

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

AND

INDEPENDENT AUDITORS' REPORT

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

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DECEMBER 31, 2004 AND 2003

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Letter of Representation

In 2004 (from January 1 to December 31, 2004), the Company's related-party companies consolidated in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as those required for a parent and subsidiaries consolidated in accordance with Statement of Financial Accounting Standards No. 7, and the required disclosures for information relating to consolidated statements have already been disclosed in the aforementioned parent and subsidiaries' consolidated financial statements; therefore, consolidated financial statements of related-party companies are not separately prepared.

Company Name: SHIH WEI NAVIGATION CO., LTD.

Chairman:

February 25, 2005

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 December 31, 2004 and 2003, and the related statements of income, changes in stockholders equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the "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 December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with the "Standards Governing the Compilation of Financial Statements by Securities Issuers" and generally accepted accounting principles of the R.O.C.

February 25, 2005
Taipei, Taiwan, R.O.C.

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(amounts expressed in thousands of New Taiwan dollars)

	2004		2003	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 4.1)	\$ 487,669	7	48,265	1
Short-term investments, net	3,000	-	6	-
Accounts receivable, net	31,401	-	81,556	1
Accounts receivable – related party (Note 5)	-	-	5,454	-
Other financial assets – current (Notes 4.4 and 10)	96,240	1	110,475	2
Inventories	57,502	1	52,032	1
Deferred income tax asset – current (Note 4.11)	2,109	-	1,588	-
Restricted assets – current (Note 6)	15,566	-	33,518	-
Other current assets	65,914	1	35,228	1
	<u>759,401</u>	<u>10</u>	<u>368,122</u>	<u>6</u>
LONG-TERM EQUITY INVESTMENTS (Note 4.2)				
Long-term investment – equity method	55,410	1	92,472	1
Long-term investment – cost method	31,340	-	32,717	-
	<u>86,750</u>	<u>1</u>	<u>125,189</u>	<u>1</u>
PROPERTY AND EQUIPMENT (Notes 4.3 and 6)				
Land	79,937	1	79,937	1
Buildings and structures	29,572	-	29,572	-
Transportation equipment	2,260	-	2,260	-
Vessel equipment	7,995,745	103	7,652,356	105
Office furniture and equipment	2,665	-	3,020	-
Leasehold improvements	12,116	-	12,981	-
Prepayments for business facilities	208,383	3	78,956	1
Other equipment	32,343	-	16,950	-
Less: Accumulated depreciation	(1,803,986)	(23)	(1,526,761)	(20)
	<u>6,559,035</u>	<u>84</u>	<u>6,349,271</u>	<u>87</u>
INTANGIBLE ASSETS				
Deferred pension cost (Note 4.6)	2,684	-	3,346	-
OTHER ASSETS				
Deposits-out	328,185	4	383,366	5
Deferred charges	85,567	1	56,061	1
Long-term accounts receivable, net (Note 4.4)	-	-	-	-
Restricted assets – noncurrent (Note 6)	-	-	6,000	-
	<u>413,752</u>	<u>5</u>	<u>445,427</u>	<u>6</u>
TOTAL ASSETS	<u>\$ 7,821,622</u>	<u>100</u>	<u>7,291,355</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 4.5)	\$ -	-	358,342	5
Notes payable	-	-	8,431	-
Accounts payable	54,291	1	93,191	1
Accrued tax payable (Note 4.11)	31,208	-	20,595	-
Accrued expenses	83,425	1	96,854	1
Current portion of long-term liabilities (Note 4.7)	827,935	11	505,914	7
Other current liabilities (Note 5)	84,729	1	60,379	1
	<u>1,081,588</u>	<u>14</u>	<u>1,143,706</u>	<u>15</u>
LONG-TERM LIABILITIES (Notes 4.7 and 4.8)				
Long-term loans (Note 4.7)	3,450,674	44	3,685,160	51
OTHER LIABILITIES				
Accrued pension liability (Note 4.6)	11,132	-	14,653	-
Deposits-in	195	-	179	-
Unrealized gain on sale and leaseback	192	-	381	-
	<u>11,519</u>	<u>-</u>	<u>15,213</u>	<u>-</u>
Total Liabilities	4,543,781	58	4,844,079	66
STOCKHOLDERS' EQUITY				
Capital stock				
Common stock (Note 4.9)	2,013,578	26	1,541,028	21
Capital surplus				
Capital surplus – additional paid-in capital	255,902	3	402,299	6
Capital surplus – convertible bonds converted in excess of the common stock's par value	68,110	1	-	-
Retained earnings (Note 4.10)				
Legal reserve	67,664	1	44,577	1
Unappropriated earnings	910,173	12	287,318	4
Cumulative translation adjustment	(35,819)	(1)	174,377	2
Unrecognized pension gain (loss)	(1,767)	-	(2,323)	-
Total Stockholders' Equity	<u>3,277,841</u>	<u>42</u>	<u>2,447,276</u>	<u>34</u>
COMMITMENTS AND CONTINGENCIES (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 7,821,622</u>	<u>100</u>	<u>7,291,355</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 YEARS ENDED DECEMBER 31, 2004 AND 2003
(amounts expressed in thousands of New Taiwan dollars)

	2004		2003	
	Amount	%	Amount	%
Operating revenue, net	\$ 2,577,078	100	2,184,998	100
Operating costs	1,717,667	67	1,730,570	79
Operating gross profit	859,411	33	454,428	21
Operating expenses	102,943	4	95,793	4
Operating income	756,468	29	358,635	17
Nonoperating income				
Interest income	7,584	-	8,917	-
Investment gain— equity method (Note 4.2)	161,013	6	-	-
Cash dividends (Note 4.2)	25,615	1	1,801	-
Gain on disposal of property and equipment	229	-	1,221	-
Gain on sale of investments	170	-	406	-
Rental income	96	-	48	-
Other income	133,995	6	54,307	3
	<u>328,702</u>	<u>13</u>	<u>66,700</u>	<u>3</u>
Nonoperating expenses				
Interest expense	125,054	5	117,112	5
Investment loss— equity method (Note 4.2)	-	-	105	-
Loss on disposal of property and equipment	-	-	1,487	-
Foreign exchange loss	33,558	1	54,831	3
Other expenses	2,355	-	5,797	-
	<u>160,967</u>	<u>6</u>	<u>179,332</u>	<u>8</u>
Income before income tax	924,203	36	246,003	12
Income tax expense (Note 4.11)	(35,107)	(1)	(15,126)	(1)
Net income	<u>\$ 889,096</u>	<u>35</u>	<u>230,877</u>	<u>11</u>
	Before tax	After tax	Before tax	After tax
Primary earnings per share in New Taiwan dollars (Note 4.12)				
-Shares outstanding, current period	<u>\$ 4.82</u>	<u>4.64</u>	<u>1.60</u>	<u>1.50</u>
-Shares outstanding, retroactively adjusted	<u>\$ 4.82</u>	<u>4.64</u>	<u>1.34</u>	<u>1.26</u>

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(amounts expressed in thousands of New Taiwan dollars)

	Capital stock	Capital surplus	Retained earnings		Cumulative translation adjustment	Unrecognized pension gain (loss)	Total
			Legal reserve	Unappropriated earnings			
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 2003	-	-	-	230,877	-	-	230,877
Unrecognized pension gain (loss)	-	-	-	-	-	(2,323)	(2,323)
Cumulative translation adjustment	-	-	-	-	(51,665)	-	(51,665)
Balance, December 31, 2003	\$ 1,541,028	402,299	44,577	287,318	174,377	(2,323)	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)	-	-	-	-	-
Convertible bonds converted to common stock	164,550	68,110	-	-	-	-	232,660
Net income for 2004	-	-	-	889,096	-	-	889,096
Unrecognized pension gain (loss)	-	-	-	-	-	556	556
Cumulative translation adjustment	-	-	-	-	(210,196)	-	(210,196)
Balance, December 31, 2004	\$ 2,013,578	324,012	67,664	910,173	(35,819)	(1,767)	3,277,841

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

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(amounts expressed in thousands of New Taiwan dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 889,096	230,877
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Bad debt expense	1,806	1,800
Amortization	47,301	41,814
Depreciation	403,402	347,939
Transfer of deferred charges to entertainment expense	38	-
Liquidating dividends—cost method	4,326	-
Investment (gain) loss—equity method (excluding cash dividends)	(13,255)	105
Gain on sale of investments	(170)	(406)
Gain (loss) on disposal of property and equipment, net	(174)	266
Gain on disposal of deferred charges	(55)	-
Accrued premiums on convertible bonds	2,660	-
Changes in assets and liabilities:		
Notes and accounts receivable, net	45,930	8,254
Accounts receivable—related party	-	(5,453)
Other financial assets—current	8,096	(35,831)
Inventories	(9,023)	(36,974)
Deferred income tax assets—current	(521)	(1,588)
Other current assets	(34,620)	(23,999)
Notes payable	(8,431)	(1,023)
Accounts payable	(35,279)	(61,128)
Income tax payable	10,613	14,805
Accrued expenses	(9,499)	(1,858)
Deferred income tax liabilities—current	-	(2,501)
Other current liabilities	29,435	11,049
Accrued pension liability	(2,303)	1,756
Net cash provided by operating activities	<u>1,329,373</u>	<u>489,950</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,056,940)	(1,023,362)
Sales of property and equipment	-	192,692
Sales of short-term investments	250,176	1,637
Purchases of short-term investments	(253,000)	(1,237)
Purchase of long-term investments	(19,962)	(84,855)
Repayment of long-term investments	61,597	-
Decrease (increase) in deposits-out	31,741	(133,403)
Increase in deferred charges	(81,217)	(49,245)
Sales of deferred charges	662	-
Decrease in restricted assets	22,721	106,879
Net cash used in investing activities	<u>(1,044,222)</u>	<u>(990,894)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease (increase) in short-term loans	(356,914)	5,154
Increase in convertible bonds	230,000	-
Increase in long-term liabilities	373,258	496,101
Increase (decrease) in deposits-in	16	(3,502)
Distribution of cash dividends	(77,051)	(15,257)
Compensation to directors and supervisor	(4,500)	(1,250)
Employee bonuses	-	(3,000)
Net cash provided by financing activities	<u>164,809</u>	<u>478,246</u>
EXCHANGE RATE EFFECT	<u>(10,556)</u>	<u>7,618</u>
Net increase (decrease) in cash and cash equivalents	439,404	(15,080)
Cash and cash equivalents, beginning of period	48,265	63,345
Cash and cash equivalents, end of period	<u>\$ 487,669</u>	<u>\$ 48,265</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest (excluding capitalized interest)	<u>\$ 122,570</u>	<u>137,690</u>
Cash paid during the period for income tax	<u>\$ 25,015</u>	<u>4,410</u>
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:		
Reclassification of long-term liabilities due in one year	<u>\$ 827,935</u>	<u>505,914</u>
Convertible bonds converted to common stock (including the amount in excess of the common stock's par value)	<u>\$ 232,660</u>	<u>-</u>

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

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

DECEMBER 31, 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), BLOSSOM PESCADORES S.A. (PANAMA), ROYAL PESCADORES S.A. (PANAMA), SHINING PESCADORES S.A. (PANAMA), BRILLIANT 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), VALOR PESCADORES S.A. (PANAMA), GRAND OVERSEAS S.A. (PANAMA), UNICORN BRILLIANT S.A. (PANAMA), PHAROS PESCADORES S.A. (PANAMA), BEACON PESCADORES S.A. (PANAMA), POSEIDON PESCADORES S.A. (PANAMA) and LEADER PESCADORES S.A. (PANAMA). As of December 31, 2004, the Company and its subsidiaries owned 22 vessels: Trump, Babitonga (Great), Paragon, Best, Elegant, Brave, Advance, Oceanic, Buenos Aires (Giant), Blossom, Royal, Shining, Sunny, Scan Bulker, Gallant, Grand, Federal, Excellent, Honor, Bright, Grand Overseas and Unicorn Brilliant.

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 December 31, 2004, the number of employees was 614.

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. The significant accounting policies and measurement basis were as follows:

(1) Principles of consolidation

a. The subsidiaries that have been consolidated in the financial statements are as follows:

Name of subsidiary company	Date established	Relationship with the Company	Main business	The Company's ownership as of December 31, 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)	May09,1996	"	"	"
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)	May20,2003	"	"	"
BRIGHT PESCADORES S.A. (PANAMA)	May20,2003	"	"	"
SUPERIOR PESCADORES S.A. (PANAMA)	Nov.21,2003	"	"	"
GRAND OVERSEAS S.A. (PANAMA)	Jan.08,2004	"	"	"
UNICORN BRILLIANT S.A. (PANAMA)	Jan.02,2004	"	"	"
VALOR PESCADORES S.A. (PANAMA)	Apr.08,2004	"	"	"
PHAROS PESCADORES S.A. (PANAMA)	Jul.27,2004	"	"	"
POSEIDON PESCADORES S.A. (PANAMA)	Jul.27,2004	"	"	"
BEACON PESCADORES S.A. (PANAMA)	Sep.08,2004	"	"	"
LEADER PESCADORES S.A. (PANAMA)	Aug.03,2004	"	"	"

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.

- b. Change in subsidiary's investments: The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) invested in GRAND OVERSEAS PESCADORES S.A. (PANAMA), UNICORN BRILLIANT S.A. (PANAMA), VALOR PESCADORES S.A. (PANAMA), PHAROS PESCADORES S.A. (PANAMA), POSEIDON PESCADORES S.A. (PANAMA), BEACON PESCADORES S.A. (PANAMA) and LEADER PESCADORES S.A. (PANAMA) during 2004, and the subsidiary company has a 100% shareholding. The Company's subsidiary DONG LIEN MARITIME S.A. (PANAMA) merged with a 100% subsidiary, HARMONY PESCADORES S.A. (PANAMA), and recorded the value of the investee company's net assets at book value when canceling its registration.
- c. Related information on the subsidiaries that are not included in the consolidated financial statements: None.
- d. Subsidiary's accounting year-end differs from the Company's: None.
- e. Subsidiary's accounting policies and controlling companies differ from the Company's: None.
- f. Special operating risk of foreign subsidiaries: None.
- g. Legal or contract restrictions on distribution of earnings of the subsidiaries: None.
- h. Method and duration of amortization of consolidated debit or credit: None.

(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 of 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 that 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 is 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.

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

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

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)

Depreciation of property and equipment is calculated by the straight-line method over the estimated useful lives as stipulated by the Navigation & Aviation Authorities in the following schedule.

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

For property and equipment still in use after full depreciation, estimated salvage value may continue to be depreciated over their estimated useful lives.

Gain or loss on disposal of property and equipment is recorded as nonoperating income or expense.

(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 that affect foreign currency commitments and expended transactions that 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. Moreover, the cost for purchasing golf club membership was stated at cost, and is amortized over a period of 20 years.

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

(10) 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.

(11) 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.

(12) 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 the resolution of the stockholders' annual meeting in the following year. The undistributed earnings shall be subject to 10% surtax and recorded as income tax expense during the year such stockholders' resolution is passed.

(13) 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 difference between actual pension fund contributions and the net pension fund cost is accounted for as "accrued pension liabilities" or "prepaid pension cost". The minimum pension liability is the minimum amount of pension liability that is required to be recognized on the balance sheet. When the "accrued pension liabilities" are less than the sum of "unrecognized prior period service cost" and "unrecognized transitional net assets or net benefit obligations", they should be recorded as "deferred pension cost", which belongs to intangible assets; otherwise, the minimum pension liability in excess of the "deferred pension cost" should be charged to "net losses not recognized as pension costs", which is a deduction from "stockholders' equity".

(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.

(15) Information related to the translation of the financial statements

The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

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

	<u>2004</u>	<u>2003</u>
Cash on hand	\$ 296	99
Petty cash	14,588	5,880
Bank deposits		
Checking accounts	38,359	5,296
Savings accounts	99,852	4,211
Foreign currency deposits	176,274	32,779
Time deposits	158,300	-
Total	<u><u>\$ 487,669</u></u>	<u><u>48,265</u></u>

(2) Long-term equity investments

<u>2004</u>	<u>Share</u>	<u>Amount</u>	<u>Ownership</u>
<u>Under the Equity Method</u>			
EUROASIA II INC., PANAMA	45	\$ 55,344	45%
(original investment cost US\$1,353,493 NT\$42,852 thousand)			
EUROASIA III INC., PANAMA	45	66	45%
(original investment cost US\$3,089 NT\$98 thousand)			
Subtotal		<u>55,410</u>	
<u>Under the Cost Method</u>			
K / S DANRED I	13	12,395	13%
(original investment cost US\$518,545 NT\$16,721 thousand)			
ETERNAL PESCADORES S.A. (PANAMA)	19	14,604	19%
(original investment cost US\$461,290 NT\$14,604 thousand)			
HARMONY SUCCESS S.A. (PANAMA)	19	4,341	19%
(original investment cost US\$137,107 NT\$4,341 thousand)			
Subtotal		<u>31,340</u>	
Total		<u><u>\$ 86,750</u></u>	

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

2003	Share	Amount	Ownership
<u>Under the Equity Method</u>			
EUROASIA II INC., PANAMA (original investment cost US\$1,541,104 NT\$52,274 thousand)	45	\$ 52,220	45%
EUROASIA III INC., PANAMA (original investment cost US\$1,188,120 NT\$40,302 thousand)	45	40,252	45%
Subtotal		<u>92,472</u>	
<u>Under the Cost Method</u>			
K / S DANRED I (original investment cost US\$518,545 NT\$16,721 thousand)	13	16,721	13%
ETERNAL PESCADORES S.A. (PANAMA) (original investment cost US\$336,361 NT\$11,410 thousand)	19	11,410	19%
HARMONY SUCCESS S.A. (PANAMA) (original investment cost US\$135,207 NT\$4,586 thousand)	19	4,586	19%
Subtotal		<u>32,717</u>	
Total		<u><u>\$ 125,189</u></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. In 2004, the Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), had received cash dividends of NT\$147,758 thousand (US\$4,421,250) from EUROASIA III INC., PANAMA. As of December 31, 2004, the Company's subsidiary had paid NT\$42,852 thousand (US\$1,353,493) and NT\$98 thousand (US\$3,089), respectively, for each of the investee companies. Investment gain or loss recognized for 2004 and 2003 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors is detailed below:

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

<u>Investee company</u>	<u>Investment gain (loss)</u>		<u>Cumulative translation adjustment</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
EUROASIA II INC., PANAMA	\$ 13,241	(55)	-	(753)
EUROASIA III INC., PANAMA	147,772	(50)	-	(580)
Total	<u>\$ 161,013</u>	<u>(105)</u>	<u>-</u>	<u>(1,333)</u>

- 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 (US\$518,545). During 2004 and 2003, the Company received cash dividends of NT\$28,036 thousand (including liquidating dividends of NT\$4,326 thousand) and NT\$1,801 thousand, respectively.
- c. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in ETERNAL PESCADORES S.A. (PANAMA) during 2002. This company was established for purposes of owning a newly built vessel—Pescadores Bulker. Stockholders of this company paid the construction price and related expenses in installments according to the shareholding percentages. The Company's subsidiary has 19% ownership and had paid NT\$14,604 thousand (US\$461,290). During 2004, the Company received cash dividends of NT\$1,905 thousand (US\$57,000).
- 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 December 31, 2004, the vessel construction was not completed and the subsidiary company had paid \$4,341 thousand (US\$137,107).

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

(3) Property and equipment

2004	Cost	Accumulated Depreciation	Net Amount
Land	\$ 79,937	-	79,937
Buildings and structures	29,572	1,414	28,158
Transportation equipment	2,260	1,758	502
Vessel equipment	7,995,745	1,782,348	6,213,397
Office furniture and equipment	2,665	965	1,700
Leasehold improvements	12,116	8,563	3,553
Prepayments for business facilities	208,383	-	208,383
Other equipment	32,343	8,938	23,405
Total	\$ 8,363,021	1,803,986	6,559,035
2003			
Land	\$ 79,937	-	79,937
Buildings and structures	29,572	444	29,128
Transportation equipment	2,260	1,381	879
Vessel equipment	7,652,356	1,509,725	6,142,631
Office furniture and equipment	3,020	1,031	1,989
Leasehold improvements	12,981	5,938	7,043
Prepayments for business facilities	78,956	-	78,956
Other equipment	16,950	8,242	8,708
Total	\$ 7,876,032	1,526,761	6,349,271

- a. The total insurance coverage for the above fixed assets amounted to US\$199,640 thousand and NT\$91,978 thousand as of December 31, 2004, and US\$178,000 thousand and NT\$95,778 thousand as of December 31, 2003.
- b. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), sold the Id Trader (Orang Berani) 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), which collected the whole amount in March 2003.
- c. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), and its investee company BRILLIANT PESCADORES S.A. (PANAMA) disposed of the vessel Brilliant in March 2003. The gain on disposal was US\$15,569.54, and then the vessel was leased back. In accordance with Statement of Financial Accounting Standards No. 2, the Company elected to defer the recognition of the unrealized gain on sale and leaseback and to amortize it over a period of three years for renting. As of December 31, 2004 and 2003, the unrealized gain on sale and leaseback was NT\$192 thousand (US\$6,055) and NT\$381 thousand (US\$11,245), respectively.

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

(4) Long-term account received, net

	2004	2003
Long-term accounts receivable	\$ -	-
Less: due within one year (recorded as other finance assets – current)	(-)	(-)
Net amount	\$ -	-

The long-term accounts receivable stated above were from disposal of the Bright 1999 by subsidiary DONG LIEN MARITIME S.A. (PANAMA). Full collection for the Bright was scheduled for July 2002 and extended 3 years at a 6.5% interest rate; because of the ship-owners' sale of the leased vessel, the Company transferred relevant collection for the Bright to other financial assets – current in March 2003, and collected the whole amount in 2004.

(5) Short-term loans

Nature	Period	Amount
2003		
Credit loans	Within one year	\$ 231,563
Secured loans	"	126,779
Total		\$ 358,342

The above loans bore interest at annual floating rates of 2.16% ~ 7.845%.

(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.

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

- b. The Company has deposited pension contributions into a specially designated account with the Central Trust of China. The pension account movements for 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Balance, beginning of period	\$ 2,234	2,092
Add: contributions	1,208	1,069
interest	33	35
Less: payments	-	(962)
Balance, end of period	<u>\$ 3,475</u>	<u>2,234</u>

- c. The Company obtained actuarial reports using December 31, 2004 and 2003, as the measurement dates.

- d. The net pension cost for 2004 and 2003 is computed as follows:

	<u>2004</u>	<u>2003</u>
Service cost	\$ 1,422	1,480
Interest cost	446	668
Return on pension fund assets	(55)	(84)
Amortization	750	761
Net pension cost	<u>\$ 2,563</u>	<u>2,825</u>

- e. The actuarial assumptions for net pension cost calculation and reconciliation of year-end pension funding status to accrued pension liabilities per book were as follows:

	<u>2004</u>	<u>2003</u>
Discount rate	2.50%	4.00%
Future salary increase rate	1.00%	3.25%
Estimated long-term investment rate of return on pension fund assets	2.50%	4.00%

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

	<u>2004</u>	<u>2003</u>
Benefit obligation:		
Vested benefit obligation	(\$ 5,463)	(9,138)
Nonvested benefit obligation	(9,144)	(7,749)
Accumulated benefit obligation	(14,607)	(16,887)
Effect of future salary increase	(1,702)	(963)
Projected benefit obligation	(16,309)	(17,850)
Fair value of pension fund assets	3,475	2,234
Funding status	(12,834)	(15,616)
Unrecognized transitional net benefit obligation	83	95
Unrecognized prior service cost	2,601	3,251
Unrecognized pension gain (loss)	3,469	3,286
Additional minimum pension liability	(4,451)	(5,669)
Accrued pension liability	<u>(\$ 11,132)</u>	<u>(14,653)</u>

As of December 31, 2004 and 2003, the Company's vested benefit amounted to NT\$5,740 thousand and NT\$9,358 thousand, respectively.

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

	<u>2004</u>	<u>2003</u>
Secured loans	\$ 4,278,609	4,191,074
Less: current portion	(827,935)	(505,914)
Net amount	<u>\$ 3,450,674</u>	<u>3,685,160</u>

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 1.55% ~ 4.88% and 1.55% ~ 4.10% for 2004 and 2003, respectively.

(8) Corporate bonds payable

On January 28, 2004, the Company issued the 1st domestic unsecured convertible bonds in an aggregate amount of NT\$230,000 thousand. The conversion price was NT\$15.15 per share, adjusted to NT\$12.74 after July 28, 2004 (the date of capitalization of capital surplus and retained earnings), and the interest-premium was NT\$232,660 thousand in the fourth quarter of 2004. As of December 31, 2004, the corporate bonds were all converted to 16,454,968 shares of common stock and produced NT\$68,110 thousand as capital surplus.

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 in 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	Capital increase in cash of \$584,810,000, and 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
Aug. 2004	2,600,000,000	1,933,515,800	Capitalization of retained earnings of \$154,102,780, capital surplus of \$146,397,640, employee bonuses of \$7,500,000 and convertible bonds of \$84,487,560
Oct. 2004	2,600,000,000	2,009,417,830	Capitalization of convertible bonds of \$75,902,030
Nov. 2004	2,600,000,000	2,013,577,920	Capitalization of convertible bonds of \$4,160,090

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 – stock (recorded at par value)	7,500	-
Employee bonuses – cash	-	3,000
Directors' and supervisors' remuneration	4,500	1,250
Capitalization of employee bonuses-stock (recorded at par value)	154,103	15,258
Capitalization of employee bonuses - cash	77,051	15,257
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

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

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

was 750 thousand shares of capital stock, constituting 0.49% of the Company's outstanding stock, as of December 31, 2003.

According to MOF rules, the distribution of retained earnings for 2004 is still pending the decision of the Company's stockholders' meeting. The related information will be announced on the Internet, such as on the Market Observation Post System.

(11) Income tax

a. The income tax for 2004 and 2003 was computed as follows:

	<u>2004</u>	<u>2003</u>
Income tax payable	\$ 12,901	14,853
Decrease in deferred income tax liabilities — current	-	(2,501)
Increase in deferred income tax assets — current	(521)	(1,588)
Income tax prepayment and withholding	9,645	4,370
Under-accrual (over-accrual) of prior years' income tax expense	<u>13,082</u>	<u>(8)</u>
Income tax expense	<u>\$ 35,107</u>	<u>15,126</u>

The components of income tax expense were as follows:

	<u>2004</u>	<u>2003</u>
Income tax currently payable	\$ 22,546	19,223
Deferred income tax revenue	(521)	(4,089)
Under-accrual (over-accrual) of prior years' income tax expense	13,082	(8)
Additional 10% surtax on undistributed earnings	<u>-</u>	<u>-</u>
Income tax expense	<u>\$ 35,107</u>	<u>15,126</u>

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

b. 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:

	<u>2004</u>	<u>2003</u>
The income tax effects of income before income tax calculated using the actual tax rate (25%)	\$ 231,041	61,491
Permanent difference		
Investment income—equity method	(210,752)	(46,161)
Gain on disposal of investments	(43)	(101)
Difference between book and tax on depreciation of assets	32	32
Accrued premium on convertible bonds	665	-
Liquidating dividends—cost method	1,081	-
Employee benefits	-	(15)
Tax separately levied on interest revenue	-	(8)
Other	1	(104)
Temporary difference	-	-
Bad debt expense	-	450
Foreign exchange loss (gain)	1,097	3,200
Pension expense	(576)	439
Income tax currently payable	<u>\$ 22,546</u>	<u>19,223</u>

c. As of December 31, 2004 and 2003, deferred income tax assets and liabilities due to temporary differences and income tax effects were as follows:

	<u>2004</u>	<u>2003</u>
Total deferred tax assets	\$ 2,199	2,775
Total deferred tax liabilities	<u>\$ 90</u>	<u>1,187</u>
	Taxable temporary differences	
	<u>2004</u>	<u>2003</u>
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 1,800	1,800
- Pension expense	6,999	9,301
- Gain on foreign exchange	(362)	(4,749)
Net amount	<u>\$ 8,437</u>	<u>6,352</u>

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

	Tax effect	
	2004	2003
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 450	450
- Pension expense	1,749	2,325
- Gain on foreign exchange	(90)	(1,187)
Net amount	\$ 2,109	1,588

d. 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 \$1,486 thousand, \$6,669 thousand and \$4,901 thousand for 2002, 2001 and 2000, respectively, 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 as income tax expenses.

e. Related information on imputation tax:

	2004	2003
The balance of stockholders' imputation credit account	\$ 13,586	9,526
	2004	2003
Estimated (actual) imputation credit ratio of earnings distribution	(estimated) 1.49%	(actual) 8.50%

f. Related information on undistributed earnings

	2004	2003
Undistributed earnings of 1997 and before	\$ -	167
Undistributed earnings of 1998 and after	910,173	287,151
Total	\$ 910,173	287,318

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

(12) Earnings per share

The Company's primary and diluted earnings per share for 2004 and 2003 are calculated as follows:

Unit: NTD'000s/Shares'000s; Earnings per share: NTD

	<u>2004</u>		<u>2003</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Primary earnings per share				
— Current period				
Net income attributed to common shareholders	\$ 924,203	889,096	246,003	230,877
Weighted-average number of shares outstanding	191,786	191,786	154,103	154,103
Primary earnings per share	\$ 4.82	4.64	1.60	1.50
— Retroactively adjusted				
Weighted-average number of shares outstanding	191,786	191,786	183,302	183,302
Primary earnings per share — retroactively adjusted	\$ 4.82	4.64	1.34	1.26

5. RELATED-PARTY TRANSACTIONS

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

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

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

(2) Significant transactions with related parties

a. Sales

<u>Name of related party</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ 20,919	1	2,735	-
EUROASIA III INC., PANAMA	-	-	2,719	-
Total	<u>\$ 20,919</u>	<u>1</u>	<u>5,454</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. Advance receipts (recorded as other current liabilities)

<u>Name of related party</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EUROASIA II INC., PANAMA	\$ 2,644	3	-	-

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

<u>DONG LIEN SHIPPING CO., LTD.</u>	<u>2004</u>	<u>2003</u>
Rental income	<u>\$ 96</u>	<u>48</u>

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

6. PLEDGED ASSETS

The following is a summary of assets provided by the Company to financial institutions as guarantee and collateral for secured loans as of December 31, 2004 and 2003.

<u>Name of asset</u>	<u>2004</u>	<u>2003</u>
Property and equipment (net book value)		
-Land	\$ 79,937	79,937
-Buildings and structures	25,814	26,541
-Vessel equipment	6,213,186	6,142,377
Deposits-out	-	7,055
Restricted assets	15,566	39,518
Total	<u>\$ 6,334,503</u>	<u>6,295,428</u>

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

7. COMMITMENTS AND CONTINGENCIES

As of December 31, 2004 and 2003, the Company's commitments and contingencies were as follows:

(1) The Company had significant contracts as follows:

Contract Title	Contracting Party	Period Covered	Contents
Management Contract	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 Company'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	"

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (2) The Company signed an agreement for purchase of a Taiwan Danshui Golf Club Membership with Mr. Hsiao Shing-Yuan (hereinafter called defendant) in Nov. 2003; the selling price was NT\$1,800 thousand. After the defendant received the check issued by the Company and cashed the check on December 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 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 thousand (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 no bargain purchase price). As of December 31, 2004, and 2003, the Company had leased the vessel according to the contract and had made deposits-out amounting to US\$4,585,000 and US\$4,697,500, respectively.
- (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 thousand and NT\$2,256 thousand), 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 December 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 thousand, and the

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

Company would cancel the appeal at Taiwan High Court and agreed to forgive the remaining claim of the above-mentioned damage reimbursement with Hsing Chang Lumber Company.

- (5) As of December 31, 2004 and 2003, the Company was provided endorsement guarantees by MAJESTIC PESCADORES S.A (PANAMA) amounting to US\$6,511 thousand and US\$7,099 thousand, respectively.
- (6) As of December 31, 2004 and 2003, the Company had issued guarantee notes for cargo transportation, which amounted to NT\$745,340 thousand and NT\$87,928 thousand, respectively.
- (7) The construction and purchase agreements for vessels signed by the subsidiaries of the Company's subsidiary amounted to US\$6,000 thousand and JPY 15,021,400 thousand as of December 31, 2004, and US\$6,000 thousand and JPY 4,054,000 thousand as of December 31, 2003. They had paid US\$6,000 thousand and JPY 2,962,700 thousand as of December 31, 2004, and US\$0 and JPY 254,000 thousand as of December 31, 2003 (recorded as prepayments for business facilities).

8. MAJOR DISASTER LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS: None.

10. FINANCIAL INSTRUMENTS

(1) Derivative financial instruments:

a. Contract amount or nominal principal and credit risk

		December 31, 2004	
Financial Instruments		Contract Amount	Credit Risk
Forward Contracts			
Nontrading—The Company's sell contract	USD	-	-
—Subsidiary company's purchase contract	JPY	100,000,000	
—Subsidiary of subsidiary company's purchase contract	JPY	209,000,000	
		December 31, 2003	
Financial Instruments		Contract Amount	Credit Risk
Forward Contracts			
Nontrading—Subsidiary company's purchase contract	JPY	-	-

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 Company and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

its subsidiaries 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 and its subsidiaries 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 and its subsidiaries 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

The exchange gain resulting from foreign exchange forward contracts was NT\$7,281 thousand and NT\$231 thousand on December 31, 2004 and 2003, respectively. Foreign exchange forward contracts receivable and payable are netted, and the difference is booked as current assets or current liabilities. There were no foreign exchange forward contracts receivable or payable as of December 31, 2004 and 2003.

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

(2) Fair value of financial instruments

<u>Nonderivative Financial Instruments</u>	2004	
	<u>Book Value</u>	<u>Fair Value</u>
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 959,061	959,061
Short-term investments	3,000	3,027
Long-term equity investments		
– impossible to estimate fair value in practice	86,750	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	181,248	181,248
Long-term loans	4,278,609	4,278,609
<u>Financial instruments with off-balance-sheet credit risk</u>		
Endorsement guarantees		US\$6,511 thousand

<u>Nonderivative Financial Instruments</u>	2003	
	<u>Book Value</u>	<u>Fair Value</u>
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 668,634	668,634
Short-term investments	6	9
Long-term equity investments		
– impossible to estimate fair value in practice	125,189	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	595,098	595,098
Long-term loans	4,191,074	4,191,074
<u>Financial instruments with off-balance-sheet credit risk</u>		
Endorsement guarantees		US\$7,099 thousand

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, long-term accounts

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

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.

(3) Financial instruments with off-balance-sheet credit risk

As of December 31, 2004 and 2003, the Company had provided end or segment guarantees by company amounting to US\$6,511 thousand and US\$7,099 thousand, 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 major client is the owner of large amount commodity or rents the proxy line for a long time. 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) Summary of expenses for employees, depreciation, depletion and amortization

	2004			2003		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expense						
Payroll	\$ 251,008	41,431	292,439	211,856	33,182	245,038
Insurance	12,795	4,005	16,800	45,026	3,465	48,491
Retirement	-	2,563	2,563	-	2,825	2,825
Others	70,110	1,966	72,076	34,062	2,044	36,106
Depreciation	401,541	1,861	403,402	346,656	1,283	347,939
Depletion	-	-	-	-	-	-
Amortization	47,175	126	47,301	41,686	128	41,814

(6) Current analysis of assets and liabilities: None.