

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 AND 2003

AND

INDEPENDENT AUDITORS' REPORT

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Shih Wei Navigation Co., Ltd. and subsidiaries as of June 30, 2004 and 2003, and the related statements of income, changes in stockholders equity, and cash flows for the half-years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shih Wei Navigation Co., Ltd. and subsidiaries as of June 30, 2004 and 2003, and the results of their operations and their cash flows for the half-years then ended, in conformity with Republic of China generally accepted accounting principles and the Regulations Governing Financial Reporting for Entities which Publicly Issue Stock Certificates.

August 16, 2004
Taipei, Taiwan, R.O.C.

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2004 AND 2003
(amounts expressed in thousands of New Taiwan dollars)

	June 30,			
	2004		2003	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 4(1))	\$ 172,766	2	105,677	2
Shot-term investment	2,100	-	-	-
Notes receivable	-	-	4,250	-
Accounts receivable, net	62,867	1	148,861	2
Accounts receivable—related party (Note 5)	2,719	-	-	-
Other financial assets—current (Notes 4(4) · 7 · 10)	131,504	2	62,443	1
Inventories	53,277	1	10,672	-
Deferred income tax asset (Note 4(11))	3,558	-	-	-
Restricted assets (Note 6)	26,657	-	41,985	1
Other current assets	31,320	-	13,215	-
	<u>486,768</u>	<u>6</u>	<u>387,103</u>	<u>6</u>
LONG-TERM EQUITY INVESTMENTS (Note 4(2))				
Long-term investment—equity method	99,210	2	25,286	1
Long-term investment—cost method	36,759	-	24,477	-
	<u>135,969</u>	<u>2</u>	<u>49,763</u>	<u>1</u>
PROPERTY AND EQUIPMENT (Notes 4(3) and 6)				
Land	79,937	1	79,937	1
Buildings and structures	29,572	-	26,905	-
Transportation equipment	2,260	-	2,260	-
Vessel equipment	8,111,955	105	6,966,007	104
Office furniture and equipment	2,902	-	1,623	-
Leasehold improvements	12,896	-	13,443	-
Prepayments for business facilities	137,443	2	160,271	2
Other equipment	35,489	-	15,046	-
Less: Accumulated depreciation	(1,710,791)	(22)	(1,375,628)	(20)
	<u>6,701,663</u>	<u>86</u>	<u>5,889,864</u>	<u>87</u>
INTANGIBLE ASSETS				
Deferred pension cost	3,346	-	3,515	-
OTHER ASSETS				
Deposits-out (Note 7)	355,842	5	344,460	5
Deferred charges	82,912	1	44,235	1
Long-term accounts receivable, net (Note 4(4))	-	-	17,278	-
	<u>438,754</u>	<u>6</u>	<u>405,973</u>	<u>6</u>
TOTAL ASSETS	<u>\$ 7,766,500</u>	<u>100</u>	<u>6,736,218</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 4(5))	\$ 254,681	3	382,129	6
Notes payable	-	-	814	-
Accounts payable	94,884	1	117,071	1
Accrued tax payable (Note 11)	27,483	1	14,088	-
Accrued expenses	88,163	1	104,442	2
Current portion of long-term liabilities (Note 4(7))	509,537	7	407,162	6
Deferred income tax liabilities (Note 4(11))	-	-	365	-
Other current liabilities	150,611	2	53,383	1
	<u>1,125,359</u>	<u>15</u>	<u>1,079,454</u>	<u>16</u>
LONG-TERM LIABILITIES				
Corporate bonds payable (Note 4(8))	103,083	1	-	-
Long-term loans (Note 4(7))	3,742,226	48	3,312,075	49
	<u>3,845,309</u>	<u>49</u>	<u>3,312,075</u>	<u>49</u>
OTHER LIABILITIES				
Accrued pension liability	11,671	-	11,644	-
Deposits-in	175	-	3,584	-
Unrealized gain on sale and leaseback (Note 4(3))	291	-	1,341	-
	<u>12,137</u>	<u>-</u>	<u>16,569</u>	<u>-</u>
Total Liabilities	<u>4,982,805</u>	<u>64</u>	<u>4,408,098</u>	<u>65</u>
STOCKHOLDERS' EQUITY				
Capital stock				
Common stock (Note 4(9))	1,625,515	21	1,525,770	23
Stock dividend to be distributed (Note 4(10))	308,000	4	15,258	-
Capital surplus				
Premium on stock issuance	255,902	3	402,299	6
Additional paid-in capital—corporate bonds conversion	44,679	1	-	-
Retained earnings (Note 4(10))				
Legal reserve	67,664	1	44,577	1
Unappropriated earnings	319,724	4	123,518	2
Cumulative translation adjustment	164,534	2	216,698	3
Unrecognized pension loss	(2,323)	-	-	-
Total Stockholders' Equity	<u>2,783,695</u>	<u>36</u>	<u>2,328,120</u>	<u>35</u>
COMMITMENTS AND CONTINGENCIES (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 7,766,500</u>	<u>100</u>	<u>6,736,218</u>	<u>100</u>

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE HALF-YEARS ENDED JUNE 30, 2004 AND 2003
(amounts expressed in thousands of New Taiwan dollars)

	January 1~ June 30,			
	2004		2003	
	Amount	%	Amount	%
Operating revenue, net	\$ 1,162,395	100	1,066,407	100
Operating costs	834,392	72	916,981	86
Operating gross profit	328,003	28	149,426	14
Operating expenses	50,547	4	53,488	5
Operating income	277,456	24	95,938	9
Nonoperating income				
Interest income	4,057	-	4,146	1
Investment gain—equity method (Note 4(2))	2,830	-	-	-
Cash dividends	14,901	1	1,801	-
Gain on disposal of assets	142	-	275	-
Gain on sale of investments	142	-	-	-
Foreign exchange gain	8,239	1	22,119	2
Other income	69,623	6	12,538	1
	99,934	8	40,879	4
Nonoperating expenses				
Interest expense	57,888	5	59,655	6
Investment loss—equity method (Note 4(2))	-	-	58	-
Loss on disposal of property and equipment	-	-	6	-
Loss on inventory valuation and obsolescence	-	-	365	-
Other expenses	813	-	3,452	-
	58,701	5	63,536	6
Income before income tax	318,689	27	73,281	7
Income tax expense (Note 4(11))	(20,042)	(2)	(6,204)	(1)
Net income	\$ 298,647	25	67,077	6
	Before tax	After tax	Before tax	After tax
Earnings per share in New Taiwan dollars (Note 4(12))				
-Primary earnings per share, current period	\$ 2.05	1.92	0.48	0.44
-Primary earnings per share, retroactively adjusted	\$ 1.73	1.62	0.40	0.37
-Diluted earnings per share, current period	\$ 1.99	1.86	0.48	0.44
-Diluted earnings per share, retroactively adjusted	\$ 1.67	1.56	0.40	0.37

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE HALF-YEARS ENDED JUNE 30, 2004 AND 2003
(amounts expressed in thousands of New Taiwan dollars)

	Capital stock	Stock dividend to be distributed	Capital surplus	Retained earnings		Unrecognized Pension loss	Cumulative translation adjustment	Total
				Legal reserve	Unappropriated earnings			
January 1 ~ June 30, 2003								
Balance, January 1, 2003	\$ 1,525,770	-	402,299	34,665	101,118	-	226,042	2,289,894
Appropriation of 2002 earnings:								
Legal reserve	-	-	-	9,912	(9,912)	-	-	-
Capitalization of retained earnings	-	15,258	-	-	(15,258)	-	-	-
Cash dividends	-	-	-	-	(15,257)	-	-	(15,257)
Employee bonuses	-	-	-	-	(3,000)	-	-	(3,000)
Compensation to directors and supervisors	-	-	-	-	(1,250)	-	-	(1,250)
Net income for January 1~June 30, 2003	-	-	-	-	67,077	-	-	67,077
Cumulative translation adjustment	-	-	-	-	-	-	(9,344)	(9,344)
Balance, June 30, 2003	<u>\$ 1,525,770</u>	<u>15,258</u>	<u>402,299</u>	<u>44,577</u>	<u>123,518</u>	<u>-</u>	<u>216,698</u>	<u>2,328,120</u>
January 1 ~ June 30, 2004								
Balance, January 1, 2004	\$ 1,541,028	-	402,299	44,577	287,318	(2,323)	174,377	2,447,276
Appropriation of 2003 earnings:								
Legal reserve	-	-	-	23,087	(23,087)	-	-	-
Capitalization of retained earnings	-	154,103	-	-	(154,103)	-	-	-
Cash dividends	-	-	-	-	(77,051)	-	-	(77,051)
Capitalization of employee bonuses	-	7,500	-	-	(7,500)	-	-	-
Compensation to directors and supervisors	-	-	-	-	(4,500)	-	-	(4,500)
Capitalization of capital surplus	-	146,397	(146,397)	-	-	-	-	-
Converted corporate bonds payable	84,487	-	44,679	-	-	-	-	129,166
Net income for January 1~June 30, 2004	-	-	-	-	298,647	-	-	298,647
Cumulative translation adjustment	-	-	-	-	-	-	(9,843)	(9,843)
Balance, June 30, 2004	<u>\$ 1,625,515</u>	<u>308,000</u>	<u>300,581</u>	<u>67,664</u>	<u>319,724</u>	<u>(2,323)</u>	<u>164,534</u>	<u>2,783,695</u>

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE HALF-YEARS ENDED JUNE 30, 2004 AND 2003
(amounts expressed in thousands of New Taiwan dollars)

	January 1 ~ June 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 298,647	67,077
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization	21,534	19,519
Depreciation	193,545	170,188
Investment gain(loss)-equity method	(2,830)	58
Gain on sale of investments	(142)	-
Gain on disposal of assets, net	(142)	(269)
Interest-premium payable	2,250	-
Change in assets and liabilities:		
Notes and accounts receivable, net	17,946	(62,240)
Accounts receivable — related party	2,735	-
Other financial assets — current	(21,487)	15,934
Inventories	(1,605)	5,174
Deferred income tax asset	(1,970)	-
Other current assets	3,593	(1,542)
Notes payable	(8,431)	(6,594)
Accounts payable	2,276	(39,159)
Accrued expenses	(8,115)	(15,290)
Accrued tax payable	6,888	8,298
Other current liabilities	8,992	3,086
Deferred income tax liabilities	-	(2,136)
Accrued pension liability	(2,982)	901
Net cash provided by operating activities	<u>510,702</u>	<u>163,005</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(581,973)	(273,544)
Proceeds from sales of property and equipment	-	193,149
Purchases of short-term investment	(225,000)	-
Proceeds from sales of short-term investments	225,148	-
Proceeds from sales of deferred charges	662	1,227
Increase in long-term investments	(8,547)	(7,678)
Decrease (increase) in deposits-out	24,883	(88,446)
Increase in deferred charges	(49,275)	(13,072)
Decrease in restricted assets	10,600	104,763
Increase in long-term accounts receivable	-	(17,355)
Net cash provided by (used in) investing activities	<u>(603,502)</u>	<u>(100,956)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) increase in short-term loans	(102,766)	27,434
Increase (decrease) in long-term loans	86,120	(46,849)
Raising for corporate bonds payable	230,000	-
Decrease in deposits-in	(4)	(111)
Net cash provided by (used in) financing activities	<u>213,350</u>	<u>(19,526)</u>
EXCHANGE RATE EFFECT		
Net increase in cash and cash equivalents	3,951	(191)
Cash and cash equivalents, beginning of period	124,501	42,332
Cash and cash equivalents, end of period	48,265	63,345
	<u>\$ 172,766</u>	<u>105,677</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest (excluding capitalized interest)	<u>\$ 62,537</u>	<u>82,729</u>
Cash paid during the period for income tax	<u>\$ 15,124</u>	<u>42</u>
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:		
Transferred of restricted assets to short-term investments	<u>\$ 2,100</u>	<u>-</u>
Converted corporated bonds payable to common stock	<u>\$ 129,166</u>	<u>-</u>
Reclassification of long-term loans due in one year	<u>\$ 509,537</u>	<u>407,162</u>
Payable for compensation to directors and supervisors	<u>\$ 4,500</u>	<u>1,250</u>
Employee bonuses payable	<u>\$ -</u>	<u>3,000</u>
Dividends payable	<u>\$ 77,051</u>	<u>15,257</u>

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

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

June 30, 2004 AND 2003

(amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

SHIH WEI NAVIGATION CO., LTD. (the Company) was established in March 1985 in accordance with the Company Law of the Republic of China. The Company's stock was listed on the securities exchange of the Taiwan Stock Exchange Corporation on August 25, 2003. In July 1994, the Company invested in a wholly owned (100%) subsidiary, DONG LIEN MARITIME S.A. (PANAMA), which reinvested in 100% ownership of FOURSEAS MARITIME S.A. (PANAMA), ELEGANT PESCADORES S.A. (PANAMA), BRAVE PESCADORES S.A. (PANAMA), GRAND OCEAN NAVIGATION S.A. (PANAMA), JACKSON STEAMSHIP S.A. (PANAMA), BRILLIANT PESCADORES S.A. (PANAMA), BLOSSOM PESCADORES S.A. (PANAMA), ROYAL PESCADORES S.A. (PANAMA), SHINING PESCADORES S.A. (PANAMA), SUNNY PESCADORES S.A. (PANAMA), GENIUS PESCADORES S.A. (PANAMA), GALLANT PESCADORES S.A. (PANAMA), GRAND PESCADORES S.A. (PANAMA), MOON BRIGHT SHIPPING CORP. (PANAMA), EXCELLENT PESCADORES S.A. (PANAMA), HONOR PESCADORES S.A. (PANAMA), BRIGHT PESCADORES S.A. (PANAMA), SUPERIOR PESCADORES S.A. (PANAMA), GRAND OVERSEAS S.A. (PANAMA), UNICORN BRILLIANT S.A. (PANAMA) and VALOR PESCADORES S.A. (PANAMA). As of June 30, 2004, the Company and its subsidiaries owned twenty one vessels: Trump, Babbitonga, Paragon, Best, Elegant, Blossom, Royal, Brave, Shining, Grand, Gallant, Federal, Scan Bulker, Advance, Oceanic, Buenos Aires, Excellent, Honor, Bright, Grand overseas and Unicorn.

The Company and its subsidiaries' main business scope includes:

- (1) Category A shipping agency business.
- (2) Sea transportation and related businesses.
- (3) Agency for the purchase, sale and lease of vessels.
- (4) Other trading and agency businesses related to shipping vessels' parts.
- (5) Unrestricted or unlimited businesses, including those permitted by law.

The parent company: None.

As of June 30, 2004, the number of employees was 592.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with the "Standards Governing the Compilation of Financial Statements of Securities Issuers" and generally accepted accounting principles of the Republic of China. A summary of significant accounting policies and measurement basis were as follows:

(1) Principles of consolidation

(i) The subsidiaries that have been consolidated in the financial statements are as follows:

Name of subsidiary company	Date established	Relationship with the Company	Main business	The Company's ownership as of June 30, 2004
DONG LIEN MARITIME S.A. (PANAMA)	Sep. 28, 1979	The Company's subsidiary	International sea transportation and shipping agent-related businesses	Direct ownership of 100%
GRAND OCEAN NAVIGATION S.A. (PANAMA)	Oct. 21, 1991	Investee company of the Company's subsidiary	"	Direct ownership of 100% by the Company's subsidiary
FOURSEAS MARITIME S.A. (PANAMA)	Oct. 31, 1991	"	"	"
ELEGANT PESCADORES S.A. (PANAMA)	Oct. 07, 1993	"	"	"
BRAVE PESCADORES S.A. (PANAMA)	Dec. 12, 1993	"	"	"
JACKSON STEAMSHIP S.A. (PANAMA)	Oct. 12, 1990	"	"	"
BRILLIANT PESCADORES S.A. (PANAMA)	Dec. 22, 1993	"	"	"
BLOSSOM PESCADORES S.A. (PANAMA)	May 09, 1996	"	"	"
ROYAL PESCADORES S.A. (PANAMA)	Nov. 30, 1995	"	"	"
GENIUS PESCADORES S.A. (PANAMA)	Aug. 20, 1993	"	"	"
MOON BRIGHT SHIPPING CORP. (PANAMA)	Dec. 03, 1992	"	"	"
GALLANT PESCADORES S.A. (PANAMA)	Oct. 02, 1996	"	"	"
SUNNY PESCADORES S.A. (PANAMA)	Jul. 09, 1993	"	"	"
GRAND PESCADORES S.A. (PANAMA)	Jun. 04, 1997	"	"	"
SHINING PESCADORES S.A. (PANAMA)	Oct. 21, 1993	"	"	"
EXCELLENT PESCADORES S.A. (PANAMA)	Nov. 05, 2002	"	"	"
HONOR PESCADORES S.A. (PANAMA)	May. 20, 2003	"	"	"
BRIGHT PESCADORES S.A. (PANAMA)	May. 20, 2003	"	"	"
SUPERIOR PESCADORES S.A. (PANAMA)	Nov. 21, 2003	"	"	"
GRAND OVERSEAS S.A. (PANAMA)	Jan. 08, 2004	"	"	"
UNICORN BRILLIANT S.A. (PANAMA)	Jan. 02, 2004	"	"	"
VALOR PESCADORES S.A. (PANAMA)	Apr. 08, 2004	"	"	"

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

For purposes of preparing the consolidated financial statements, the debt, obligations and inter-company transactions between the Company and its subsidiaries have been eliminated.

The balance sheet accounts of the financial statements of foreign subsidiaries are translated at year-end exchange rates, and the income statement items are translated at weighted-average exchange rates prevailing during the year. Retained earnings at the beginning of the year are translated at the prior year's year-end exchange rate, whereas the remaining stockholders' equity accounts are translated at historical rates. The resulting translation adjustment is charged to the cumulative translation adjustment account in stockholders' equity.

- (ii) Change in subsidiary's investments: The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) invested in GRAND OVERSEAS S.A. (PANAMA) and UNICORN BRILLIANT S.A. (PANAMA) and VALOR PESCADORES S.A. (PANAMA) during 2004, and the subsidiary company has a 100% shareholding.
- (iii) Related information on the subsidiaries that are not included in the consolidated financial statements: None.
- (iv) Subsidiary's accounting year-end differs from the Company's: None.
- (v) Subsidiary's accounting policies and controlling companies differ from the Company's: None.
- (vi) Special operating risk of foreign subsidiaries: None.
- (vii) Legal or contract restrictions on distribution of earnings of the subsidiaries: None.
- (viii) Method and duration of amortization of consolidated debit or credit: None.

(2) Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, checking accounts, time deposits rescindable anytime, certificates of deposits, and cash equivalents. Cash equivalents are short-term investments which could be converted to cash anytime and which do not have a significant level of market risk related to potential interest rate changes, and include treasury bills, commercial paper, and banker's acceptances with maturities of three months or less at the date of purchase.

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

(3) Short-term investments

Short-term investments in marketable securities are stated at cost upon purchase. The cost of securities sold is calculated based on the moving weighted-average cost and valued at the lower of cost or market at year-end. The market value of short-term investments is determined based upon the average closing price for the last month of the accounting year, but for open-end funds, the market value refers to the net asset value of the fund on the balance sheet date.

(4) Allowance for doubtful accounts

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

(5) Inventories

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

(6) Long-term equity investments

Noncontrolling interests in investee companies are recorded at cost. Stock dividends from capitalization of retained earnings or capital reserve are not recognized as income, but the increase in the number of shares is noted, and the cost per share is recalculated. If the investee is a listed company, the lower-of-cost-or-market method of valuation is used. If the market value is lower than cost, then an allowance for loss on market decline is provided. If the investee is a nonlisted company, should the estimated recovery value decline below the cost and the probability of loss recovery be minimal, the investment loss is recognized currently.

Investments in investee companies in which the Company can exercise significant influence are accounted for by using the equity method. The related investment premium is amortized equally over 5 years.

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

Long-term equity investments in which the Company has a controlling interest are accounted for by using the equity method, and consolidated financial statements are prepared. Should the subsidiary meet one of the conditions set forth below, however, its accounts would not be consolidated:

- a. The business nature of the subsidiary is different from that of the Company; hence, consolidation is not appropriate;
- b. The subsidiary has declared insolvency, or has been ordered by the court to undertake reorganization;
- c. The subsidiary is prohibited from remitting dividends to the Company due to foreign exchange control exercised by the country in which the subsidiary engages in business;
- d. The subsidiary reports a negative net worth; however, should the Company provide guarantees or have a financial undertaking on the debt obligations of the subsidiary, or should the loss suffered by the subsidiary be of a temporary nature and there be sufficient evidence indicating that the subsidiary will become profitable in the near future, then the accounts of the subsidiary would be consolidated;
- e. Total assets and sales of the subsidiary are less than 10% of the Company's respective accounts; and total assets or total operating revenues of all such subsidiaries do not reach 30% of the Company's respective accounts.

The balance sheet accounts of the financial statements of foreign subsidiaries are translated at year-end exchange rates, and the income statement items are translated at weighted-average exchange rates prevailing during the year. Retained earnings at the beginning of the period are carried at the translated amount of the prior year, whereas the remaining stockholders' equity accounts are translated at historical rates. The resulting translation adjustment is charged to the cumulative translation adjustment account in stockholders' equity.

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

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

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

Except for those vessels approved by the competent authority-in-charge which are depreciated using the accelerated or reduced depreciation method and in accordance with the 20-year service lives of vessels and equipment approved by the Navigation & Aviation Authorities, fixed assets are depreciated using the straight-line method over the following government-prescribed useful lives.

Buildings and structures	50 years
Transportation equipment	5 years
Vessel equipment	8 to 25 years
Office furniture and equipment	5 to 9 years
Leasehold improvement	5 years
Other equipment	3 to 5 years

For fixed assets still in use beyond their service lives, their related salvage values can continue to be depreciated over their estimated remaining service lives. Gain or loss on disposal of property and equipment is recorded as nonoperating income or expense.

(8) Financial instruments (including derivative financial instruments)

Financial instruments and nonfinancial instruments used in other transactions are recorded at their fair values on the balance sheets. Fluctuations in fair value, regardless of whether or not realized, are recorded as transaction gain or loss when they occur. The interest income or interest expense resulting from financial instruments held for trading purposes is recorded as interest income or interest expense when it occurs, and not recorded as transaction gain or loss.

If the derivative financial instruments are to hedge against the risks from current assets or liabilities, the gains or losses are recorded as current income or losses and charged to current assets or liabilities. If the derivative financial instruments are to hedge against risks from fluctuations in exchange rates which affect foreign currency commitments and expedited transactions which will be executed in a foreign currency, the gains or losses are deferred till the hedged-against trading proceeds are charged to the price of the transaction. The gains or losses arising before contract maturity are deferred and amortized to current income or losses over the remaining periods.

(9) Deferred charges

Deferred charges consist of unamortized major renovation costs and computer software acquisition costs of vessel equipment stated at cost, and are amortized using the straight-line method over a period of two to five years.

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

(10) Foreign currency transactions

Foreign currency transactions are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from settlement of foreign currency assets and liabilities are credited or charged to income. At year-end, the balances of foreign currency assets and liabilities are restated based on year-end exchange rates, and resulting exchange gains or losses are credited or charged to current income.

(11) Income tax

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 22, "Accounting for Income Taxes", to recognize inter-period tax allocations; to recognize deferred income tax liabilities on future taxable temporary differences; and to recognize deferred income tax assets on future deductible temporary differences, prior year loss carryforwards, and investment tax credits. The future reliability of deferred income tax assets is assessed, and a valuation account, if needed, is provided accordingly.

Effective from the implementation of the imputation tax system in 1998, after-tax net earnings shall be distributed according to the resolution of the stockholders' annual meeting in the following year. The undistributed earnings shall be subject to a 10% surtax and recorded as income tax expense during the year such stockholders' resolution is passed.

(12) Employee pension plan

In 1992, the Company established an Employee Retirement Fund Committee and approved an employee pension plan. Effective November 1992, in accordance with the Ministry of the Interior's "Regulations on Employee Retirement Fund Provision and Administration", the Company made monthly pension contributions at 2% of total monthly employee gross salaries. This contribution rate was revised to 4.3% commencing April 1997 and deposited into a designated account with the Central Trust of China. Upon employee retirement, payment is first disbursed from pension reserve, and the remainder is expensed currently.

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

Effective December 31, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pensions", and computed unrecognized transitional net assets or net benefit obligations. Effective from 1996, in accordance with the SFC requirements dated January 20, 1995 (MOF Ruling Letter No. (6) 00142), unrecognized transitional net assets or net benefit obligations are amortized over the average remaining service lives of qualified employees (if less than 15 years, then 15 years is used) and recorded as net pension cost.

The net pension cost recognized for each period comprised the following:

- a. Service cost
- b. Interest cost
- c. Expected return on pension fund assets
- d. Amortization of unrecognized prior period service cost
- e. Amortization of unrecognized pension gain (loss)
- f. Amortization of unrecognized transitional net assets or net benefit obligation
- g. Gain and losses from liquidation

The excess of net pension cost over pension fund contribution is recorded as "accrued pension liability", and the excess of pension fund contribution over net pension cost is recorded as "prepaid pension cost". The minimum pension liability is the accrued pension liability recognized in the balance sheet.

(13) Corporate bonds payable

The capital stock account is credited for the par value of the Company's common shares, which the bonds are converted into, and the excess of the carrying value of the bonds and other assets and liabilities related to such convertible bonds as of the date of their conversion over the amounts credited into the capital surplus account.

(14) Revenue recognition

Revenue is generally recognized when the process of gain has been substantially accomplished and realized or is realizable. Revenues are realizable when realized or realizable and earned. The relevant cost also be recognizes cost and expense when the revenue is recognized.

3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES: None.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	June 30,	
	2004	2003
Cash on hand	\$ 284	77
Petty cash	9,469	6,521
Bank deposits		
Checking accounts	2,104	49,592
Savings accounts	31,309	212
Foreign currency deposits	129,600	49,275
Total	\$ 172,766	105,677

(2) Long-term equity investments

	Share	Amount	Ownership
June 30, 2004			
Under the Equity Method			
EUROASIA II INC., PANAMA (original investment cost US\$1,354,868 NT\$45,659 thousands)	45	\$ 48,451	45%
EUROASIA III INC., PANAMA (original investment cost US\$1,510,116 NT\$50,891 thousands)	45	50,759	45%
Subtotal		99,210	
Under the Cost Method			
K / S DANRED I (original investment cost US\$518,545 NT\$16,721 thousands)	13	16,721	13%
ETERNAL PESCADORES S.A. (PANAMA) (original investment cost US\$459,390 NT\$15,481 thousands)	19	15,481	19%
HORMONY SUCCESS S.A. (PANAMA) (original investment cost US\$135,207 NT\$4,557 thousands)	19	4,557	19%
Subtotal		36,759	
Total		\$ 135,969	

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

June 30, 2003	Share	Amount	Ownership
<u>Under the Equity Method</u>			
EUROASIA II INC., PANAMA (original investment cost US\$366,740 NT\$12,673 thousands)	45	\$ 12,643	45%
EUROASIA III INC., PANAMA (original investment cost US\$366,703 NT\$12,671 thousands)	45	12,643	45%
Subtotal		<u>25,286</u>	
<u>Under the Cost Method</u>			
K / S DANRED I (original investment cost US\$518,545 NT\$16,721 thousands)	13	16,721	13%
ETERNAL PESCADORES S.A. (PANAMA) (original investment cost US\$159,461 NT\$5,510 thousands)	19	5,510	19%
HARMONY SUCCESS S.A. (PANAMA) (original investment cost US\$ 65,002 NT\$ 2,246 thousands)	19	2,246	19%
Subtotal		<u>24,477</u>	
Total		<u>\$ 49,763</u>	

a. The Company invested in EUROASIA II INC., PANAMA and EUROASIA III INC., PANAMA in 2002. The companies were established for purposes of owning newly built vessels – Hull No. 10359 and Hull No. 10369. The payments for the vessels' construction and related expenses were made in installments according to the shareholding percentages of both investee companies. The Company had a 45% shareholding of both investee companies. In April 2003, the Company sold the 45% shareholding of both investee companies to the Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), at book value; there was no gain or loss on the sale. As of June 30, 2004, the Company's subsidiary had paid NT\$45,659 thousands (US\$1,354,868) and NT\$50,891 thousands (US\$1,510,116), respectively, for each of the investee companies. Investment gain or loss recognized for the first half of 2004 and 2003 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors are detailed below:

<u>Investee company</u>	<u>Investment (loss) gain</u>		<u>Cumulative translation adjustment</u>	
	<u>January 1~ June 30,</u>		<u>January 1~ June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
EUROASIA II INC., PANAMA	\$ 2,866	(29)	-	17
EUROASIA III INC., PANAMA	(36)	(29)	-	17
Total	<u>\$ 2,830</u>	<u>(58)</u>	<u>-</u>	<u>34</u>

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

- b. The Company invested in K/S DANRED I Corporation of Denmark in 1999. This company was established for purposes of owning a newly built vessel – BIANCO bulker. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. The Company has a 13% shareholding. As of June 30, 2001, the vessel construction was completed and the Company had paid NT\$16,721 thousand dollars (US\$518,545). During the first half 2004 and 2003, the Company received cash dividends of NT\$14,140 thousands and NT\$1,801 thousands.
- c. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in ETERNAL PESCADORES S.A. (PANAMA) during 2002, and the subsidiary company had 100% ownership. This company was established for purposes of owning a newly built vessel – PESCADORES bulker. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. As of June 30, 2004, the subsidiary company had 19% ownership and had paid NT\$15,481 thousands (US\$459,390). During the first half 2004, the subsidiary company received cash dividends of NT\$761 thousands (US\$22,800).
- d. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in HARMONY SUCCESS S.A. (PANAMA) during May 2003. The subsidiary company had 19% ownership. The main purpose of establishing the company was to own a newly built vessel – Hull No. 1023. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. As of June 30, 2004, the vessel construction was not completed and the subsidiary company had paid a total of \$4,557 thousands (US\$135,207).

(3) Property and equipment

<u>June 30, 2004</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
Land	\$ 79,937	-	79,937
Buildings and structures	29,572	929	28,643
Transportation equipment	2,260	1,569	691
Vessel equipment	8,111,955	1,689,673	6,422,282
Office furniture and equipment	2,902	1,153	1,749
Leasehold improvements	12,896	7,507	5,389
Prepayments for business facilities	137,443	-	137,443
Other equipment	35,489	9,960	25,529
Total	\$ 8,412,454	1,710,791	6,701,663
<u>June 30, 2003</u>			
Land	\$ 79,937	-	79,937
Buildings and structures	26,905	-	26,905
Transportation equipment	2,260	1,193	1,067
Vessel equipment	6,966,007	1,361,593	5,604,414
Office furniture and equipment	1,623	985	638
Leasehold improvements	13,443	5,011	8,432
Prepayments for business facilities	160,271	-	160,271
Other equipment	15,046	6,846	8,200
Total	\$ 7,265,492	1,375,628	5,889,864

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

- a. The total insurance coverage for the above fixed assets amounted to US\$189,140 thousands and NT\$91,978 thousands as of June 30, 2004, and US\$197,500 thousands and NT\$96,360 thousands as of June 30, 2003.
- b. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA) disposed of the vessel Bright, in July 1999, the gain on dispose was US\$73,203.74 then the vessel was leased back. According to Statements of Financial Accounting Standards NO.2, the Company should defer the recognition of the unrealized gain on sale and leaseback and amortize it over sexennial. As of June 30, 2004 and 2003, the unrealized gain on sale and leaseback was US\$0 and US\$24,956 (NT\$863 thousands), respectively.
- c. The Company's subsidiary, DONGLIEN MARITIME S.A. (PANAMA) sale of the Id Trader(Orang Berani) was for US\$3,000,000 to K/S Ever Regal. Subsequently, on August 3, 1998, A/S Solover (a related party of K/S Ever Regal) signed a loan agreement to borrow US\$500,000 of the sales price from JACKSON STEAMSHIP S.A. (PANAMA) at a fixed annual interest rate of 6.5%. The loan amount was recorded as "long-term accounts receivable" by JACKSON STEAMSHIP S.A. (PANAMA). Full collection was received in March 2003.
- d. The subsidiary's investments, BRILLIANT PESCADORES S.A. (PANAMA) disposed the vessels Brilliant in March 2003, the gain on disposed was US\$15,569.54, then the vessel was leased back. According to Statements of Financial Accounting Standards NO.2, the company should defer the recognition of the unrealized gain on sale and leaseback and amortize it over three years. As of June 30, 2004 and 2003 the unrealized gain on sale and leaseback was US\$8,650 (NT\$291 thousands) and US\$13,840 (NT\$478 thousands), respectively.

(4) Long-term account received, net

	June 30,	
	2004	2003
Long-term accounts receivable	\$ -	17,278
Less: due within one year (recorded as other financial assets – current)	(-)	(-)
Net amount	\$ -	17,278

The long-term accounts receivable stated above were from disposal of the Id Leader (Bright) 1999 by subsidiary DONG LIEN MARITIME S.A. (PANAMA). Full collection for the Id Leader(Bright) was scheduled for July 2002 and extended 3 years at a 6.5% interest rate; because of the shipowners' sale of the leased vessel, the Company transferred relevant deposit-out and collection for the Id Leader(Bright) to other financial assets – current in March 2003.

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

(5) Short-term loans

<u>Nature</u>	<u>Period</u>	<u>Amount</u>	
June 30, 2004			
Credit loans	Within one year	\$	199,352
Mortgage loans	"		55,329
Total		\$	254,681
June 30, 2003			
Credit loans	Within one year	\$	228,417
Mortgage loans	"		153,712
Total		\$	382,129

The Company provided restricted assets (including bank deposits and short-term investments) as collateral for above mortgage loans. The above loans bore interest at annual floating rates of 2.25%~5.14% and 2.588%~8% for the first half of 2004 and 2003, respectively.

(6) Pension reserve

- a. The Company has a retirement plan covering all regular employees (excluding ship crew). According to the pension requirements, based upon the years of service, a payment of 2 units for each year of service is granted. However, it shall be one unit per year after the completion of the 15th year, and the total units shall not exceed 45 units. Any fraction of a year that is less than 6 months shall be counted as half a year, and any fraction of a year which is equal to or more than six months shall be counted as one year of service. Each unit of retirement payment is computed as the average wage at the time of approved retirement. An additional 20% of the retirement payments shall be made to a worker who undergoes mandatory retirement because the worker is incapacitated owing to mental defect of physical handicap, provided, however, that the mental defect or physical handicap is caused by an occupational accident.
- b. The Company has deposited pension contributions into a specially designated account with the Central Trust of China. The pension account movements for the first half of 2004 and 2003 were as follows:

	January 1~June 30,	
	2004	2003
Balance, beginning of period	\$ 2,234	2,092
Add: contributions	606	512
interest	-	-
Less: payments	-	-
Balance, end of period	\$ 2,840	2,604

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

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

	June 30,	
	2004	2003
Mortgage loans	\$ 4,251,763	3,719,237
Less: current portion	(509,537)	(407,162)
Net amount	\$ 3,742,226	3,312,075

The Company provided certain fixed assets as collateral for the above mortgage loans. The loans bore interest of 1.55% ~ 3.92% and 2.2775% ~ 3.01% for the first half of 2004 and 2003, respectively.

(8) Corporate bonds payable

On January 28, 2004, the Company issued for the 1st domestic unsecured convertible bonds as an aggregate amount of NT\$230,000 thousands, the components of corporate bonds payable is as follows:

	June 30, 2004	
Unsecured convertible corporate bonds issued	\$	230,000
Less: converted amount	(128,000)
Add: interest-premium payable		1,083
Subtotal		103,083
Less: current portion of long-term liabilities		-
Corporate bounds payable	\$	103,083

The major terms and conditions for offering and issuance of the 1st domestic unsecured convertible bonds by the Company are as follows:

- (1) Aggregate amount of issuance: NT\$230,000 thousands.
- (2) Issue period: 5 years starting from the issue date (January 28, 2004) to issue period expiration (January 28, 2009).
- (3) Nominal interest rate: 0%.
- (4) Availability of collateral or guarantee: unsecured convertible bonds.
- (5) Conversion terms:
 - (a) Conversion period: The bondholder may request conversion to new common stock issued by the Company beginning from after the bond has been issued 3 months till the expiration date.
 - (b) Conversion price: NT\$15.15

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

(6) Creditor redemption:

- (a) After the bonds have been issued two years, the creditor may choose to ask the issuer to redeem the bonds in cash at face value plus interest-premium (for 102.51% of the face value).
- (b) After the bonds have been issued three years, the creditor may choose to ask the issuer to redeem the bonds in cash at face value plus interest-premium (for 106.9% of the face value)
- (c) After the bonds have been issued four years, the creditor may choose to ask the issuer to redeem the bonds in cash at face value plus interest-premium (for 110.38% of the face value).

(7) Redemption

The Company may redeem the bonds if the following events occur:

- (a) From after the bond has been issued 3 months till after the expiration date 40 days, the Company may redeem the bonds at the price of calculated by redeem yield as item (c), in entirety received for cash, if the closing price of it common shares on Taiwan Stock Exchange is over 50% of the conversion for 30 consecutive trading.
- (b) From after the bond has been issued 3 months till after the expiration date 40 days, the Company may redeem the bonds at the price of calculated by redeem yield as item (c), in entirety received for cash, if the balance for conversion bond currency outsides are 10% lower than issue total amount.
- (c) Redeem yield:
 - (i) Before the bonds have been issued two years, the redeem yield is 1.25% per year.
 - (ii) After the bonds have been issued two years not achieved three years, the redeem yield is 2.25% per year.
 - (iii) After the bonds have been issued three years not achieved four years, the redeem yield is 2.50% per year.
 - (iv) After the bonds have been issued four years and forty before the maturity day, the company may redeem the bonds at face value.

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

(9) Capital stock

The movements of the capital stock are summarized as follows:

(amounts expressed in New Taiwan dollars)

Stock Authorization Date	Authorized Capital	Paid-in Capital	Remarks
Mar. 1985	\$ 12,000,000	12,000,000	Initial capital
Mar. 1992	29,000,000	29,000,000	Capital increase for cash of \$ 17,000,000
May 1993	53,000,000	53,000,000	" \$ 24,000,000
Aug. 1994	95,000,000	95,000,000	" \$ 42,000,000
Dec. 1996	199,990,000	199,990,000	" \$104,990,000
Jul. 1997	2,600,000,000	800,000,000	" \$584,810,000
			Capitalization of retained earnings of \$15,200,000
Jun. 1998	2,600,000,000	1,201,650,000	Capital increase in cash of \$240,000,000, and capitalization of retained earnings and capital surplus of \$161,650,000
Nov. 1999	2,600,000,000	1,297,782,000	Capitalization of capital surplus of \$96,132,000
Dec. 2000	2,600,000,000	1,428,760,200	Capitalization of retained earnings of \$55,804,626, capital surplus of \$73,973,574, and employee bonuses of \$1,200,000
Oct. 2001	2,600,000,000	1,471,275,480	Capitalization of retained earnings of \$40,005,280 and employee bonuses of \$2,510,000
Oct. 2002	2,600,000,000	1,525,770,120	Capitalization of retained earnings of \$51,494,640 and employee bonuses of \$3,000,000
Oct. 2003	2,600,000,000	1,541,027,820	Capitalization of retained earnings of \$15,527,700
Jun. 2004	2,600,000,000	1,625,515,380	Conversion common stock of corporate bonds payable.

The stockholders' meeting on May 28, 2004, resolved to increase capital by employee bonuses of NT\$7,500 thousands, resolved to increase capital by earnings of NT\$154,103 thousands and resolved to increase capital by capital surplus of NT\$146,397 thousands. The above proposal to increase capital has received approval NO.0930127533 from original Securities and Futures Commission, Ministry of Finance, R.O.C. And the criterion date to increase capital is on July 28, 2004.

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

(10) Distribution of retained earnings

The articles of incorporation of the Company mandate that 10% of after-tax earnings should first offset cumulative losses from previous years, and 10% of the remainder be set aside as legal reserve. The board of directors may submit an earnings distribution proposal to the stockholders' meeting for resolution, of which employee bonuses cannot be less than 2% and remuneration to directors and supervisors cannot exceed 5%. Dividends may be distributed after a special surplus is appropriated.

According to the articles of incorporation, the dividend policy of the Company is based on the prudence principle considering the long-term financing structure and operations in the future. When earnings and funds become relatively sufficient for operating and expanding, then cash dividends or stock dividends will be distributed. In the meanwhile, stock dividends of at least 50% and cash dividends of at most 50% should be distributed.

The distribution of retained earnings for 2003 and 2002 was resolved in the stockholders' meetings on May 28, 2004, and June 24, 2003, respectively, as follows:

Item	2003	2002
Legal reserve	\$ 23,087	9,912
Employee bonuses – cash	-	3,000
Employee bonuses – stock (recorded at book value)	7,500	-
Directors' and supervisors' remuneration	4,500	1,250
Capitalization of employee bonuses - cash	77,051	15,257
Capitalization of employee bonuses-stock (recorded at book value)	154,103	15,258
Total	\$ 266,241	44,677

Following is the relevant information on distribution of retained earnings for dividends per share, employee bonuses and compensation to directors and supervisors of the Company in the years 2003 and 2002:

Dividends per share	2003	2002
Cash	\$ 0.5	0.1
Stock	1.0	0.1
Total	\$ 1.5	0.2

Employee bonuses and directors' and supervisors' remuneration	2003	2002
Employee bonuses – cash	\$ -	3,000
Employee bonuses – stock	7,500	-
Directors' and supervisors' remuneration	4,500	1,250
Total	\$12,000	4,250

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

If the above employee bonuses and directors' and supervisors' compensation were considered current year's expense, the Company's primary earnings per share (after tax) for 2003 and 2002 would be NT\$1.42 and NT\$0.62, respectively. The above employee bonus was 750 thousand shares of capital stock, constituting 0.49% of the Company's outstanding stock, as of December 31, 2003.

The distribution above employee bonuses and directors' and supervisors' compensation which related information will be announced on the Internet, such as on the Market Observation Post System.

(11) Income tax

(a) The income tax for the first half of 2003 and 2002 was computed as follows:

	January 1~ June 30,	
	2004	2003
Income tax payable	\$ 10,413	8,346
Increase in deferred income tax assets — current	(1,970)	-
Decrease (increase) in deferred income tax liabilities — current	-	(2,136)
Income tax prepayment and withholding	3	2
Under-accrual (over-accrual) of prior years' income tax expense	11,596	(8)
Income tax expense	\$ 20,042	6,204

(b) The components of income tax expense were as follows:

	January 1 ~June 30,	
	2004	2003
Income tax currently payable	\$ 10,416	8,348
Additional 10% surtax on undistributed earnings	-	-
Deferred income tax (revenue) expense	(1,970)	(2,136)
Under-accrual (over-accrual) of prior years' income tax expense	11,596	(8)
Income tax expense	\$ 20,042	6,204

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

(c) The reconciliation of the income tax effects of income before income tax calculated using the actual tax rate (25%) and income tax currently payable was as follows:

	January 1 ~ June 30,	
	2004	2003
The income tax effects of income before income tax calculated using the actual tax rate (25%)	\$ 79,662	18,311
Permanent difference		
Investment gain— equity method	(71,759)	(12,106)
Gain on sale of investments	(35)	-
Employee benefits	-	(9)
Interest-premium payable	562	-
Other	16	16
Temporary difference		
Foreign exchange loss	2,715	1,911
Pension expense	(745)	225
Income tax currently payable	\$ 10,416	8,348

(d) The components of deferred income tax revenue were as follows:

	January 1 ~ June 30,	
	2004	2003
Foreign exchange loss	\$ 2,715	1,911
Pension expense	(745)	225
Deffered income tax revenue	\$ 1,970	2,136

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

- (e) As of June 30, 2004 and 2003, deferred income tax assets and liabilities due to temporary differences and income tax effects were as follows:

	June 30,	
	2004	2003
Total deferred tax assets	\$ 3,558	2,111
Total deferred tax liabilities	-	2,476
Taxable temporary differences		
	June 30,	
	2004	2003
Deferred income tax assets (liabilities) — current		
- Bad dept expense	\$ 1,800	-
- Pension expense	6,319	8,446
- Foreign exchange (gain) loss	6,114	(9,906)
Net amount	\$ 14,233	(1,460)

	Tax effect	
	June 30,	
	2004	2003
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 450	-
- Pension expense	1,579	2,111
- Foreign exchange (gain) loss	1,529	(2,476)
Net amount	\$ 3,558	(365)

- (f) The Company's income tax returns were examined and assessed by the Tax Authority through 2001. The Tax Authority assessed additional tax amounting to NT\$5,742,000 for 1997 and 1998. The Company disagreed with this tax assessment and has applied for administrative appeal proceedings and made guarantee deposits of half the additional tax for 1997 and 1998 to the Tax Authority (recorded as deposits-out). According to the principle of conservatism, the Company recorded fully the above-mentioned assessment of additional tax amounting to NT\$5,742 thousand in 2001 as income tax expenses. The Tax Authority assessed additional tax amounting to \$6,669 thousands and \$4,901 thousands for 2001 and 2000, and the assessment's method of calculating the tax was different from the past; therefore, the Company has filed an administrative appeal and recorded fully the above-mentioned assessment of additional tax.

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

(g) Related information on imputation tax:

	June 30,	
	2004	2003
The balance of stockholders' imputation credit account	\$ 1,788	5,153
	2003	2002
Estimated (actual) imputation credit ratio of earnings distribution	(actual) 8.50%	(actual) 9.16%

(h) Related information on undistributed earnings

	June 30,	
	2004	2003
Undistributed earnings of 1997 and before	\$ -	167
Undistributed earnings of 1998 and after	319,724	123,351
Total	\$ 319,724	123,518

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

(12) Earnings per share

Unit : NT'000s/Share'000s ; Earnings per share : NT's

	January 1 ~ June 30,			
	2004		2003	
	Before Tax	After Tax	Before Tax	After Tax
Primary earnings per share				
– Current period				
Net income attributed to common shareholders	\$ 318,689	298,674	73,281	67,077
Weighted-average number of shares outstanding	155,308	155,308	152,577	152,577
Primary earning per share	\$ 2.05	1.92	0.48	0.44
– Retroactively adjusted				
Weighted-average number of shares outstanding	184,735	184,735	183,302	183,302
Primary earnings per share – retroactively adjusted	\$ 1.73	1.62	0.40	0.37
Diluted earnings per share				
Net income attributed to common shareholders	\$ 318,689	298,647	73,281	67,077
Effects on diluted potential common stock				
– Corporate bonds payable	1,083	812	-	-
Net income for the calculation of diluted earnings per share	\$ 319,772	299,459	73,281	67,077
– Current				
Weighted-average number of shares outstanding	155,308	155,308	152,577	152,577
Effects on diluted potential common stock				
– Corporate bonds payable	5,771	5,771	-	-
Weighted-average number of shares outstanding for the calculation of diluted earnings per share	161,079	161,079	152,577	152,577
– Retroactively adjusted				
Weighted-average number of shares outstanding	191,600	191,600	183,302	183,302
Diluted earnings per share – current period	\$ 1.99	1.86	0.48	0.44
– retroactively adjusted	\$ 1.67	1.56	0.40	0.37

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

5. RELATED-PARTY TRANSACTIONS: None.

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

<u>Name of related party</u>	<u>Relationship</u>
EUROASIA II INC., PANAMA	An investee company which was accounted for under the equity method by the Company's subsidiary.
EUROASIA III INC., PANAMA	"
DONG LIEN SHIPPING CO., LTD.	The company president was a Company director.

(2) Significant transactions with related parties

a. Sales

<u>Name of related party</u>	<u>June 30,</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	<u>\$ 4,534</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

b. Accounts receivable-related party.

<u>Name of related party</u>	<u>June 30,</u>			
	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ 1,360	50	-	-
EUROASIA III INC., PANAMA	1,359	50	-	-
Total	<u>\$ 2,719</u>	<u>100</u>	<u>-</u>	<u>-</u>

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

c. DONG LIEN SHIPPING CO., LTD. paid the Company for rental monthly according to the lease contract for part of an office building, as follows:

<u>DONG LIEN SHIPPING CO., LTD.</u>	<u>January 1 ~ June 30,</u>	
	<u>2004</u>	<u>2003</u>
Rental income(recorded as other income)	<u>\$ 48</u>	<u>-</u>

6. PLEDGED ASSETS

The following is a summary of assets provided by the Company to the court and financial institutions as guarantee and collateral for mortgage loans as of June 30, 2004 and 2003.

<u>Name of asset</u>	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
Property and equipment (net book value)		
-Land	\$ 79,937	79,937
-Buildings and structures	28,643	26,905
-Vessel equipment	6,422,282	5,604,414
Restricted assets	26,657	41,985
Total	<u>\$ 6,557,519</u>	<u>5,753,241</u>

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

7. COMMITMENTS AND CONTINGENCIES

As of June 30, 2004 and 2003, the Company's commitments and contingencies were as follows:

(1) The Company had significant contracts as follows:

<u>Contract Title</u>	<u>Contracting Party</u>	<u>Period Covered</u>	<u>Contents</u>
Management Contract	WISDOM MARINE LINES S.A. (PANAMA)	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	Acting as the ompany's agent for management of the vessel
"	K/S DANRED I	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	MAN SHIPPING L.P.	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	ETERNAL PESCADORES S.A. (PANAMA)	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	MAJESTIC PESCADORES S.A. (PANAMA)	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	K/S DANSKIB 33	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	EUROASIA II INC., PANAMA	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"
"	EUROASIA III INC., PANAMA	No expiration date after delivery of the vessel; should notify 60 days prior to contract termination	"

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

- (2) The Company signed an agreement for purchase of a Taiwan Danshui Golf Club Membership Card with Mr. Hsiao Yuan-Shing (hereinafter called defendant) in Nov. 2003; the selling price was NT\$1,800 thousands. After the defendant received the check issued by the Company and cashed the check on Dec. 10, 2003, the Company found the membership of the defendant was a nontransferable general membership, but the defendant firstly cheated the Company by signing the above-mentioned agreement and receiving the Company's conveyance payment, and secondly further cheated the Company with the excuse that the trading of club membership cards was now prohibited. The Company demanded the defendant solve the problems with the above-mentioned agreement many times, but the defendant ignored the demands. The Company has assigned an attorney to file suit against the defendant, and it is now being examined by the Taipei District Court. According to the principle of conservatism, the Company has provided full allowance for doubtful accounts for the above-mentioned selling price of NT\$1,800 thousands (recorded as other financial assets – current) in the financial statements for 2003.
- (3) The Company's subsidiary entered into an agreement to purchase the vessel Well to be constructed for its business operation, and at the same time it signed the construction and purchase agreement, it sold the vessel to MAN SHIPPING LP for the same price. The subsidiary also entered into a long-term vessel-leasing contract with MAN SHIPPING LP for the same vessel for a guaranteed minimum lease term of 5 years. Upon expiration of the 5-year lease term, the subsidiary has the right to renew the lease for another 10 years, or to purchase the vessel at the agreed-upon price according to the contract (at nonbargain purchase price). As of June 30, 2004, and 2003, the Company had leased the vessel according to the contract and had made deposits-out amounting to US\$4,647,500 and US\$4,750,000, respectively.

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

- (4) FOURSEAS MARITIME S.A. (PANAMA) and PESCADORES TRANSPORT S.A. (PANAMA), investee companies of the Company's subsidiary (the latter was its investee company prior to November 8, 1999), undertook a cargo shipment for Hsing Chang Lumber Company in 1997. Loss of freight and belated freight due to nonperformance on the part of Hsing Chang Company amounted to US\$81,887.48 and US\$80,925.99 (equivalent to NT\$2,229 thousands and NT\$2,256 thousands), respectively. The Company filed a claim for damage reimbursement, but both the I-Lan District Court and Taiwan High Court ruled in the defendant's favor. However, the Company was not content with the ruling of the High Court and appealed to the Supreme Court. On Dec. 11, 2003, the Supreme Court returned the case to the High Court for a rehearing. On July 28, 2004, the Company reached agreement with Hsing Chang Lumber Company that after the date of August 2, 2004, the Company had received the collection of NT\$1,900 thousands, and the Company would cancel the appeal at Taiwan High Court and agreed to forgive the remaining claim of the above-mentioned damage reimbursement with Sentarum Enterprise Co., LTD.
- (5) As of June 30, 2004 and 2003, the Company was provided endorsement guarantees by MAJESTIC PESCADORES S.A (PANAMA) amounting to US\$6,805 thousands and US\$7,393 thousands, respectively.
- (6) As of June 30, 2004 and 2003, the Company had issued guarantee notes for cargo transportation, which amounted to NT\$441,778 thousands and NT\$114,574 thousands, respectively.

8 MAJOR DISASTER LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS: None.

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

10. FINANCIAL INSTRUMENTS

(1) Derivative financial instruments:

a. Contract amount or nominal principal and credit risk

Financial Instruments	June 30, 2004	
	Contract Amount	Credit Risk
Forward Contracts		
Nontrading–Subsidiary’s purchase contract	JPY 194,691,500	\$ -
–The Company’s’ sale contract	USD 500,000	\$ -

The aforementioned amount of credit risk refers to contracts with positive fair value on the balance sheet date, taking into account that net settlement of all contracts offsets one contract against another yet still remains positive. Credit risk indicates the Primary Company and Company’s subsidiary’s possible loss in the event of nonperformance by the counter-party to the financial instrument. Since parties to transactions with the Company and its subsidiary are all reputable banks, default is not expected, and the likelihood of credit risk is remote.

b. Market risk

Most derivative financial instrument transactions hedge against risks of assets or liabilities in foreign currency. Gain/loss resulting from exchange rate fluctuations are adjustments to assets or liabilities denominated in foreign currency; consequently, market risk is relatively insignificant.

c. Liquidity risk, cash flow risk, and future demand for cash

Foreign exchange forward contracts are to hedge against risks from exchange rate fluctuations, which affect identifiable foreign currency assets or liabilities for transactions in foreign currency. No additional cash outflow is expected. Consequently, the operating funds of the Company’s subsidiary would be adequate to meet such demand and there would be no liquidity risk. Given that exchange rates are specified in forward contracts, there would be no significant cash flow risk.

d. Types and purpose of financial derivative held

Financial derivatives held by the Company’s subsidiary are nontrading forward contracts. Given that the purpose is to hedge against the great majority of market risks, nontrading contracts are held to hedge against risks from fluctuations in exchange rate, which affect foreign currency assets or liabilities. The Company’s subsidiary used derivatives for hedging, and its purpose is hedging market price risk. Hedging instruments exhibit negative correlation with hedged items and are evaluated periodically.

e. Presentation of financial derivatives in financial statements

During the first half of 2004, the exchange loss resulting from foreign exchange forward contracts was \$723 thousands. Foreign exchange forward contracts receivable and payable are cross-compensated, and the difference is booked as current assets or current liabilities. There were no foreign exchange forward contracts receivable or payable as of June 30, 2004.

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

(2) Fair value of financial instruments

Nonderivative Financial Instruments	June 30, 2004	
	Book Value	Fair Value
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 752,355	752,355
Short-terms investments	2,100	2,100
Long-term equity investments		
– impossible to estimate fair value in practice	135,969	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	562,343	562,343
Corporate bonds payable	103,083	103,083
Long-term loans	4,251,763	4,251,763
<u>Financial instruments with off-balance-sheet credit risk</u>		
Endorsement guarantees		US\$6,805 thousands
 June 30, 2003		
Nonderivative Financial Instruments	Book Value	Fair Value
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 724,954	724,954
Long-term equity investments		
– impossible to estimate fair value in practice	49,763	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	658,915	658,915
Long-term loans	3,719,237	3,719,237
<u>Financial instruments with off-balance-sheet credit risk</u>		
Endorsement guarantees		US\$7,393 thousands

Methods and assumptions used by the Company and its subsidiaries for determination of the fair value of financial instruments are as follows:

(a) Financial assets and liabilities with book value equal to fair value:

The fair value of short-term financial instruments is estimated based upon their face value stated on the balance sheet. Because such instruments will become due shortly, their face value should be a reasonable basis for estimating their fair value. This method is applicable to cash and cash equivalents, notes and accounts receivable, notes and accounts payable, agency current account, related-party receivables, restricted assets,

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

long-term accounts receivable, short-term loans, accrued tax payable, accrued expenses, other current assets and liabilities, deposits-in, deposits-out, and other accrued pension liability.

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

- (b) Short-term investments: Fair value of marketable securities is the market price if available. Otherwise, financial or other information is used to estimate the fair value.
- (c) If the market value of marketable long-term equity investments is available, then the market value is used as fair value. In addition, for long-term equity investments in unlisted companies, which are not traded publicly, it is impossible to estimate their fair values.
- (d) Long-term loans: Interest is computed using annual floating rates, and book value is equal to fair value.
- (e) Corporate bonds payable:
 The book values of corporate bonds payable include interest compensation, and their fair Value is the market price.
- (f) Endorse guarantee:
 The fair value is the contract price.
- (3) Financial instruments with off-balance-sheet credit risk
 As of June 30, 2004 and 2003, the Company had provided end or segment guarantees by company amounting to US\$6,805 thousands and US\$7,393 thousands, respectively. The guarantees come from financial activities, and may result in some off-balance-sheet credit risk. Credit risk means the possible loss resulting from the failure of the counter-party to implement the financial instrument transaction contract and from a material decline in the value of related collateral. The amount of accounting loss might happen because of the credit risk. The Company did not require collateral when providing the financial endorsement guarantees.
- (4) Information on concentrations of credit risk
 The Company's sales are scattered geographically, and there is no single major customer. As a result, there is no concentration of credit risk on its accounts receivable. In order to reduce credit risk, the Company regularly evaluates its customers' financial position. However, the Company usually does not require collateral from its customers.
- (5) Current analysis of assets and liabilities: None.
- (6) Summary of expenses for employees, depreciation, depletion and amortization:

	January 1 ~ June30,					
	2004			2003		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expense						
Payroll	\$ 118,398	20,056	138,454	104,810	15,943	120,753
Insurance	5,296	1,878	7,174	21,499	1,698	23,197
Retirement	-	1,281	1,281	-	1,413	1,413
Others	35,940	969	36,909	17,210	939	18,149
Depreciation	192,611	934	193,545	169,767	421	170,188
Depletion	-	-	-	-	-	-
Amortization	21,465	69	21,534	19,460	59	19,519