

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

AND

INDEPENDENT AUDITORS' REPORT

SHIH WEI NAVIGATION CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

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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, 2005 and 2004, 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, 2005 and 2004, and the results of their operations and their cash flows for the half-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.

August 18, 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
JUNE 30, 2005 AND 2004
(amounts expressed in thousands of New Taiwan dollars)

	June 30			
	2005		2004	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 4.1)	\$ 737,277	8	172,766	2
Short-term investments, net	145,985	2	2,100	-
Accounts receivable, net	54,778	1	62,867	1
Accounts receivable – related party (Note 5)	-	-	2,719	-
Other financial assets – current (Note 10)	54,911	1	131,504	2
Inventories	60,548	1	53,277	1
Deferred income tax asset – current (Note 4.10)	2,296	-	3,558	-
Restricted assets – current (Note 6)	15,522	-	26,657	-
Other current assets	28,007	-	31,320	-
	<u>1,099,324</u>	<u>13</u>	<u>486,768</u>	<u>6</u>
LONG-TERM EQUITY INVESTMENTS (Note 4.2)				
Long-term investment – equity method	64,096	1	99,210	2
Long-term investment – cost method	40,773	-	36,759	-
	<u>104,869</u>	<u>1</u>	<u>135,969</u>	<u>2</u>
PROPERTY AND EQUIPMENT (Notes 4.3 and 6)				
Land	79,937	1	79,937	1
Buildings and structures	29,838	-	29,572	-
Transportation equipment	2,260	-	2,260	-
Vessel equipment	9,294,527	102	8,111,955	105
Office furniture and equipment	2,793	-	2,902	-
Leasehold improvements	5,419	-	12,896	-
Prepayments for business facilities	161,765	2	137,443	2
Other equipment	44,702	-	35,489	-
Less: Accumulated depreciation	(2,002,714)	(22)	(1,710,791)	(22)
	<u>7,618,527</u>	<u>83</u>	<u>6,701,663</u>	<u>86</u>
INTANGIBLE ASSETS				
Deferred pension cost (Note 4.5)	2,684	-	3,346	-
OTHER ASSETS				
Deposits-out (Note 7)	190,778	2	355,842	5
Deferred charges	112,765	1	82,912	1
	<u>303,543</u>	<u>3</u>	<u>438,754</u>	<u>6</u>
TOTAL ASSETS	\$ 9,128,947	100	7,766,500	100
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 4.4)	\$ -	-	254,681	3
Notes payable	331	-	-	-
Accounts payable	61,129	1	94,884	1
Accrued tax payable (Note 4.10)	47,519	1	27,483	1
Accrued expenses	69,601	1	88,163	1
Current portion of long-term liabilities (Note 4.6)	650,501	7	509,537	7
Other current liabilities (Note 4.9)	516,870	5	150,611	2
	<u>1,345,951</u>	<u>15</u>	<u>1,125,359</u>	<u>15</u>
LONG-TERM LIABILITIES				
Corporate bonds payable (Note 4.7)	-	-	103,083	1
Long-term loans (Note 4.6)	4,191,793	46	3,742,226	48
	<u>4,191,793</u>	<u>46</u>	<u>3,845,309</u>	<u>49</u>
OTHER LIABILITIES				
Accrued pension liability (Note 4.5)	11,819	-	11,671	-
Deposits-in (Note 7)	170	-	175	-
Unrealized gain on sale and leaseback (Note 4.2)	109	-	291	-
	<u>12,098</u>	<u>-</u>	<u>12,137</u>	<u>-</u>
Total Liabilities	<u>5,549,842</u>	<u>61</u>	<u>4,982,805</u>	<u>64</u>
STOCKHOLDERS' EQUITY				
Capital stock				
Common stock (Note 4.8)	2,524,973	28	1,625,515	21
Stock dividend to be distributed (Note 4.9)	-	-	308,000	4
Capital surplus				
Capital surplus – additional paid-in capital	104,883	1	255,902	3
Capital surplus – convertible bonds converted in excess of the common stock's par value	68,110	1	44,679	1
Retained earnings (Note 4.9)				
Legal reserve	156,574	2	67,664	1
Special reserve	37,586	-	-	-
Unappropriated earnings	731,550	8	319,724	4
Cumulative translation adjustment	(42,804)	(1)	164,534	2
Unrecognized pension loss	(1,767)	-	(2,323)	-
Total Stockholders' Equity	<u>3,579,105</u>	<u>39</u>	<u>2,783,695</u>	<u>36</u>
COMMITMENTS AND CONTINGENCIES (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,128,947	100	7,766,500	100

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, 2005 AND 2004

(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., 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., 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), LEADER PESCADORES S.A. (PANAMA) and WELL PESCADORES S.A. (PANAMA). As of June 30, 2005, the Company and its subsidiaries owned 25 vessels: Trump, Babitonga (Great), Paragon, Best, Elegant, Brave, Advance, Oceanic, Buenos Aires (Giant), Blossom, Royal, Shining, Brilliant, Sunny, Scan Bulker, Gallant, Grand, Federal, Excellent, Honor, Bright, Superior, Grand Overseas, Unicorn Brilliant and Well.

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, 2005, the number of employees was 653.

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 by 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 June 30, 2005
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.	Dec. 12, 1993	"	"	"
JACKSON STEAMSHIP S.A. (PANAMA)	Oct. 12, 1990	"	"	"
BRILLIANT PESCADORES S.A.	Dec. 22, 1993	"	"	"
BLOSSOM PESCADORES S.A. (PANAMA)	May 09, 1996	"	"	"
ROYAL PESCADORES S.A. (PANAMA)	Nov. 30, 1995	"	"	"
GENIUS PESCADORES S.A. (PANAMA)	Aug. 20, 1993	"	"	"
MOON BRIGHT SHIPPING 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	"	"	"
PHAROS PESCADORES S.A. (PANAMA)	Jul. 27, 2004	"	"	"
POSEIDON PESCADORES S.A. (PANAMA)	Jul. 27, 2004	"	"	"
BEACON PESCADORES S.A. (PANAMA)	Sep. 08, 2004	"	"	"
LEADER PESCADORES S.A. (PANAMA)	Aug. 03, 2004	"	"	"
WELL PESCADORES S.A. (PANAMA)	Mar. 24, 2005	"	"	"

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 WELL PESCADORES S.A. (PANAMA) during the first half of 2005, and the subsidiary company has a 100% shareholding.
 - c. Related information on the subsidiaries that are not included in the consolidated financial statements: None.
 - d. Subsidiary's accounting year-end differs from the Company's: None.
 - e. Subsidiary's accounting policies and controlling companies differ from the Company's: None.
 - f. Special operating risk of foreign subsidiaries: None.
 - g. Legal or contract restrictions on distribution of earnings of the subsidiaries: None.
 - h. Method and duration of amortization of consolidated debit or credit: None.
- (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

Long-term investments in investee companies in which the Company owns less than 20% of voting shares and has no significant influence are initially recorded at cost. However, investments in listed (or OTC) company stocks are stated at the lower of cost or market value. When the cost exceeds market value, an allowance for investment loss account is established and recorded as a deduction from stockholders' equity. Investment loss is recognized currently for investment in nonlisted (non-OTC) company stocks when there is sufficient evidence indicating that the investment value is impaired and the possibility of recovery is slim. Stock dividends derived from capitalization of capital reserve or retained earnings are accounted for as an increase in the number of shares held and not as investment income, and the unit cost per share is recomputed using the weighted-average method.

Long-term equity investments in which the Company has over 20% ownership of voting shares, or less than 20% but has significant influence, are accounted for by the equity method. Premiums and discounts on long-term equity investment, if any, are amortized on a straight-line basis over five years.

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

The differences between selling price and carrying value are recorded as gain or loss on disposal of long-term equity investments. If there was some capital surplus generated by long-term equity investment, it should be directly recorded as current gain or loss in proportion to the amount sold.

The Company assesses the value of investee companies not only using the equity method, but includes the financial statements of subsidiaries when preparing consolidated financial statements on June 30 and December 31 for every accounting year.

Gain or loss on sales between the Company and investee companies accounted for using the equity method is deferred until realized through transactions with third parties. It should be amortized over the useful life of the assets if it was generated by depreciated or amortized assets. Otherwise, it should be recognized as gain or loss when it occurred.

(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.

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.

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

(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 a golf club membership was stated at cost, and is amortized over a period of 20 years.

(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.

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

(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 to 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.

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

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

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) Asset impairment

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) “Accounting for Asset Impairment”. According to SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

(16) 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. The financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

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

3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES

The Company adopted Statement of Financial Accounting Standards No. 35 "Accounting for Asset Impairment" in 2005. The Company determined that no asset had an indication of impairment as of June 30, 2005.

4. SUMMARY OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	June 30	
	2005	2004
Cash on hand	\$ 324	284
Petty cash	16,139	9,469
Bank deposits		
Checking accounts	5,591	2,104
Savings accounts	405,831	31,309
Foreign currency deposits	56,832	129,600
Time deposits	252,560	-
Total	\$ 737,277	172,766

(2) Long-term equity investments

	Share	Amount	Ownership
June 30, 2005			
Under the Equity Method			
EUROASIA II INC., PANAMA (original investment cost US\$1,353,493 NT\$42,730)	45	\$ 63,901	45%
EUROASIA III INC., PANAMA (original investment cost US\$3,089 NT\$98)	45	195	45%
Subtotal		64,096	
Under the Cost Method			
K / S DANRED I (original investment cost US\$518,545 and NT\$16,721)	13	11,958	13%
ETERNAL PESCADORES S.A. (PANAMA) (original investment cost US\$461,290 NT\$14,563)	19	14,563	19%
HARMONY SUCCESS S.A. (PANAMA) (original investment cost US\$451,430 NT\$14,252)	19	14,252	19%
Subtotal		40,773	
Total		\$ 104,869	

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

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

- a. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), invested in EUROASIA II INC., PANAMA and EUROASIA III INC., PANAMA in 2003. The companies were established for purposes of owning newly built vessels – Bianco Pescadores and Hull No. 10369. The payments for the vessels' construction and related expenses were made in installments according to the shareholding percentages of both investee companies. The Company had a 45% shareholding of both investee companies. As of June 30, 2005, the Company's subsidiary had paid NT\$42,730 (US\$1,353,493) and NT\$98 (US\$3,089), respectively, for each of the investee companies. Investment gain or loss recognized for 2005 and 2004 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)

Investee company	Investment gain (loss)	
	January 1 ~ June 30	
	2005	2004
EUROASIA II INC., PANAMA	\$ 8,683	2,866
EUROASIA III INC., PANAMA	129	(36)
Total	\$ 8,812	2,830

- 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 (US\$518,545). During the first half of 2005 and 2004, the Company received cash dividends of NT\$10,719 (excluding liquidating dividends of NT\$437) and NT\$14,140, 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. In March 2004, the vessel construction was completed. The Company's subsidiary has 19% ownership and had paid NT\$14,563 (US\$461,290). During the first half of 2005 and 2004, the Company received cash dividends of NT\$897 (US\$28,500) and NT\$761 (US\$22,800), respectively.
- 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, 2005, the vessel construction was not completed and the subsidiary company had paid \$14,252 (US\$451,430).

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

(3) Property and equipment

June 30, 2005	Cost	Accumulated Depreciation	Net Amount
Land	\$ 79,937	-	79,937
Buildings and structures	29,838	1,907	27,931
Transportation equipment	2,260	1,946	314
Vessel equipment	9,294,527	1,979,981	7,314,546
Office furniture and equipment	2,793	976	1,817
Leasehold improvements	5,419	4,383	1,036
Prepayments for business facilities	161,765	-	161,765
Other equipment	44,702	13,521	31,181
Total	\$ 9,621,241	2,002,714	7,618,527
June 30, 2004			
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

- a. The total insurance coverage for the above fixed assets amounted to US\$279,640 thousand and NT\$91,734 as of June 30, 2005, and US\$189,140 thousand and NT\$91,978 as of June 30, 2004.
- b. The Company's subsidiary, DONG LIEN MARITIME S.A. (PANAMA), and its investee company BRILLIANT PESCADORES S.A. 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 June 30, 2005 and 2004, the unrealized gain on sale and leaseback was NT\$109 (US\$3,460) and NT\$291 (US\$8,650), respectively.

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

(4) Short-term loans

<u>Nature</u>	<u>Period</u>	<u>Amount</u>
June 30, 2004		
Credit loans	Within one year	\$ 199,352
Secured loans	"	55,329
Total		\$ 254,681

The Company provided restricted assets (including bank deposits and short-term investments) as collateral for the above secured loans.

The above loans bore interest at annual floating rates of 2.25% ~5.14% for the first half of 2004.

(5) 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 the first half of 2005 and 2004 were as follows:

	January 1 ~ June 30	
	2005	2004
Balance, beginning of period	\$ 3,475	2,234
Add: contributions	628	606
interest	-	-
Less: payments	-	-
Balance, end of period	\$ 4,103	2,840

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

	January 1 ~ June 30	
	2005	2004
Secured loans	\$ 4,762,294	4,251,763
Credit loans	80,000	-
Less: current portion	(650,501)	(509,537)
Net amount	\$ 4,191,793	3,742,226

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 1.13% ~ 4.97% and 1.55% ~ 3.92% for the first half of 2005 and 2004, respectively.

- (7) Corporate bonds payable

On January 28, 2004, the Company issued the 1st domestic unsecured convertible bonds in an aggregate amount of NT\$230,000. The conversion price was NT\$15.15 (dollars) per share, adjusted to NT\$12.74 (dollars) after July 28, 2004 (the date of capitalization of capital surplus and retained earnings), and the interest-premium was NT\$1,083 for the first half of 2004. As of June 30, 2004, the above-mentioned corporate bonds were converted to 8,449 thousand shares of common stock with par value of NT\$128,000 and produced NT\$44,679 as capital surplus.

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

(8) 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
Jun. 2005	3,800,000,000	2,524,972,400	Capitalization of retained earnings of \$352,376,140, capital surplus of \$151,018,340 and employee bonuses of \$8,000,000

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

(9) Distribution of retained earnings

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

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

The distribution of retained earnings for 2004 and 2003 was resolved in the stockholders' meetings on April 26, 2005, and May 28, 2004, respectively, as follows:

Item	2004	2003
Legal reserve	\$ 88,910	23,087
Special reserve	37,586	-
Directors' and supervisors' remuneration	6,000	4,500
Employee bonuses — stock (recorded at par value)	8,000	7,500
Employee bonuses — cash	8,000	-
Capitalization of employee bonuses — stock (recorded at par value)	352,376	154,103
Capitalization of employee bonuses — cash	402,716	77,051
Total	\$ 903,588	266,241

The above-mentioned capitalization of employee bonuses — cash of NT\$402,716 and NT\$77,051 had been distributed as of July 4, 2005, and August 13, 2004, respectively.

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 2004 and 2003:

Dividends per share	(amounts expressed in New Taiwan dollars)	
	2004	2003
Cash	\$ 2.00	0.5
Stock	1.75	1.0
Total	\$ 3.75	1.5

Employee bonuses and directors' and supervisors' remuneration	2004	2003
Employee bonuses — cash	\$ 8,000	-
Employee bonuses — stock	8,000	7,500
Directors' and supervisors' remuneration	6,000	4,500
Total	\$22,000	12,000

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 2004 and 2003 would be NT\$4.52 (dollars) and NT\$1.42 (dollars), respectively. The above employee bonuses were 800 and 750 thousand shares of capital stock constituting 0.40% and 0.49% of the Company's outstanding stock as of December 31, 2004 and 2003, respectively.

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

(10) Income tax

a. The income tax for the first half of 2005 and 2004 was computed as follows:

	January 1 ~ June 30	
	2005	2004
Income tax payable	\$ 42,877	10,413
Increase in deferred income tax assets—current	(187)	(1,970)
Income tax prepayment and withholding	12	3
Under-accrual (over-accrual) of prior years' income tax expense	(4,725)	11,596
Income tax expense	\$ 37,977	20,042

The components of income tax expense were as follows:

	January 1 ~ June 30	
	2005	2004
Income tax currently payable	\$ 42,889	10,416
Deferred income tax revenue	(187)	(1,970)
Under-accrual (over-accrual) of prior years' income tax expense	(4,725)	11,596
Additional 10% surtax on undistributed earnings	-	-
Income tax expense	\$ 37,977	20,042

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:

	January 1 ~ June 30	
	2005	2004
The income tax effects of income before income tax calculated using the actual tax rate (25%)	\$ 190,725	79,662
Permanent difference		
Investment income – equity method	(179,927)	(71,759)
Gain on disposal of investments	(142)	(35)
Liquidating dividends – cost method	109	-
Dividends – equity method	31,716	-
Other	221	578
Temporary difference		
Foreign exchange loss	15	2,715
Pension expense	(172)	(745)
Income tax currently payable	\$ 42,889	10,416

- c. In the first half of 2005 and 2004, the components of deferred income tax revenue were as follows:

	January 1 ~ June 30	
	2005	2004
Foreign exchange loss	\$ 15	2,715
Pension expense	172	(745)
Deferred income tax revenue	\$ 187	1,970

- d. As of June 30, 2005 and 2004, deferred income tax assets and liabilities due to temporary differences and income tax effects were as follows:

	June 30	
	2005	2004
Total deferred tax assets	\$ 2,371	3,558
Total deferred tax liabilities	\$ 75	-

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

	Taxable temporary differences	
	June 30	
	2005	2004
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 1,800	1,800
- Pension expense	7,686	6,319
- Loss (gain) on foreign exchange	(303)	6,114
Net amount	\$ 9,183	14,233
	Tax effect	
	June 30	
	2005	2004
Deferred income tax assets (liabilities) — current		
- Bad debt expense	\$ 450	450
- Pension expense	1,921	1,579
- Loss (gain) on foreign exchange	(75)	1,529
Net amount	\$ 2,296	3,558

- e. The Company's income tax returns were examined and assessed by the Tax Authority through 2002. The Tax Authority assessed additional tax amounting to NT\$5,742 for 1997 and 1998. The Company disagreed with this tax assessment and has applied to the Tax Authority for administrative appeal proceedings. According to the principle of conservatism, the Company recorded fully the above-mentioned assessment of additional tax amounting to NT\$5,742 in 2001 as income tax expenses. The Tax Authority assessed additional tax amounting to \$1,345, \$6,669 and \$4,901 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.

For the above tax administrative appeals of 2001 and 2000, the Tax Authority decided to cancel the assessment of additional tax amounting to NT\$3,109 and NT\$1,605, respectively.

The Company canceled the above 2002 tax administrative appeal in the first half of 2005 and expected to pay the additional tax amounting to NT\$1,345 in July 2005.

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

f. Related information on imputation tax:

	June 30	
	2005	2004
The balance of stockholders' imputation credit account	\$ 3,775	1,788
	2004	2003
Estimated (actual) imputation credit ratio of earnings distribution	(actual) 3.16%	(actual) 8.50%

g. Related information on undistributed earnings

	June 30	
	2005	2004
Undistributed earnings of 1997 and before	\$ -	-
Undistributed earnings of 1998 and after	731,550	319,724
Total	\$ 731,550	319,724

(11) Earnings per share

The Company's primary and diluted earnings per share for the first half of 2005 and 2004 are calculated as follows:

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

	January 1 ~ June 30			
	2005		2004	
	Before Tax	After Tax	Before Tax	After Tax
Primary earnings per share				
— Current period				
Consolidated net income attributed to common shareholders	\$ 762,942	724,965	318,689	298,647
Weighted-average number of shares outstanding	252,497	252,497	155,308	155,308
Primary earnings per share	\$ 3.02	2.87	2.05	1.92
— Retroactively adjusted				
Weighted-average number of shares outstanding	252,497	252,497	231,653	231,653
Primary earnings per share—retroactively adjusted	\$ 3.02	2.87	1.38	1.29

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

	January 1 ~ June 30			
	2005		2004	
	Before Tax	After Tax	Before Tax	After Tax
Diluted earnings per share				
Consolidated net income attributed to common shareholders	\$ 762,942	724,965	318,689	298,647
Effects on diluted potential common stock				
— Corporate bonds payable	-	-	1,083	812
Consolidated net income for the calculation of diluted earnings per share	\$ 762,942	724,965	319,772	299,459
— Current				
Weighted-average number of shares outstanding	252,497	252,497	155,308	155,308
Effects on diluted potential common stock				
— Corporate bonds payable	-	-	5,771	5,771
	252,497	252,497	161,079	161,079
— Retroactively adjusted				
Weighted-average number of shares outstanding	252,497	252,497	240,261	240,261
Diluted earnings per share — current period	\$ 3.02	2.87	1.99	1.86
— retroactively adjusted	\$ 3.02	2.87	1.33	1.24

5. RELATED-PARTY TRANSACTIONS

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

Name of related party	Relationship
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

Name of related party	January 1 ~ June 30			
	2005		2004	
	Amount	%	Amount	%
EUROASIA II INC., PANAMA	\$ 15,457	1	4,534	3

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

Name of related party	June 30			
	2005		2004	
	Amount	%	Amount	%
EUROASIA II INC., PANAMA	\$ -	-	1,360	50
EUROASIA III INC., PANAMA	-	-	1,359	50
Total	\$ -	-	2,719	100

c. For the agency contract concluded by the Company and the related parties, please refer to Note 7.

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

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

DONG LIEN SHIPPING CO., LTD.	January 1~ June 30	
	2005	2004
Rental income	\$ 48	48
	48	48

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 June 30, 2005 and 2004.

Name of asset	June 30	
	2005	2004
Property and equipment (net book value)		
-Land	\$ 79,937	79,937
-Buildings and structures	27,931	28,643
-Vessel equipment	7,314,356	6,422,282
Restricted assets	15,522	26,657
Total	\$ 7,437,746	6,557,519
	7,437,746	6,557,519

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

7. COMMITMENTS AND CONTINGENCIES

As of June 30, 2005 and 2004, 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	ETERNAL PESCADORES 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	"
"	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	"

(2) As of June 30, 2005 and 2004, the Company was provided endorsement guarantees by MAJESTIC PESCADORES S.A (PANAMA) amounting to US\$6,218 thousand and US\$6,805 thousand, respectively; the Company had issued guarantee notes for cargo transportation, which amounted to NT\$625,040 and NT\$441,777, respectively.

(3) 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. 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

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

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 (recorded as other financial assets—current) in the financial statements for 2003.

- (4) 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 had 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). The Company leased the vessel according to the contract and made deposits-out amounting to US\$4,697,500. In May 2005, the Company purchased the vessel Well for US\$15,537,679.
- (5) 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 and NT\$2,256), 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 the Company would receive the payment of NT\$1,900 according to the agreement on August 2, 2004, and the Company would cancel the appeal to the Taiwan High Court and agreed to forgive the remaining claim for the above-mentioned damage reimbursement with Hsing Chang Lumber Company.
- (6) The construction and purchase agreements for vessels signed by the subsidiaries of the Company's subsidiary amounted to JPY 9,987,400 thousand as of June 30, 2005, and JPY 5,744,000 thousand as of June 30, 2004. They had paid JPY 558,100 thousand as of June 30, 2005, and JPY 438,198 thousand as of June 30, 2004 (recorded as prepayments for business facilities).

8. MAJOR DISASTER LOSSES: None.

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

9. SIGNIFICANT SUBSEQUENT EVENTS: None.

10. FINANCIAL INSTRUMENTS

(1) Derivative financial instruments:

a. Contract amount or nominal principal and credit risk

Unit: New Taiwan Dollars

	June 30, 2004	
Financial Instruments	Contract Amount	Credit Risk
Forward Contracts		
Nontrading–Subsidiary company’s		
purchase contract	JPY 194,691,500	-
–The Company’s sell 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 Company and 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 subsidiaries 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 is 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

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

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 is evaluated periodically.

e. Presentation of financial derivatives in financial statements

The exchange gain resulting from foreign exchange forward contracts was NT\$4,083 and NT\$723 on June 30, 2005 and 2004, 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 June 30, 2005 and 2004.

(2) Fair value of financial instruments

<u>Nonderivative Financial Instruments</u>	June 30, 2005	
	<u>Book Value</u>	<u>Fair Value</u>
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 1,053,266	1,053,266
Short-term investments	145,985	145,176
Long-term equity investments		
– impossible to estimate fair value in practice	104,869	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	602,843	602,843
Long-term loans	4,842,294	4,842,294
<u>Financial instruments with off-balance-sheet credit risk</u>		
Endorsement guarantees		US\$6,218 thousand

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

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

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. Long-term investments:

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.

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

- 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, 2005 and 2004, the Company had provided guarantees for other companies amounting to US\$6,218 thousand and US\$6,805 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 arise 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 clients are the owners of a large amount of commodities, agencies for long-term leasing of vessels, and the Company's subsidiaries. In order to reduce credit risk, the Company regularly evaluates its customers' financial position. 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~ June 30					
	2005			2004		
	Operating cost	Operating expense	Total	O p e r a t i n g c o s t	Operating expense	Total
Employee expense						
Payroll	\$ 137,751	20,892	158,643	118,398	20,056	138,454
Insurance	6,611	1,874	8,485	5,296	1,878	7,174
Retirement	-	1,315	1,315	-	1,281	1,281
Others	41,738	928	42,666	35,940	969	36,909
Depreciation	208,949	927	209,876	192,611	934	193,545
Depletion	-	-	-	-	-	-

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

Amortization	25,446	73	25,519	21,465	69	21,534
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