% interest multiplied by a ratio (interest-bearing days per month divided by interest-bearing days per year) when USD 6-month LIBOR rate (the target rate) is between a certain interest range; at 0% when the target rate is out of the interest range.
October 2004 Bonds:	Type A, B, D, E, G, H, I - Aggregate face value of \$500,000 thousand and maturity from October 8 to October 20 in 2011; 3.30% annual interest.  Type C - Aggregate face value of \$800,000 thousand and maturity on October 12, 2011; 3.30% annual interest.  Type F - Aggregate face value of \$700,000 thousand and maturity on October 15, 2011; 3.30% annual interest.
December 2004 Bonds:	Aggregate face value of \$2,500,000 thousand and maturity from December 8 to 14 in 2011; 2.99% annual interest.
October 2006 Bonds:	Type A - Aggregate face value: \$3,000,000 thousand; repayments: 33% - October 23, 2009, 33% - October 23, 2010, and 34% - October 23, 2011; 2.09% annual interest.  Type B - Aggregate face value of \$3,000,000 thousand and maturity on October 23, 2013; 2.32% annual interest.

### **Domestic Secured Bonds**

The Corporation issued five-year domestic secured bonds between June 27, 2002 and July 5, 2002, with an aggregate face value of \$3,000,000 thousand and 3.85% annual interest.

### **Domestic Unsecured Convertible Bonds**

On August 7, 2003, the Corporation issued five-year domestic unsecured bonds (the "2003 Convertible Bonds") with an aggregate face value of \$8,000,000 thousand and 0% interest. The bonds are classified

as "Type A" (with aggregate face value of \$3,000,000 thousand) and "Type B" (with aggregate face value of \$5,000,000 thousand). Bond settlement is as follows:

- a. Lump-sum payment to the holders upon maturity (in 2008) at 101.256% of the face value;
- b. Conversion by the holders, from November 2003 to 10 days before the due date, into the Corporation's common shares at the prevailing conversion price (NT\$19.90 per share as of December 31, 2006);
- c. Reselling to the Corporation by the holders before maturity. The reselling of Type A bonds starts from August 7, 2005 at face value while that of Type B bonds starts from August 7, 2006 at 100.451% of the face value; or
- d. Redemption by the Corporation, under certain conditions, at face value before bond maturity.

As of December 31, 2006, the 2003 Convertible Bonds with aggregate face value of \$7,472,400 thousand had been converted into 292,446 thousand common shares of the Corporation, and the aggregate face value of \$62,400 thousand, plus interest premium of \$281 thousand had been sold to the Corporation by the holders.

As of December 31, 2006, the Corporation had its credit lines available for long-term bank loans.

### 13. RESERVE FOR LAND VALUE INCREMENT TAX

The reserve for land value increment tax resulted from the Corporation's merger with China Merchants Steam Navigation Company.

### 14. UNREALIZED GAIN ON SALE AND LEASEBACK

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Chassis	\$ 15,655	\$ 23,435
Vessel Ming North	<u>6,321</u>	<u>7,471</u>
	<u>\$ 21,976</u>	<u>\$ 30,906</u>

The above properties had been sold and then leased back by the Corporation. The resulting gains on the sale were deferred (included in "other liabilities" in the balance sheets) and amortized over the expected term of the lease or estimated service lives, whichever was shorter.

### 15. STOCKHOLDERS' EQUITY

- a. Global depositary receipts

On November 14, 1996, the Corporation issued 10 million units of global depositary receipts (GDRs), representing 100 million shares, at an issue price of US\$11.64 dollars per unit. The holders of the GDRs may not exchange them for the Corporation's stocks. However, starting February 14, 1997, the holders of the GDR may request the depository bank to sell the shares represented by the GDRs. As of December 31 2006, there were 4,363,782 units outstanding, representing 43,637,877 shares, 1.91% of total issued shares.

The holders of the GDR retain stockholder's rights that are the same as those of the Corporation's common stockholders, but the exercise of stockholder's rights should be under related laws and regulations in ROC and the terms of the GDR contracts. One of these rights is that GDR holders should be able to exercise the right of voting, sell the shares represented by the GDRs, receive dividends and subscribe for the issued stock through the depository bank.

- b. Capital surplus

Under the Company Law and related regulations, capital surplus from equity-method investments

should not be used for any purpose. All other components of capital surplus may only be used to offset a deficit. In addition, only the capital surplus from the issue of stock in excess of par value and treasury stock transactions may be transferred to capital. For this capitalization, new shares should be issued to stockholders in proportion to their holdings, and capitalized amounts should be within certain limits.

c. Appropriation of earnings and dividend policy

The Corporation's Articles of Incorporation provide that the following should be appropriated from the annual net income, less any losses of prior years:

- 1) 10% as legal reserve;
- 2) 10% as special reserve, as needed; and
- 3) Dividends and at least 1% as bonus to employees and up to 2% as remuneration to directors and supervisors.

These appropriations and other allocations of earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

The Articles of Incorporation provide that the Corporation shall declare at least 50% of the distributable earnings as dividends. Further, at least 20% of the amount declared as dividends should be in the form of cash to enable the Corporation to finance its capital expenditure and working capital requirements.

Under the Securities and Exchange Law, the Corporation should appropriate a special reserve equal to the debit balance of any stockholders' equity item (other than deficit). Special reserve should also be appropriated at percentage of ownership for the amount of the stock price less than the carrying value of the shares of the Corporation held by subsidiaries. The balance of the reserve is adjusted according to the debit balance of such items as of the end of the Corporation's current financial reporting year.

Under the Company Law, legal reserve should be appropriated until the accumulated reserve equals the Corporation's paid-in capital. This reserve may only be used to offset a deficit. When the reserve reaches 50% of the Corporation's paid-in capital, up to 50% thereof can be capitalized.

Under the Integrated Income Tax System, which took effect on July 1, 1998, noncorporate ROC resident stockholders are entitled to tax credit on income tax paid by the Corporation on earnings generated from July 1, 1998. An imputation credit account (ICA) is maintained by the Corporation to monitor the balance of such income tax and the tax credits allocated to each stockholder. The maximum credit available for allocation to each stockholder cannot exceed the ICA balance on the date of dividend distribution.

The stockholders resolved to appropriate the 2005 and 2004 earnings on June 23, 2006 and June 23, 2005, respectively, as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (Dollars)</u>	
	2005	2004	2005	2004
Legal reserve	\$ 925,574	\$ 979,726		
Special reserve	925,574	7,416		
Bonus to employees	106,426	101,680		
Cash dividends	5,724,586	6,828,310	\$2.50	\$3.00

Because of the conversion of the 2004 Convertible Bonds, the actual cash dividends per share in 2004 was NT\$2.98203.

Had the Corporation recognized bonus to employees as expense in 2005 and 2004, the primary and diluted earnings per share in 2005 would have declined from NT\$4.11 to NT\$4.06 and NT\$4.06 to NT\$4.01, and in 2004 would have declined from NT\$4.57 to NT\$4.52 and from NT\$4.34 to NT\$4.29, respectively.

As of March 1, 2007, the Corporation's board of directors had not decided the appropriation of the 2006

earnings. Information on the appropriation of the Corporation's earnings can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

Unrealized gain (loss) on financial instruments for the year ended December 31, 2006 consisted of the following:

	<b>For the Year Ended December 31, 2006</b>
Changes in unrealized gain on available-for-sale financial assets	\$ 311
Changes in unrealized loss on cash flow hedging derivative	(3,344)
Equity-method investee's recognition of unrealized gains on financial instruments	<u>4</u>
	<u>\$ (3,029)</u>

Cumulative translation adjustments for the year ended December 31, 2006 and 2005 consisted of the following:

	<b>For the Year Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Adjustment of adopting newly released and revised statements of financial accounting standards	\$ 1,073	\$ -
Translation adjustments on long-term investments accounted for using equity method	<u>(24,063)</u>	<u>163,315</u>
	<u>\$ (22,990)</u>	<u>\$ 163,315</u>

## 16. TREASURY STOCKS

<b>Reason for Repurchase</b>	<b>Outstanding Shares (Thousands)</b>			
	<b>Beginning of the Period</b>	<b>Increase</b>	<b>Decrease</b>	<b>End of the Period</b>
<u>Year ended December 31, 2006</u>				
Stocks of the Corporation held by subsidiaries	<u>22,248</u>	<u>-</u>	<u>22,248</u>	<u>-</u>
<u>Year ended December 31, 2005</u>				
Stocks of the Corporation held by subsidiaries	<u>32,607</u>	<u>12</u>	<u>10,371</u>	<u>22,248</u>

On January 1, 2002, the Corporation reclassified the shares of the Corporation held by subsidiaries from investments into treasury stocks. The proceeds from the subsidiaries' disposal of these shares were \$445,138 thousand and \$220,489 thousand in 2006 and 2005. As of December 31, 2005, the carrying values of the Corporation's shares held by subsidiaries were \$164,701 thousand.

The increase in the number of shares of the Corporation held by subsidiaries in 2005 was due to the increase in the Corporation's equity in the subsidiaries.

Although the Corporation's shares held by subsidiaries are treated as treasury stocks instead of investments, the subsidiaries retain stockholders' rights on those shares, except the right of voting under the revised Company Law and the right to subscribe for new shares issued by the Corporation.

## 17. INCOME TAX

- a. The Income Basic Tax Act (the "IBT Act"), which took effect on January 1, 2006, requires that the income basic tax should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Act plus tax benefit regulated by the Income Tax Act or other laws. The tax payable of the current year would be the higher of the income basic tax and income tax payable calculated in accordance with the Income Tax Act. The IBT Act did not have material effect on Corporation's current income tax.

- b. Computation of current income tax was as follows:

	<u>Years Ended December 31</u>	
	<u>2006</u>	<u>2005</u>
Tax on pretax income at 25% statutory rate	\$ 407,249	\$ 2,506,265
Add (deduct) tax effects of:		
Permanent differences	(300,237)	(1,568,873)
Temporary differences	(357,909)	(249,973)
Loss carryforward	250,897	-
Income tax (10%) on undistributed earnings	<u>250,637</u>	<u>-</u>
Current income tax	<u>\$ 250,637</u>	<u>\$ 687,419</u>

The balance of income tax payable as of December 31, 2006 was net of creditable income tax of \$13,709 thousand. As of December 31, 2005, the balance of income tax payable included an income tax payable of \$5,470 thousand for the tax return examined by the authorities and was net of the creditable income tax of \$647,419 thousand.

- c. Income tax expense consisted of:

	<u>Years Ended December 31</u>	
	<u>2006</u>	<u>2005</u>
Income tax expense - current	\$ 250,637	\$ 687,419
Overseas income tax	149,058	30,273
Income tax expense - deferred		
Temporary differences	357,910	97,518
Loss carryforward	(250,897)	-
Adjustments of prior years' taxes	<u>(3,972)</u>	<u>(53,105)</u>
	<u>\$ 502,736</u>	<u>\$ 762,105</u>

- d. Deferred income tax assets (liabilities) as of December 31, 2006 and 2005 consisted of the following:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Current (included in other current assets)		
Deferred income tax assets		
Unrealized loss shipping fuel valuation losses	\$ 14,193	\$ 16,575
Unrealized foreign exchange loss	-	36,846
Others	<u>2,267</u>	<u>10,116</u>
	<u>\$ 16,460</u>	<u>\$ 63,537</u>

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Deferred income tax liabilities		
Unrealized foreign exchange gain	\$ (2,573)	\$ -
Unrealized gain on financial instruments	(2,222)	-
Others	(173)	-
	<u>(4,968)</u>	<u>-</u>
	<u>\$ 11,492</u>	<u>\$ 63,537</u>
Noncurrent		
Deferred income tax assets		
Loss carryforward	\$ 250,897	\$ -
Deferred pension cost	118,459	110,195
Unrealized gain on financial instruments	11,967	-
Cumulative equity in net loss of investee	16,920	5,368
	<u>398,243</u>	<u>115,563</u>
Deferred income tax liabilities		
Cumulative equity in net income of investee	(2,347,084)	(2,020,817)
Differences in estimated service lives of containers	(264,134)	(261,735)
	<u>(2,611,218)</u>	<u>(2,282,552)</u>
	<u>\$ (2,212,975)</u>	<u>\$ (2,166,989)</u>

The above deferred income taxes were computed at the 25% income tax rate.

Loss carryforwards as of December 31, 2006 were as follows:

<b>Year of Loss Carryforwards</b>	<b>Total Income Tax Credit</b>	<b>Unused Income Tax Credit</b>	<b>Expiry Year</b>
2006	<u>\$ 250,897</u>	<u>\$ 250,897</u>	2011

Income tax returns through 2003 had been examined and cleared by the tax authorities.

e. Integrated income tax system information was as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Balance of the imputation credit account (ICA)	\$ 354,976	\$ 709,062
Undistributed earnings generated before June 30, 1998	2,064,438	2,064,438

The estimated creditable tax ratio for the 2006 earnings is 9.12%. The actual creditable tax ratio for the 2005 earnings was 6.61%.

The tax credits will be accumulated until the date of dividend distribution. Upon dividend distribution, the ratio of the imputed tax credits to unappropriated earnings will be used for allocating tax credits to each stockholder. The estimated creditable tax ratio for 2006, for which income tax payable had been taken into account, might differ from the actual ratio on the dividend distribution date.

## 18.PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<u>Year Ended December 31, 2006</u>		
	<u>Operating Costs</u>	<u>Operating Expenses</u>	<u>Total</u>
Personnel expenses			
Salary	\$ 453,415	\$ 685,193	\$ 1,138,608
Insurance	24,736	54,511	79,247
Pension	78,710	79,432	158,142
Others	48,742	85,257	133,999
Depreciation	2,183,181	75,706	2,258,887
Amortization	<u>24,277</u>	<u>12,481</u>	<u>36,758</u>
	<u>\$ 2,813,061</u>	<u>\$ 992,580</u>	<u>\$ 3,805,641</u>

	<u>Year Ended December 31, 2005</u>		
	<u>Operating Costs</u>	<u>Operating Expenses</u>	<u>Total</u>
Personnel expenses			
Salary	\$ 529,188	\$ 1,119,222	\$ 1,648,410
Insurance	22,439	50,461	72,900
Pension	57,526	79,526	137,052
Others	44,881	81,765	126,646
Depreciation	2,065,382	64,968	2,130,350
Amortization	<u>22,310</u>	<u>15,739</u>	<u>38,049</u>
	<u>\$ 2,741,726</u>	<u>\$ 1,411,681</u>	<u>\$ 4,153,407</u>

## 19.EARNINGS PER SHARE

	<u>Years Ended December 31</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Pretax</u>	<u>After Tax</u>	<u>Pretax</u>	<u>After Tax</u>
<u>Basic EPS</u>				
Income before cumulative effect of changes in accounting principles	\$ 0.71	\$ 0.49	\$ 4.45	\$ 4.11
Cumulative effect of changes in accounting principles	<u>0.01</u>	<u>0.01</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 0.72</u>	<u>\$ 0.50</u>	<u>\$ 4.45</u>	<u>\$ 4.11</u>
<u>Diluted EPS</u>				
Income before cumulative effect of changes in accounting principles	\$ 0.70	\$ 0.49	\$ 4.39	\$ 4.06
Cumulative effect of changes in accounting principles	<u>0.01</u>	<u>0.01</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 0.71</u>	<u>\$ 0.50</u>	<u>\$ 4.39</u>	<u>\$ 4.06</u>



The numerators and denominators used in calculating earnings per share (EPS) were as follows:

	<u>Amount (Numerator)</u>		<u>Capital Stock (Denominator) (in Thousand Shares)</u>	<u>Net Income Per Share (Dollars)</u>	
	<u>Income Before Income Tax</u>	<u>Net Income</u>		<u>Income Before Income Tax</u>	<u>Net Income</u>
<u>Year ended December 31, 2006</u>					
Basic EPS	\$ 1,648,113	\$ 1,143,155	2,286,533	\$ 0.72	\$ 0.50
Impact of dilutive potential common shares					
Domestic unsecured convertible bonds	<u>1,248</u>	<u>936</u>	<u>23,379</u>		
Diluted EPS	<u>\$ 1,649,361</u>	<u>\$ 1,144,091</u>	<u>2,309,912</u>	<u>\$ 0.71</u>	<u>\$ 0.50</u>
<u>Year ended December 31, 2005</u>					
Basic EPS	\$10,025,059	\$ 9,262,954	2,252,812	\$ 4.45	\$ 4.11
Impact of dilutive potential common shares					
Domestic unsecured convertible bonds	<u>1,680</u>	<u>1,260</u>	<u>29,385</u>		
Diluted EPS	<u>\$10,026,739</u>	<u>\$ 9,264,214</u>	<u>2,282,197</u>	<u>\$ 4.39</u>	<u>\$ 4.06</u>

The calculation of pro forma net income per share, assuming that the stocks of the Corporation held by subsidiaries are treated as investments rather than as treasury stocks, is as follows:

	<u>Amount (Numerator)</u>		<u>Capital Stock (Denominator) (in Thousand Shares)</u>	<u>Earnings Per Share (Dollars)</u>	
	<u>Income Before Income Tax</u>	<u>Net Income</u>		<u>Income Before Income Tax</u>	<u>Net Income</u>
<u>Year ended December 31, 2006</u>					
Pro forma basic EPS	\$ 1,683,482	\$ 1,178,524	2,289,832	\$ 0.74	\$ 0.51
Impact of dilutive potential common shares					
Domestic unsecured convertible bonds	<u>1,248</u>	<u>936</u>	<u>23,379</u>		
Pro forma diluted EPS	<u>\$ 1,684,730</u>	<u>\$ 1,179,460</u>	<u>2,313,211</u>	<u>\$ 0.73</u>	<u>\$ 0.51</u>
<u>Year ended December 31, 2005</u>					
Pro forma basic EPS	\$10,033,191	\$ 9,271,086	2,283,795	\$ 4.39	\$ 4.06
Impact of dilutive potential common shares					
Domestic unsecured convertible bonds	<u>1,680</u>	<u>1,260</u>	<u>29,385</u>		
Pro forma diluted EPS	<u>\$10,034,871</u>	<u>\$ 9,272,346</u>	<u>2,313,180</u>	<u>\$ 4.34</u>	<u>\$ 4.01</u>

## 20. PENSION PLAN

The Corporation adopted three pension plans when it was privatized on February 15, 1996. These plans are as follows:

The Labor Pension Act (the "Act") took effect on July 1, 2005. This Act provides for a defined contribution plan featuring a portable pension. Employees can choose to remain subject to the pension mechanism under the Labor Standards Law and the Maritime Labor Law, or choose to be subject to the pension mechanism under the Act, with their service years accumulated before the enforcement of this Act to be retained. Employees hired after July 1, 2005 can only choose to be subject to the pension mechanism under the Act.

Pension plan under the Labor Standards Law for onshore employees is a defined benefit plan. Benefits are based on service years and average basic salary of the year before retirement. The pension fund, to which the Corporation contributes amounts equal to 13% of salaries every month in 2006 and 2005, respectively, is administered by the employees' pension reserve fund supervisory committee and deposited in the employees' committee's name in the Central Trust of China Co., Ltd.

Pension plan under the Maritime Labor Law for shipping crews is a defined benefit plan. Before the adoption of the ROC Maritime Labor Law, benefits were based on the amounts stated in the crews' hiring contracts. Under the Law, benefits are based on service years and average basic salary of the year before retirement.

Pension plan is a defined contribution type scheme under the Act for onshore employees and shipping crews. Starting on July 1, 2005, the Corporation makes monthly contributions to the employees' individual pension accounts in the Bureau of Labor Insurance at 6% of employees' salaries every month. The pension cost under the defined contribution plan was \$22,424 thousand and \$7,116 thousand for the year ended December 31, 2006 and from July to December in 2005, respectively.

Pension plan for retired employees of China Merchants Steamship Navigation Company (CMSNC) provides benefits based on service years and level of monthly basic salary at the time of retirement.

Before the Corporation's privatization, qualified employees received pension payments for service years before the start of the privatization. The service years of the employees who received pre-privatization pension payments and continued to work in the Corporation after privatization will be excluded from the calculation of pension payments after privatization.

Under SFAS No. 18, "Accounting for Pensions," defined benefit pension cost (including the Corporation, All Oceans Transportation, Inc. and Yangming (UK) Ltd.) should be recognized using the actuarial method. Pension expense is recognized based on agreed upon ratio of their consolidated defined benefit pension cost. Other pension information is as follows:

a. Net periodic pension cost was as follows:

	<u>Years Ended December 31</u>	
	<u>2006</u>	<u>2005</u>
Service cost	\$ 135,633	\$ 142,883
Interest cost	37,930	36,913
Projected return on plan assets	(9,031)	(7,216)
Amortization of net transition asset or obligation	(328)	(328)

	<u>Years Ended December 31</u>	
	2006	2005
Amortization of prior service cost	\$ 436	\$ 436
Amortization of unrecognized pension cost	<u>10,322</u>	<u>10,773</u>
Pension cost	174,962	183,461
Add: Investment deducted from long-term receivables from related parties	<u>(39,244)</u>	<u>(53,525)</u>
Net periodic pension cost	<u>\$ 135,718</u>	<u>\$ 129,936</u>

b. Reconciliation of plan funded status to balance sheet amount were as follows:

	<u>Years Ended December 31</u>	
	2006	2005
Benefit obligation		
Vested benefit obligation (VBO)	\$ 505,444	\$ 355,803
Non-vested benefit obligation	<u>709,288</u>	<u>575,639</u>
Accumulated benefit obligation (ABO)	1,214,732	931,442
Additional benefit based on future salaries	<u>431,439</u>	<u>335,416</u>
Projected benefit obligation	1,646,171	1,266,858
Fair value of plan assets	<u>(347,504)</u>	<u>(264,517)</u>
Plan funded status	1,298,667	1,002,341
Unrecognized net transition asset	2,002	2,330
Unrecognized prior service cost	(3,927)	(4,363)
Unrecognized pension cost	(466,199)	(243,041)
Additional minimum pension liability	<u>96,743</u>	<u>38,914</u>
Accrued pension cost	<u>\$ 927,286</u>	<u>\$ 796,181</u>
c. Vested benefit	<u>\$ 642,613</u>	<u>\$ 455,866</u>
d. Actuarial assumptions		
Discount rate	2.75%	3.00%
Rate of increase in compensation	2.75%	2.75%
Expected return on plan assets	2.75%	3.00%
e. Contribution and benefits paid		
Contribution	<u>\$ 80,713</u>	<u>\$ 75,620</u>
Benefits paid	<u>\$ 25,846</u>	<u>\$ 32,160</u>

## 21.DISCLOSURE FOR FINANCIAL INSTRUMENTS

a. The fair values of the Corporation's financial instruments were as follows:

	<b>December 31</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss - current	\$ 363,355	\$ 363,355	\$ 930,436	\$ 931,005
Available-for-sale financial assets - current	7,410,950	7,410,950	7,471,609	7,471,996
Financial assets at fair value through profit or loss - noncurrent	-	-	118,550	118,597
Financial assets measured at cost - noncurrent	794,818	-	804,146	-
Investments accounted for using equity method	18,006,087	-	15,980,651	-
Long-term receivables from related parties	20,564,098	20,564,098	15,368,741	15,368,741
<b>Liabilities</b>				
Hedging derivative financial liability - noncurrent	47,871	47,871	-	43,412
Bonds	24,057,342	24,307,673	18,735,178	19,273,522
Yang Ming Line (B.V.I.) Holding Co., Ltd.				
Financial assets at fair value through profit or loss - current	-	-	98,664	97,436

Place of transaction:

<b>Place of Transaction</b>	<b>December 31, 2006</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>
<u>Financial asset</u>		
Overseas (including foreign institutions in Taiwan)	\$ 32,620	\$ 32,620
<u>Financial liability</u>		
Overseas (including foreign institutions in Taiwan )	47,871	47,871
<b>Place of Transaction</b>	<b>December 31, 2005</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>
<u>Financial asset</u>		
Taiwan	\$ 50,000	\$ 50,032
Overseas (including foreign institutions in Taiwan )	427,164	426,907
<u>Financial liability</u>		
Overseas (including foreign institutions in Taiwan )	-	43,412

The Corporation adopted ROC SFAS No. 34, "Accounting for Financial Instruments," on January 1, 2006. Please refer to Note 3 to the financial statements for the cumulative effect of changes in accounting principles and adjustment to stockholders' equity.

b. The methods and assumptions applied in estimating fair values are as follows:

- 1) Cash and cash equivalents, accounts receivable, accounts receivable from related parties, other receivable from related parties, advances to shipping agents, payable to related parties, accrued expenses and payables to shipping agents which are not shown among the financial instruments in the table above, are recorded at their carrying values because of the short maturities of these instruments.
- 2) If quoted market prices are available, these are used as market value of financial assets at fair value through profit or loss and available-for-sale financial assets. Otherwise, the market value is evaluated by the Corporation using the same estimates and assumptions used by other market participants to value the instruments. These estimation and assumptions are available to the Corporation.

If quoted market prices are available, these are used as market value of derivatives. Otherwise, the market value is evaluated by the Corporation using the same estimates and assumptions used by other market participants to value the derivatives. These estimation and assumptions are available to the Corporation.

The Corporation uses the exchange quotations of the Reuters (or the Associated Press) to calculate market value of each interest rate swap and forward contract based on the related net cash flow and the exchange rate.

- 3) Financial assets measured at cost and investments accounted for using equity method are investments in unlisted stocks which had no market value and will require an amount in excess of reasonable cost to determine fair value, thus, no reliable fair value was determined.
- 4) Fair values of long-term receivable from related parties are measured at the present values of expected cash flows which are discounted at the interest rate for bank loans with similar maturities.
- 5) The fair value of bonds is market value.

c. The fair values of financial assets and financial liabilities, which were determined at their quoted prices in an active market or at estimated prices, were as follows:

	Quoted Price		Estimated Price	
	December 31		December 31	
	2006	2005	2006	2005
<u>Assets</u>				
Financial assets at fair value through profit or loss - current	\$ 330,735	\$ 670,099	\$ 32,620	\$ 260,906
Available-for-sale financial assets - current	7,410,950	7,471,996	-	-
Financial assets at fair value through profit or loss - noncurrent	-	-	-	118,597
<u>Liabilities</u>				
Hedging derivative financial liability - noncurrent	-	-	47,871	43,412

d. Net loss on changes of the fair value determined using valuation technique is \$983 thousand for the year ended December 31, 2006.

e. Financial assets and liabilities affected by interest rate were as follows:

	<b>December 31</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Financial Assets</b>	<b>Financial Liabilities</b>	<b>Financial Assets</b>	<b>Financial Liabilities</b>
<u>Risk of interest rate change</u>				
Fair value risk	\$ 2,008,624	\$ 23,057,342	\$ 7,542,876	\$ 17,735,178
Cash flow risk	1,467,844	1,000,000	2,474,544	1,000,000

f. Information about financial risks

1) Market risk

For the years ended December 31, 2006 and 2005, the interest rate swap contracts held by the Corporation were for nontrading purposes, i.e., to hedge overall fluctuations on interest rates. The Corporation and its subsidiaries use interest rate swap contracts with gains or losses that offset the gains or losses on floating interest-bearing liabilities. Through these contracts, the Corporation and its subsidiaries hedges most of the risks in the market. In addition, the Corporation and its subsidiaries evaluate the hedging effectiveness of the contracts periodically.

The contract will be settled at net or nominal amounts. Thus the change of fair value of this contract due to change of market interest rate should not cause additional risk for the Corporation.

The Corporation and its subsidiaries use equity-linked notes for trading purposes to earn investment income. The Corporation and its subsidiaries will settle the notes on contract value if the underlying equity stock market value is higher than contract value; otherwise, the Corporation will convert the notes to beneficiary certificates representing the shares of underlying equity stock and earn dividends before selling the stock in the market.

Further, the Corporation's observance of proper procedures when buying contracts for trading purposes as well as setting up break-even points helps the Corporation avoid losses that could significantly impact its operations.

The Corporation and its subsidiaries use interest-linked notes and credit-linked structured time deposit for trading purposes to earn higher interest income. The Corporation and its subsidiaries choose commodities highly correlated to interest rates. The Corporation's observance of proper procedures when buying contracts for trading purposes as well as setting up break-even points helps the Corporation avoid losses that could significantly impact its operations.

The Corporation's purpose for trading crude oil swap is to reduce the cost burden from oil price increase. Because the crude oil swap traded is basically based on the bunker consumption of the Corporation, the market risk is controllable.

The Corporation's purpose for foreign currency derivative trading is to manage the exchange rate risk of foreign currency. The gains or losses derived from the derivative transactions will be offset by the gains or losses from the related underlying assets. To control the risk of the derivative transactions, the Corporation sets maximum loss limit on its foreign exchange derivative trading and periodically evaluates the market risk of the outstanding contracts.

The foreign exchange risk of the Corporation's monetary assets and liabilities is mainly controlled by natural hedge. With symmetrical and diversified assets and liabilities of each foreign currency, the currency evaluation effect of the aforesaid position could be broadly offset mutually.

2) Credit risk

The Corporation and its subsidiaries are exposed to credit risk on counter-parties' default on contracts. The Corporation's and its subsidiaries' maximum exposure to credit risk is equal to book value. The Corporation conducts transactions only with selected financial institutions and corporations with good credit ratings. Thus, management does not anticipate any material losses resulting from default on contracts.

3) Liquidity risk

The Corporation and its subsidiaries have sufficient operating capital to meet the cash demand. Thus, the Corporation and its subsidiaries do not have liquidity risk.

The Corporation entered into interest rate swaps to hedge cash flow risks for the years ended December 31, 2006 and 2005. The interest rate swap contracts are settled at net amounts; thus, the expected cash demand is not significant.

The Corporation invested in marketable equity securities, mutual funds and bonds fund that have quoted prices in an active market and could be sold immediately at prices close to fair value. However, the Corporation also invested in unlisted common stock, stock with no quoted market prices and equity instruments with no quoted prices in an active market; thus, these investments could expose the Corporation to material liquidity risks.

4) Cash flow risk on interest rate

The Corporation's time deposits, short-term debts and long-term debt have floating interest rates. Effective rate and future cash flow of the Corporation will fluctuate as a result of changes in market interest rate.

g. Cash flow hedge

The Corporation uses interest rate swap contracts to hedge future cash flows:

Hedged Items	Financial Instruments Designated	Designated Hedging Instruments				Expected Period of Cash Flows	Expected Period for Realization of Gains or Losses
		December 31					
		2006		2005			
		Notional Amount	Fair Value	Notional Amount	Fair Value		
Bonds with floating interest rate	Interest rate swap	\$ (1,000,000)	\$ (47,871)	\$ (1,000,000)	\$ (43,412)	2004-2011	2004-2011

**22.RELATED-PARTY TRANSACTIONS**

The significant transactions with related parties for the years ended December 31, 2006 and 2005 and the related balances, in addition to those mentioned in Note 24 and Schedules E and F, are summarized in the accompanying schedules C and D.

The transactions with related parties were conducted under contract terms.

### 23.ASSETS PLEDGED OR MORTGAGED

The following assets had been pledged as collaterals for long-term bank loans, bonds and credit lines:

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
Properties, net	\$ 673,377	\$ 736,825
Nonoperating assets, net	89,230	89,230
Restricted time deposits (included in other current assets)	124,923	-
Pledged time deposits (included in other assets - miscellaneous)	<u>-</u>	<u>125,159</u>
	<u>\$ 887,530</u>	<u>\$ 951,214</u>

### 24.COMMITMENTS AND CONTINGENT LIABILITY

In addition to those mentioned in Note 21 and Schedule F, commitments and contingent liability as of December 31, 2006 were as follows:

- a. Obligations to provide crews to two ships of Chinese Petroleum Corporation under contracts expiring on various dates by October 2011. The daily compensation under the contracts is \$143 thousand for all the crews.
- b. Leases of office premises, ships and container yard under operating lease agreements that will expire on various dates until May 2030. The total rental for the year ended December 31, 2006 was \$13,883,506 thousand, and future minimum rentals are as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2007	\$ 5,890,491
2008	2,922,866
2009	1,948,889
2010	1,147,175
2011	550,968

Rentals after 2012 amount to \$1,395,185 thousand. The present value of those rentals, computed at an annual interest rate of 2.20%, is \$1,187,006 thousand.

- c. Leases of containers and chassis under capital lease agreements expiring on various dates until May 2011. Rental for the year ended December 31, 2006 was about \$199,482 thousand (deducted from leases payable). Future minimum rentals are as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2007	\$ 136,056
2008	94,477
2009	20,169
2010	20,169
2011	6,631



- d. Guarantees of loans obtained by subsidiaries and investee companies accounted for using equity method were as follows:

Company Name	Nature of Relationship	Guarantee Amount
Yang Ming Line (B.V.I.) Holding Co., Ltd.	Subsidiary	US\$ 5,000,000
All Oceans Transportation Inc.	Subsidiary	US\$ 29,298,000
Yang Ming (America) Corp.	Subsidiary	US\$ 1,500,000
Yang Ming (Liberia) Corp.	Subsidiary	US\$ 269,280,000
United Terminal Leasing LLC	Indirect equity-method investee	US\$ 7,238,000
West Basin Container Terminal LLC	Indirect equity-method investee	US\$ 14,528,000
Olympic Container Terminal LLC	Subsidiary	US\$ 4,700,000
Sino International United Petroleum Group Company Limited	Subsidiary	US\$ 34,000,000

- e. Agreement between the Corporation and China Shipbuilding Corp. (CSBC) for CSBC to construct eight vessels for US\$44,780,000 for delivery by 2007. As of December 31, 2006, the Corporation had paid US\$11,195 to CSBC.
- f. One vessel leased by the Corporation to a third party was alleged to have fuel oil leaks, which caused water pollution. As of December 31, 2006, the Corporation had paid US\$1,000,000 as refundable deposits in line with the ongoing legal proceedings on this case. On the basis of conservatism principle, the Corporation had accrued a loss of US\$1,000,000.
- g. The Corporation signed an agreement to acquire containers. As of December 31, 2006, the Corporation has not yet received the containers and thus has not yet made the related payment of US\$39,738,000.
- h. An agreement was entered into on October 8, 2004 for the Corporation to build the second logistics center in Kaohsiung jointly with the MOTC Harbor Bureau. The center is to be used to package, store, process, transfer and distribute goods. The estimated investment for the logistics center is around \$600,000 thousand. As of December 31, 2006, the Corporation had paid \$200,034 thousand for this center.

## 25.SUBSEQUENT EVENT

- a. On January 17, 2007, the board of directors resolved to sell one vessel at carrying value \$753,103 thousand to All Oceans Transportation Inc. (subsidiary).
- b. At the meetings of their respective boards of directors on February 9, 2007, Yang Ming Marine Transport Corporation and Taiwan Navigation Co., Ltd presented a proposal. Under the proposal, these two companies will enter a strategic alliance through a share swap and collaborate on pursuing new business opportunities. Shares will be exchanged at 1.35 shares of Yang Ming Marine Transport Corporation for every share of Taiwan Navigation Co., Ltd. Thus, Yang Ming Marine Transport Corporation will issue 69,627,226 shares in exchange for 51,575,723 shares of Taiwan Navigation Co., Ltd. The board of directors approved the share swap proposal with the expected date of share swap before June 30, 2007.

As of March 1, 2007, the Corporation and its subsidiaries acquired 50,592 thousand shares (acquisition amount \$1,511,735 thousand) of Taiwan Navigation Co., Ltd. representing 12.12% of outstanding shares.

## 26.ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Future Bureau for the Corporation and its investees.

- a. Financing provided: Please see Schedule E attached;
- b. Endorsement/guarantee provided: Please see Schedule F attached;
- c. Marketable securities held: Please see Schedule G attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Schedule H attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Schedule I attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: None;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Schedule J attached;
- i. Names, locations, and related information of investees on which the Corporation exercises significant influence: Please see Schedule K attached;
- j. Information about derivatives of investees over which the Corporation has a controlling interest: Please see Note 21;
- k. Information on investment in Mainland China
  - 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investment: Please see Schedule L attached.
  - 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in mainland China on financial reports: None.

## 27.SEGMENT INFORMATION

- a. The Corporation operates in a single business, namely, ocean freight transport.
- b. The Corporation has no revenue-generating unit (branch or office) outside Taiwan.
- c. Cargo transport revenues

Line Service	2006		2005	
	Amount	%	Amount	%
U.S. Western coast line	\$ 32,864,911	36	\$ 28,278,352	34
U.S. Eastern coast line	14,040,320	15	12,680,091	15
Asia line	13,653,851	15	14,985,960	18
Mediterranean line	10,133,086	11	7,872,781	9
Northwest European line	10,081,831	11	9,732,304	12

- d. No single customer accounted for at least 10% of the Corporation's total operating revenues.

## **4. Parents and Subsidiaries Financial Reports as of Dec. 31,2006**

### **4.1 INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and the Stockholders  
Yang Ming Marine Transport Corporation

We have audited the accompanying consolidated balance sheets of Yang Ming Marine Transport Corporation (the "Corporation") and its subsidiaries as of December 31, 2006 and 2005, 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's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. However, we did not audit the financial statements as of and for the years ended December 31, 2006 and 2005 of subsidiaries, Yang Ming Line Holding Co. and Yang Ming Line (Singapore) Pte. Ltd., included in the accompanying consolidated financial statements. The combined total assets of these subsidiaries were 3.5% (NT\$3,375,880 thousand) and 5.0% (NT\$4,461,927 thousand) of the total consolidated assets as of December 31, 2006 and 2005, respectively. The combined total operating revenues of these subsidiaries were 0.2% (NT\$244,619 thousand) and 0.1% (NT\$85,046 thousand) of the consolidated revenue in 2006 and 2005, respectively. Also, we did not audit the financial statements of Nexus International Express, Inc., West Basin Container Terminal LLC, United Terminal Leasing LLC, Yang Ming Italy S.p.A., Yang Ming (Netherlands) B.V., Yang Ming (Vietnam) Corp., Corstor Ltd. and Chongqing Changming Terminal Stevedoring Co., Ltd. as of and for the year ended December 31, 2006, and those of Nexus International Express, Inc., West Basin Container Terminal LLC, United Terminal Leasing LLC, Yang Ming Italy S.p.A., Yang Ming (Netherlands) B.V., Yang Ming (Vietnam) Corp. and Corstor Ltd. as of and for the year ended December 31, 2005, in which the Corporation and consolidated subsidiaries have equity-method investments. As shown in the accompanying balance sheets, the carrying values of these investments were 0.7% (NT\$700,580 thousand) and 0.4% (NT\$403,262 thousand) of the total consolidated assets as of December 31, 2006 and 2005, respectively. The equity in these investees' net income was 5.0% (NT\$84,075 thousand) and 1.4% (NT\$138,834 thousand) of the consolidated income before income tax in 2006 and 2005, respectively. The financial statements of these subsidiaries and investees were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to these subsidiaries' or investees' amounts included in the accompanying consolidated financial statements, is based solely on the reports of other auditors.

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 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 and the

reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yang Ming Marine Transport Corporation and its subsidiaries as of December 31, 2006 and 2005, , and the results of their operations and cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3, starting from January 1, 2006, the Corporation and its subsidiaries adopted the newly released ROC Statement of Financial Accounting Standards (SFAS) No. 34 "Accounting for Financial Instruments" and No. 36 "Disclosure and Presentation of Financial Instruments" and related revisions of previously issued SFASs.

March 1, 2007

Notice to Readers

*The accompanying 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 financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' report and the accompanying 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 financial statements shall prevail.*

# YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

## 4.2 CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

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

ASSETS	2006		2005		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 6,154,504	6	\$ 12,486,376	14	Short-term debts	\$ 79,992	-	\$ 3,431	-
Financial assets at fair value through profit or loss - current (Notes 2, 3, 5 and 23)	1,721,773	2	2,018,921	2	Notes payable	21,127	-	18,078	-
Held-to-maturity financial assets - current (Notes 2, 3, 6 and 23)	7,506,153	8	7,571,609	8	Payables to related parties (Note 24)	262,145	-	288,896	-
Financial assets held-to-maturity - current (Notes 2, 3, 7 and 23)	-	-	32,850	-	Income tax payable (Notes 2 and 19)	312,273	-	88,602	-
Notes receivable, net (Note 2)	10,939	-	33,092	-	Accrued expenses	5,386,662	6	4,927,472	6
Accounts receivable, net of allowance for doubtful accounts of \$30,732 thousand and \$51,141 thousand at December 31, 2006 and 2005 (Note 2)	3,117,913	3	2,731,159	3	Payables for equipment	1,547,846	2	678,792	1
Accounts receivable from related parties (Note 24)	467,727	1	359,531	-	Advances from customers	1,605,502	2	1,525,015	2
Other receivable from related parties (Note 24)	-	-	3,268	-	Current portion of long-term interest-bearing debts (Notes 2, 11, 14 and 23)	5,252,503	5	1,825,312	2
Shipping fuel, net (Note 2)	2,383,563	2	2,200,462	3	Payables to shipping agents	1,860,793	2	3,594,960	4
Prepaid expenses	683,679	1	799,188	1	Other current liabilities (Note 2)	249,930	-	322,519	-
Advances to shipping agents	153,917	-	182,912	-					
Other current assets (Notes 2, 19 and 25)	485,248	1	607,475	1	Total current liabilities	16,578,773	17	13,273,077	15
Total current assets	22,685,416	24	29,026,843	32					
<b>LONG-TERM INVESTMENTS (Notes 2, 3, 5, 7, 8, 9, 10 and 23)</b>					<b>LONG-TERM DEBTS, NET OF CURRENT PORTION</b>				
Financial assets at fair value through profit or loss - noncurrent	-	-	118,550	-	Hedging derivative financial liability - noncurrent (Notes 2, 3 and 23)	47,871	-	-	-
Financial assets measured at cost - noncurrent	1,566,636	2	1,539,979	2	Bonds (Notes 2, 14 and 23)	19,740,000	21	17,588,000	20
Held-to-maturity financial assets - noncurrent	9,617	-	11,169	-	Long-term debts (Notes 2 and 24)	5,051,575	5	702,631	1
Investments accounted for using equity method	1,564,285	1	1,230,328	1	Capital lease obligations (Notes 2, 11 and 14)	7,485,376	8	6,767,247	7
Cash surrender value of life insurance	6,802	-	2,476	-					
Prepayments for long-term investments in stock	187,754	-	45,990	-	Total long-term debts	32,324,822	34	25,057,878	28
Total long-term investments	3,335,094	3	2,948,492	3					
<b>PROPERTIES (Notes 2, 11, 20, 25 and 26)</b>					<b>RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)</b>	479,639	-	479,639	-
Cost									
Land	299,188	-	135,559	-	<b>OTHER LIABILITIES</b>				
Buildings	1,064,971	1	1,018,487	1	Accrued pension liabilities (Notes 2 and 22)	1,139,436	1	976,779	1
Containers and chassis	22,002,717	23	18,336,402	20	Deferred income tax liabilities - noncurrent (Notes 2 and 19)	2,273,429	3	2,289,538	3
Ships	46,019,623	48	33,833,374	38	Others (Notes 2 and 16)	194,074	-	176,941	-
Leased assets	7,985,684	8	8,031,029	9					
Leasehold improvements	232,809	-	222,170	-	Total other liabilities	3,606,939	4	3,443,258	4
Miscellaneous equipment									
	3,191,495	4	3,102,868	4	Total liabilities	52,990,173	55	42,253,852	47
Total cost	80,796,487	84	64,679,889	72					
Accumulated depreciation	27,910,917	29	24,245,791	27	<b>YANG MING'S EQUITY</b>				
	52,885,570	55	40,434,098	45	Capital stock - \$10 par value				
Construction in progress	5,444,416	6	6,258,574	7	Authorized - 2,400,000 thousand shares				
					Issued - 2,289,835 thousand and 2,289,817 thousand shares at				
Net properties	58,329,986	61	46,692,672	52	December 31,				
					2006 and 2005	22,898,344	24	22,898,167	26
<b>OTHER ASSETS</b>					Capital surplus				
Assets leased to others, net (Notes 2 and 12)	2,856,071	3	2,898,864	3	Paid-in capital in excess of par value	7,286,090	8	7,285,865	8
Nonoperating assets, net (Notes 2, 13 and 25)	260,386	-	307,829	-	Treasury stock transactions	1,480,009	1	1,199,572	1
Refundable deposits (Notes 11 and 25)	7,844,391	8	6,968,705	8	From long-term equity-method investment	8,876	-	11,036	-
Deferred charges, net (Note 2)	319,420	1	298,072	-	Total capital surplus	8,774,975	9	8,496,473	9
Advances on long-term rent agreements	297,718	-	309,547	1	Retained earnings				
Miscellaneous (Note 25)	271,712	-	326,466	1	Legal reserve	3,098,505	4	2,172,931	3
					Special reserve	2,074,929	2	1,149,355	1
Total other assets	11,849,698	12	11,109,483	13	Unappropriated earnings	5,954,764	6	12,493,769	14
					Total retained earnings	11,128,198	12	15,816,055	18
<b>TOTAL</b>	<b>\$96,200,194</b>	<b>100</b>	<b>\$89,777,490</b>	<b>100</b>	<b>Other items of stockholders' equity</b>				
					Cumulative translation adjustments	168,626	-	191,616	-
					Net loss not recognized as pension cost	(96,743)	-	(39,630)	-
					Unrealized loss on financial instruments	(35,588)	-	-	-
					Total other items of stockholders' equity	36,295	-	151,986	-
					Treasury stocks - 22,248 thousand shares at December 31, 2005	-	-	(164,701)	-
					Total controlling interest	42,837,812	45	47,197,980	53
					<b>MINORITY INTEREST</b>	372,209	-	325,658	-
					Total stockholders' equity	43,210,021	45	47,523,638	53
					<b>TOTAL</b>	<b>\$96,200,194</b>	<b>100</b>	<b>\$89,777,490</b>	<b>100</b>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 1, 2007)

# YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

## 4.3 CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 24)	\$107,298,983	100	\$97,870,451	100
OPERATING COSTS (Notes 2, 20 and 24)	<u>101,197,275</u>	<u>94</u>	<u>82,247,326</u>	<u>84</u>
GROSS INCOME	<u>6,101,708</u>	<u>6</u>	<u>15,623,125</u>	<u>16</u>
OPERATING EXPENSES (Notes 20 and 24)				
Selling	3,912,632	4	4,282,143	4
General and administrative	<u>754,716</u>	<u>1</u>	<u>766,045</u>	<u>1</u>
Total operating expenses	<u>4,667,348</u>	<u>5</u>	<u>5,048,188</u>	<u>5</u>
OPERATING INCOME	<u>1,434,360</u>	<u>1</u>	<u>10,574,937</u>	<u>11</u>
NONOPERATING INCOME AND GAINS				
Interest	576,047	1	639,336	1
Foreign exchange gain, net	247,102	1	-	-
Investment gain	213,174	-	-	-
Rental	115,468	-	109,758	-
Equity in investees' net income (Notes 2 and 9)	107,056	-	167,614	-
Gain on disposal of properties, net	75,173	-	46,635	-
Valuation gain on financial instruments, net (Note 3)	51,134	-	889,563	1
Others	<u>157,323</u>	<u>-</u>	<u>249,181</u>	<u>-</u>
Total nonoperating income and gains	<u>1,542,477</u>	<u>2</u>	<u>2,102,087</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Interest (Note 11)	1,063,232	1	1,125,067	1
Investment loss	-	-	658,363	1
Foreign exchange loss, net	-	-	426,517	1
Impairment loss on financial assets (Note 3)	10,400	-	124,137	-
Others	<u>223,069</u>	<u>-</u>	<u>176,891</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,296,701</u>	<u>1</u>	<u>2,510,975</u>	<u>3</u>

# YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	\$ 1,680,136	2	\$ 10,166,049	10
INCOME TAX EXPENSE (Notes 2 and 19)	<u>531,653</u>	<u>1</u>	<u>889,879</u>	<u>1</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	1,148,483	1	9,276,170	9
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF INCOME TAX EXPENSE OF \$2,465 THOUSAND (Note 3)	<u>19,519</u>	<u>-</u>	<u>-</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 1,168,002</u>	<u>1</u>	<u>\$ 9,276,170</u>	<u>9</u>
ATTRIBUTABLE TO:				
Controlling interest	\$ 1,143,155	1	\$ 9,262,954	9
Minority interest	<u>24,847</u>	<u>-</u>	<u>13,216</u>	<u>-</u>
	<u>\$ 1,168,002</u>	<u>1</u>	<u>\$ 9,276,170</u>	<u>9</u>
	2006		2005	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
CONSOLIDATED EARNINGS PER SHARE (Note 21)				
Basic	<u>\$ 0.72</u>	<u>\$ 0.50</u>	<u>\$ 4.45</u>	<u>\$ 4.11</u>
Diluted	<u>\$ 0.71</u>	<u>\$ 0.50</u>	<u>\$ 4.39</u>	<u>\$ 4.06</u>

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

(With Deloitte & Touche audit report dated March 1, 2007)

YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

4.4 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	Capital Stock (\$10 Par Value) (Notes 2 and 17)		Capital Surplus (Notes 2 and 17)					Other Items of Stockholders' Equity (Notes 2, 3 and 17)					Total Stockholders' Equity	
			Paid-in Capital in	Treasury	From Long-term	Retained Earnings (Notes 2 and 17)			Cumulative Translation	Net Loss Not Recognized as Pension Cost	Unrealized Gain or Loss on Financial Instruments	Treasury Stocks (Notes 2 and 18)		Minority Interest
						Legal	Special	Unappropriated						
Shares	Amount	Excess of Par Value	Stock Transactions	Equity-method Investment	Legal Reserve	Special Reserve	Earnings	Adjustments						
BALANCE, JANUARY 1, 2005	2,268,755	\$22,687,545	\$6,986,846	\$ 915,830	\$ 5,816	\$1,193,205	\$1,141,939	\$11,155,161	\$ 28,301	\$(35,717)	\$ (1)	\$(241,357)	\$ -	\$43,837,568
Effect of changes in consolidated entities since 2005	-	-	-	-	-	-	-	-	-	-	-	-	322,733	322,733
Acquisition of capital stock from minority interest in 2005	-	-	-	-	-	-	-	-	-	-	-	-	(1,574)	(1,574)
Appropriation of 2004 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	979,726	-	(979,726)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	7,416	(7,416)	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(101,680)	-	-	-	-	-	(101,680)
Cash dividends - \$2.98203 per share	-	-	-	-	-	-	-	(6,828,310)	-	-	-	-	-	(6,828,310)
Cash dividends received by subsidiaries	-	-	-	139,909	-	-	-	-	-	-	-	-	-	139,909
Disposal of the Corporation's stocks held by subsidiaries	-	-	-	143,833	-	-	-	-	-	-	-	76,656	-	220,489
Consolidated net income in 2005	-	-	-	-	-	-	-	9,262,954	-	-	-	-	13,216	9,276,170
Reversal of unrealized loss on long-term investments accounted for using equity method	-	-	-	-	-	-	-	-	-	-	1	-	-	1
Translation adjustments on long-term investments accounted for using equity method	-	-	-	-	-	-	-	-	163,315	-	-	-	-	163,315
Increase in the equity in the net assets of equity-method investees resulting from not subscribing proportionally to the additional shares issued by the investees	-	-	-	-	5,220	-	-	(7,214)	-	-	-	-	-	(1,994)
Equity-method investees' loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	4,551	-	-	-	4,551
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	(8,464)	-	-	-	(8,464)
Domestic convertible bonds converted into certificates of capital stock and capital surplus	21,062	210,622	299,019	-	-	-	-	-	-	-	-	-	-	509,641
Cash dividends received by minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(8,717)	(8,717)
BALANCE, DECEMBER 31, 2005	2,289,817	\$22,898,167	\$7,285,865	\$1,199,572	\$ 11,036	\$2,172,931	\$1,149,355	\$12,493,769	\$191,616	\$(39,630)	-	\$(164,701)	\$325,658	\$47,523,638
Adjustment of adopting newly announced and revised statements of financial accounting standards	-	-	-	-	-	-	-	-	1,073	-	(32,559)	-	-	(31,486)
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	20,204	20,204
Appropriation of 2005 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	925,574	-	(925,574)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	925,574	(925,574)	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(106,426)	-	-	-	-	-	(106,426)
Cash dividends - \$2.5 per share	-	-	-	-	-	-	-	(5,724,586)	-	-	-	-	-	(5,724,586)
Disposal of the Corporation's stocks held by subsidiaries	-	-	-	280,437	-	-	-	-	-	-	-	164,701	-	445,138
Consolidated net income in 2006	-	-	-	-	-	-	-	1,143,155	-	-	-	-	24,847	1,168,002
Increase in the equity in the net assets of equity-method investees resulting from not subscribing proportionally to the additional shares issued by the investees	-	-	-	-	27,787	-	-	-	-	-	-	-	-	27,787
Changes in stockholders' equity accounted for using equity method	-	-	-	-	(29,947)	-	-	-	-	716	4	-	-	(29,227)
Translation adjustments on long-term investments accounted for using equity method	-	-	-	-	-	-	-	-	(24,063)	-	-	-	6,341	(17,722)
Changes in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	311	-	-	311
Changes in unrealized loss on cash flow hedging derivative	-	-	-	-	-	-	-	-	-	-	(3,344)	-	-	(3,344)
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	(57,829)	-	-	-	(57,829)
Cash dividends received by minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(4,841)	(4,841)
Domestic convertible bonds converted into capital stocks and capital surplus	18	177	225	-	-	-	-	-	-	-	-	-	-	402
BALANCE, DECEMBER 31, 2006	<u>2,289,835</u>	<u>\$22,898,344</u>	<u>\$7,286,090</u>	<u>\$1,480,009</u>	<u>\$ 8,876</u>	<u>\$3,098,505</u>	<u>\$2,074,929</u>	<u>\$5,954,764</u>	<u>\$168,626</u>	<u>\$(96,743)</u>	<u>\$(35,588)</u>	<u>\$ -</u>	<u>\$372,209</u>	<u>\$43,210,021</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 1, 2007)



# YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

## 4.5 CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 1,168,002	\$ 9,276,170
Cumulative effect of changes in accounting principles	<u>(19,519)</u>	<u>-</u>
Income before cumulative effect of changes in accounting principles	1,148,483	9,276,170
Depreciation	4,564,050	4,204,026
Amortization	209,190	168,246
Provision for pension cost	113,352	137,468
Investment (gain) loss	(156,578)	695,238
Gain on disposal of properties, net	(75,173)	(46,635)
Equity in net income of equity method investees, net	(107,056)	(167,614)
Cash dividends received on equity-method investments	18,648	52,070
Deferred income taxes	43,099	428,149
Valuation (gain) loss on financial instruments	(51,134)	(889,563)
Impairment loss on financial assets	10,400	124,137
Others	(10,314)	25,446
Net changes in operating assets and liabilities		
Financial assets held for trading	716,976	30,285
Notes receivable	22,153	(33,092)
Accounts receivable	(393,625)	(3,411,509)
Accounts receivable from related parties	(108,196)	1,279,524
Other receivables from related parties	3,268	362,163
Shipping fuel	(173,576)	(1,021,141)
Prepaid expenses	115,509	(312,015)
Advances to shipping agents	28,995	43,431
Other current assets	34,608	211,608
Notes payable	3,049	18,078
Payables to related parties	(26,751)	(1,002,942)
Income tax payable	223,671	(1,038,056)
Accrued expenses	459,190	3,236,389
Advances from customers	80,487	337,529
Payables to shipping agents	(1,734,167)	496,302
Other current liabilities	(72,606)	(693,269)
Advances on long-term rent agreements	<u>11,829</u>	<u>11,829</u>
Net cash provided by operating activities	<u>4,897,781</u>	<u>12,522,252</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through profit or loss	(32,600)	(378,500)
Proceeds from disposal of financial assets at fair value through profit or loss	465,547	166,310
Acquisition of available-for-sale financial assets	(36,892,141)	(29,701,795)
Proceeds from disposal of available-for-sale financial assets	37,061,228	37,882,848
Proceeds from disposal of held-to-maturity financial assets	33,981	-
Acquisition of investments accounted for using equity method	(198,756)	(556,651)
Acquisition of financial assets measured at cost	(51,278)	-

# YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
Proceeds from disposal of financial assets measured at cost	\$ 11,700	\$ 67,661
Increase in prepayment for long-term investment in stock	(187,306)	(45,990)
Acquisition of properties and assets leased to others	(15,290,980)	(8,491,282)
Proceeds from disposal of properties and nonoperating assets	77,019	74,359
Increase in cash surrender value of life insurance	(4,326)	-
Increase in deferred charges	(231,183)	(260,668)
Decrease in refundable deposits	5,591	-
Decrease (increase) in restricted assets	(59,046)	14,184
Decrease (increase) in other assets	<u>(16,789)</u>	<u>107,857</u>
Net cash used in investing activities	<u>(15,309,339)</u>	<u>(1,121,667)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term debts	76,561	3,431
Proceeds from issuance of bonds	6,000,000	-
Repayment of principal of bonds	(678,681)	(396,000)
Proceeds from long-term borrowing	5,730,904	-
Repayments of principal of long-term borrowing	(1,007,255)	(2,731,587)
Payment of capital lease obligations	(216,332)	(940,340)
Increase (decrease) in other liabilities	19,552	(109,064)
Increase (decrease) in minority interest	17,515	(1,574)
Increase in guarantee deposits	6,511	-
Cash dividend and employees' bonus paid by YMTC	(5,830,995)	(6,930,978)
Cash dividend paid to minority interest	<u>(4,841)</u>	<u>(8,717)</u>
Net cash provided by (used in) financing activities	<u>4,112,939</u>	<u>(11,114,829)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(33,253)</u>	<u>178,784</u>
EFFECT OF FIRST TIME CONSOLIDATION OF CERTAIN SUBSIDIARIES	<u>-</u>	<u>1,215,169</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,331,872)	1,679,709
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,486,376</u>	<u>10,806,667</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,154,504</u>	<u>\$12,486,376</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ 1,379,993</u>	<u>\$ 940,685</u>
Income tax paid	<u>\$ 365,439</u>	<u>\$ 1,604,096</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Reclassification of nonoperating assets into assets leased to others	<u>\$ 47,443</u>	<u>\$ -</u>

# YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

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	2006	2005
Reclassification of assets leased to others into properties	\$ 71,065	\$ -
Reclassification of properties into assets leased to others	\$ -	\$ 89,123
Current portion of interest-bearing long-term debts	\$ 5,252,503	\$ 1,825,312
Domestic unsecured convertible bonds converted into capital stock and capital surplus	\$ 402	\$ 509,641
<b>CASH PAID FOR ACQUISITION OF PROPERTIES AND ASSET LEASED TO OTHERS</b>		
Increase in properties and assets leased to others	\$16,160,034	\$ 8,547,016
Increase in payables for equipment	<u>(869,054)</u>	<u>(55,734)</u>
	<u>\$15,290,980</u>	<u>\$ 8,491,282</u>
<b>PROCEEDS FROM SALE OF PROPERTIES</b>		
Total contracted selling prices	\$ 77,019	\$ 79,262
Decrease in other receivables	-	27,531
Decrease in refundable deposit	<u>-</u>	<u>(32,434)</u>
	<u>\$ 77,019</u>	<u>\$ 74,359</u>

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

(With Deloitte & Touche audit report dated March 1, 2007)