

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2004 and 2003

and

Independent Auditors' Report

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES

Consolidated Financial Statements

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Independent Auditors' Report

The Board of Directors and Stockholders
Dong Lien Maritime S.A. (Panama)

We have audited the accompanying consolidated balance sheets of Dong Lien Maritime S.A. (Panama) and subsidiaries as of June 30, 2004 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the half-years then ended (expressed in U.S. dollars). 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 Dong Lien Maritime S.A. (Panama) and subsidiaries as of June 30, 2004 and 2003, and the results of their operations and cash flows for the half-years then ended, in conformity with Republic of China generally accepted accounting principles.

August 16, 2004
Taipei, Taiwan, ROC

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.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2004 and 2003
(expressed in US dollars)

Assets	June 30			
	2004		2003	
	Amount	%	Amount	%
Current assets				
Cash and cash equivalents (Note 4(1))	\$ 1,606,448	1	1,528,938	1
Accounts receivable, net	1,026,763	-	3,337,722	2
Agency current accounts (Note 5)	2,815,846	1	2,884,772	1
Inventories	1,290,255	1	265,407	-
Other financial assets – current	3,541,919	2	1,185,332	1
Prepayments and other current assets	724,961	-	273,705	1
Restricted assets (Note 6)	731,667	-	731,667	-
	11,737,859	5	10,207,543	6
Long-term equity investments (Note 4(2))				
Long-term investment – equity method	2,943,928	2	731,770	1
Long-term investment – cost method	594,597	-	224,463	-
	3,538,525	2	956,233	1
Property and equipment (Notes 4(3) and 6)				
Vessel equipment	237,796,486	108	198,183,835	106
Leasehold improvements	382,680	-	365,880	-
Prepayments for business facilities	4,078,416	2	4,615,000	3
Less: accumulated depreciation	(49,619,363)	(22)	(39,123,814)	(21)
	192,638,219	88	164,040,901	88
Other assets				
Deposits-out	10,296,007	5	9,817,599	5
Deferred assets	1,629,208	-	1,004,095	1
Long-term accounts receivable, net (Note 4(4))	-	-	500,000	-
	11,925,215	5	11,321,694	6
Total assets	\$ 219,839,818	100	186,526,371	100
Liabilities and Stockholders' Equity				
Current liabilities				
Short-term loans (Note 4(5))	\$ 2,008,337	1	3,606,670	2
Accounts payable	2,059,873	1	2,959,655	1
Accrued expenses	1,931,061	1	1,814,249	1
Agency current accounts (Note 5)	4,144,915	2	5,132,236	3
Related-party payables (Note 5)	-	-	1,502,802	1
Collections in advance and other current liabilities	1,767,074	-	1,516,464	1
Current portion of long-term liabilities (Note 4(6))	15,002,412	7	11,671,613	6
	26,913,672	12	28,203,689	15
Long-term liabilities				
Long-term loans (Note 4(6))	109,199,729	50	93,935,017	50
Other liabilities				
Deposits-in	-	-	100,000	-
Unrealized gain on sale and leaseback (Note 4(3))	8,650	-	38,795	-
	8,650	-	138,795	-
Total liabilities	136,122,051	62	122,277,501	65
Stockholders' equity				
Capital stock (Note 4(7))	60,851,392	28	53,951,392	29
Retained earnings	22,866,375	10	10,297,478	6
Total stockholders' equity	83,717,767	38	64,248,870	35
Commitments and contingencies (Note 7)				
Total liabilities and stockholders' equity	\$ 219,839,818	100	186,526,371	100

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

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES

Consolidated Statements of Income

For the half-years ended June 30, 2004 and 2003

(expressed in US dollars)

	January 1~ June 30			
	2004		2003	
	Amount	%	Amount	%
Operating revenue, net	\$ 31,655,115	100	25,517,556	100
Operating costs	23,751,467	75	22,993,802	90
Operating gross profit	7,903,648	25	2,523,754	10
Operating expenses	357,739	1	608,194	2
Operating income	7,545,909	24	1,915,560	8
Nonoperating income				
Interest income	119,634	1	117,616	1
Cash dividends	22,800	-	-	-
Gain on disposal of property and equipment	2,595	-	7,923	-
Investment gain—equity method	84,770	-	-	-
Foreign exchange gain	348,341	1	662,440	2
Other income	2,031,153	6	309,037	1
	2,609,293	8	1,097,016	4
Nonoperating expenses				
Interest expense	1,533,919	5	1,536,163	6
Investment loss—equity method	-	-	1,673	-
Loss on inventory valuation and obsolescence	-	-	10,515	-
Other expenses	23,351	-	69,111	-
	1,557,270	5	1,617,462	6
Net income	\$ 8,597,932	27	1,395,114	6
Earnings per share (Note 4(8))	\$ 0.14		0.03	

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

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the half-years ended June 30, 2004 and 2003

(expressed in US dollars)

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances, January 1, 2003	\$ 53,951,392	8,902,364	62,853,756
Net income for January 1~June 30, 2003	-	1,395,114	1,395,114
Balance, June 30, 2003	<u>\$ 53,951,392</u>	<u>10,297,478</u>	<u>64,248,870</u>
Balances, January 1, 2004	\$ 53,951,392	14,268,443	68,219,835
Capitalization increase in cash	6,900,000	-	6,900,000
Net income for January 1~June 30, 2004	-	8,597,932	8,597,932
Balance, June 30, 2004	<u>\$ 60,851,392</u>	<u>22,866,375</u>	<u>83,717,767</u>

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

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the half-years ended June 30, 2004 and 2003
(expressed in US dollars)

	January 1 ~ June 30	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 8,597,932	1,395,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,558,939	4,690,833
Amortization	576,517	430,561
Gain on disposal of assets	(2,595)	(7,922)
Investment gain (loss)—equity method	(84,770)	1,673
Change in assets and liabilities:		
Accounts receivable, net	964,119	(1,324,689)
Agency current accounts (debit)	(369,309)	3,745,024
Inventories	144,009	155,217
Other financial assets — current	(597,444)	840,563
Prepayments and other current assets	292,251	(92,938)
Accounts payable	(242,313)	(1,172,044)
Accounts expenses	(282,262)	(551,623)
Agency current accounts (credit)	(3,805,065)	919,116
Related-party payables	(1,438,464)	(2,076,037)
Other current liabilities	141,850	162,125
Net cash provided by operating activities	<u>9,453,395</u>	<u>7,114,973</u>
Cash flows from investing activities:		
Purchases of property and equipment	(17,405,746)	(4,774,751)
Increase in long-term investments	(256,003)	(798,445)
Proceeds from sale of fixed assets and deferred charges	-	5,600,000
Increase in deferred assets	(717,776)	(367,019)
Decrease (increase) in deposits-out	702,599	(2,528,000)
Increase in restricted assets	-	(378,465)
Increase in long-term receivables	-	(500,000)
Net cash used in investing activities	<u>(17,676,926)</u>	<u>(3,746,680)</u>
Cash flows from financing activities:		
(Decrease) increase in short-term loans	(846,672)	1,381,670
Decrease in long-term related-party payables	-	(13,081,260)
Increase in long-term loans	3,536,349	9,711,053
Capitalization increase in cash	6,900,000	-
Net cash provided by (used in) financing activities	<u>9,589,677</u>	<u>(1,988,537)</u>
Net increase in cash and cash equivalents	1,366,146	1,379,756
Cash and cash equivalents, beginning of period	240,302	149,182
Cash and cash equivalents, end of period	<u>\$ 1,606,448</u>	<u>1,528,938</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest (excluding capitalized interest)	<u>\$ 1,701,491</u>	<u>2,194,022</u>
Cash paid during the period for income tax	<u>-</u>	<u>-</u>
Supplemental schedule of noncash investing and financing activity:		
Current portion of long-term liabilities	<u>\$ 15,002,412</u>	<u>11,671,613</u>

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

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2004 and 2003
(amounts expressed in US dollars, unless otherwise stated)

1. Organization and Operations

Dong Lien Maritime S.A. (Panama) (the Company) was established on September 28, 1979, in accordance with the Company Law of Panama. The Company invested in wholly owned subsidiaries, including Fourseas Maritime S.A. (Panama), Elegant Pescadores S.A. (Panama), Brave Pescadores S.A. (Panama), Grand Ocean Navigation S.A. (Panama), Jackson Steamship S.A. (Panama), Brilliant Pescadores S.A. (Panama), Blossom Pescadores S.A. (Panama), Royal Pescadores S.A. (Panama), Shining Pescadores S.A. (Panama), Sunny Pescadores S.A. (Panama), Genius Pescadores S.A. (Panama), Gallant Pescadores S.A. (Panama), Grand Pescadores S.A. (Panama), Moon Bright Shipping Corp. (Panama), Excellent Pescadores S.A. (Panama), Honor Pescadores S.A. (Panama), Bright Pescadores S.A. (Panama), Superior Pescadores S.A. (Panama), Grand Overseas S.A. (Panama), Unicorn Brilliant S.A. (Panama) And Valor Pescadores S.A. (Panama). As of June 30, 2004, the Company and its subsidiaries owned twenty vessels: Babitonga, Paragon, Best, Advance, Oceanic, Elegant, Blossom, Royal, Brave, Shining, Grand, Gallant, Federal, Scan Bulker, Buenos Aires, Excellent, Honor, Bright, Grand Overseas and Unicorn. The Company and its subsidiaries' main business scope includes

- (1) Category A shipping agency business;
- (2) sea transportation and related businesses;
- (3) agency for the purchase, sale and lease of vessels; and
- (4) other trading and agency business related to shipping vessels' parts.

The parent company: Shih Wei Navigation Co., Ltd.

As of June 30, 2004, the number of employees was 387.

2. Summary of Significant Accounting Policies

The Company's financial statements were compiled in accordance with generally accepted accounting principles of the Republic of China. The significant accounting policies and measurement basis were as follows:

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. For purposes of preparing the consolidated financial statements, all inter-company transactions between the Company and its subsidiaries have been

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Cont'd)

eliminated.

For the half-years ended June 30, 2004 and 2003, the subsidiaries included in the consolidated financial statements were as follows:

Subsidiary	Direct / Indirect Ownership Percentage	Main Business Scope
Grand Ocean Navigation S.A. (Panama)	100%	Primarily engaged in international transportation and shipping agency business
Fourseas Maritime S.A. (Panama)	"	"
Elegant Pescadores S.A. (Panama)	"	"
Brave Pescadores S.A. (Panama)	"	"
Jackson Steamship S.A. (Panama)	"	"
Brilliant Pescadores S.A. (Panama)	"	"
Blossom Pescadores S.A. (Panama)	"	"
Royal Pescadores S.A. (Panama)	"	"
Shining Pescadores S.A. (Panama)	"	"
Sunny Pescadores S.A. (Panama)	"	"
Genius Pescadores S.A. (Panama)	"	"
Moon Bright Shipping Corp. (Panama)	"	"
Gallant Pescadores S.A. (Panama)	"	"
Grand Pescadores S.A. (Panama)	"	"
Excellent Pescadores S.A. (Panama)	"	"
Honor Pescadores S.A. (Panama)	"	"
Bright Pescadores S.A. (Panama)	"	"
Superior Pescadores S.A. (Panama)	"	"
Grand Overseas S.A. (Panama)	"	"
Unicorn Brilliant S.A. (Panama)	"	"
Valor Pescadores S.A. (Panama)	"	"

(2) Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, petty cash revolving fund with maturity of three months or less from the investment date or that can be converted into time deposits, treasury bills, commercial paper and banker's acceptances.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Cont'd)

(3) Allowance for doubtful accounts

Allowance for doubtful accounts is provided using the specific identification method based on the ending balance of notes and accounts receivable, overdue and other receivables.

(4) Inventories

Inventories relate to the fuel for ships and are stated at the lower of cost or market value at half 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 half year-end inventory is only performed for ships in harbor. For those ships which are not in harbor, the ship captains are responsible for the physical inventory observation.

(5) Long-term equity investment

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

Investments in investee companies in which the Company can exercise significant influence are accounted for by using the equity method.

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

- a. The business nature of the subsidiary is different from that of the Company, hence the 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;

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Cont'd)

- d. The subsidiary reports a negative net worth; however, should the Company provide a guarantee 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 half year-end exchange rates, and the income statement items are translated at the weighted-average exchange rates prevailing during the year. Retained earnings at the beginning of the year are translated at the prior year's half 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.

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

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

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

Vessel equipment	3 to 25 years
Leasehold improvements	2 to 5 years

For fixed assets still in use beyond their service lives, their related salvage values can continue to be depreciated over their estimated remaining service lives. Gains or losses on disposal of fixed assets are included in current nonoperating income or expenses.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Cont'd)

(7) Financial instruments (including derivative financial instruments)

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

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

(8) Deferred charges

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

(9) Foreign currency transactions

Foreign currency transactions are recorded in US 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 to current income or loss. At half year-end, the balances of foreign currency assets and liabilities are restated based on half year-end exchange rates, and resulting exchange gains or losses are credited or charged to current income or loss.

(10) 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.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Cont'd)

3. Reason for and Effect of Accounting Changes: none

4. Summary of Significant Accounts

(1) Cash and cash equivalents

	June 30	
	2004	2003
Cash advance	\$ 191,364	138,476
Bank deposits		
Checking accounts	3,953	5,567
Savings accounts	918,546	-
Foreign currency deposits	492,585	1,384,895
Total	\$ 1,606,448	1,528,938

(2) Long-term equity investments

	June 30, 2004		June 30, 2003	
	Amount	Ownership	Amount	Ownership
Equity Method				
Euroasia II Inc., Panama	\$ 1,437,729	45%	365,903	45%
Euroasia III Inc., Panama	1,506,199	45%	365,867	45%
Subtotal	2,943,928		731,770	
Cost Method				
Eternal Pescadores S.A. (Panama)	459,390	19%	159,461	19%
Harmony Success S.A. (Panama)	135,207	19%	65,002	19%
Subtotal	594,597		224,463	
Total	\$ 3,538,525		956,233	

a. The Company invested in Euroasia II Inc., Panama and Euroasia III Inc., Panama in 2003. This company was established for purpose of owning two 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 the investee companies. As of June 30, 2004, both of the vessels were still in construction, and the Company had a 45% shareholding in both of the investee companies and had paid \$1,354,868 for Euroasia II Inc., Panama and \$1,510,116 for Euroasia III Inc., Panama. Investment gain (loss) recognized for the first

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Cont'd)

half of 2004 and 2003 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors are detailed below:

<u>Investee company</u>	<u>Investment gain (loss)</u>	
	<u>January 1 ~ June 30</u>	
	<u>2004</u>	<u>2003</u>
Euroasia II Inc., Panama	\$ 85,841 (836)
Euroasia III Inc., Panama	(1,071) (837)
Total	<u>\$ 84,770 (</u>	<u>1,673)</u>

- b. The Company invested in Eternal Pescadores S.A. (Panama) during 2002. The main purpose of establishing the company was to own a newly-built vessel – Hull No. 10364. Stockholders of the company paid the construction price and related expenses in installments according to the shareholding percentage. As of June 30, 2004, the Company had a 19% shareholding in the investee company and had paid \$459,390. During the first half of 2004, the Company received cash dividends \$22,800.
- c. The Company invested in Harmony Success S.A. (Panama) during May 2003. The main purpose of establishing the company was to own a newly-built vessel – Hull No. 1023. Stockholders of the company paid the construction price and related expenses in installments according to the shareholding percentage. As of June 30, 2004, the vessel was still in construction, and the Company had a 19% shareholding in the investee company and had paid \$135,207.

(3) Property and equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
June 30, 2004			
Vessel equipment	\$ 237,796,486	49,396,600	188,399,886
Leasehold improvements	382,680	222,763	159,917
Prepayments for business facilities	4,078,416	-	4,078,416
Total	<u>\$ 242,257,582</u>	<u>49,619,363</u>	<u>192,638,219</u>
June 30, 2003			
Vessel equipment	\$ 198,183,835	38,995,759	159,188,076

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Notes to Consolidated Financial Statements (Cont'd)

Leasehold improvements	365,880	128,055	237,825
Prepayments for business facilities	4,615,000	-	4,615,000
Total	<u>\$ 203,164,715</u>	<u>39,123,814</u>	<u>164,040,901</u>

- a. As of June 30, 2004 and 2003, the total insurance coverage for the above fixed assets amounted to \$184,640,000 and \$191,500,000, respectively.
- b. The above-mentioned sale of the Orang Berani was to K/S EVER REGAL for \$3,000,000. Subsequently, on August 3, 1998, A/S Soloven (related party of K/S EVER REGAL) signed a loan agreement to borrow \$500,000 of the sale price from Jackson Steamship S.A. (Panama) at a fixed annual interest rate of 6.5%. Full collection was received in March 2003.
- c. On July 20, 1999, the Company disposed of its vessel the Bright for US\$5,000,000, which resulted in a gain on sale of \$73,204. The vessel was leased back after it was sold, and the Company adopted ROC SFAS No. 2 to defer the recognition of the unrealized gain on sale and leaseback and to amortize it over 6 years. The unrealized gain on sale and leaseback amounted to \$0 and \$24,955, respectively.
- d. The Company's subsidiary Brilliant Pescadores S.A. (Panama) disposed of its vessel the Brilliant, which resulted in a gain on sale of \$15,569.54 in March 2003. The vessel was leased back after it was sold in 2003. The Company adopted ROC SFAS No. 2 to defer the recognition of the unrealized gain on sale and leaseback and to amortize it over 3 years. As of June 30, 2004 and 2003, the unrealized gain on sale and leaseback amounted to \$8,650 and \$13,840, respectively.

(4) Long-term accounts receivable — net

	June 30	
	<u>2004</u>	<u>2003</u>
Long-term accounts receivable	\$ -	500,000
Less: current portion (other current assets)	-	-
Net amount	<u>\$ -</u>	<u>500,000</u>

The long-term accounts receivable stated above were from disposal of the Bright in 1999. Full collection for the Bright was scheduled for July 2002, and extended 3 years at an annual interest rate of 6.5%; because of the shipowners, sale of the leased vessel, the

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Cont'd)

Company transferred relevant collection for Bright to other financial assets — current in March 2003.

(5) Short-term loans

<u>June 30, 2004</u>	<u>Period</u>	<u>Amount</u>
Credit loans	Within one year	\$ 960,000
Mortgage loans	"	1,048,337
Total		<u>\$ 2,008,337</u>
<u>June 30, 2003</u>		
Credit loans	Within one year	<u>\$ 3,606,670</u>

The Company provided certain fixed assets as collateral for the above mortgage loans. The above loans bore interest at annual floating rates of 2.35%~3.15% and 2.588%~3.15% for the six-month periods ended June 30, 2004 and 2003, respectively.

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

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Mortgage loans	\$ 124,202,141	105,606,630
Less: current portion of long-term loans	(15,002,412)	(11,671,613)
Net amount	<u>\$ 109,199,729</u>	<u>93,935,017</u>

The Company provided certain fixed assets as collateral for the above mortgage loans. The loans bore interest of 1.55% ~ 3.92% and 2.0792% ~ 4.061% for the six-month periods ended June 30, 2004 and 2003, respectively.

(7) Capital stock

The Company was established on September 28, 1979, with a registered capital of \$1,600,000. In 1997 and 1998, capital was increased for cash amounted to \$19,000,000 and \$17,000,000, respectively. In 2000 and 2002, capital was increased by issuance of additional stock to offset payables to related party of \$12,754,296, and \$3,597,096,

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respectively. In 2004, capital was increased in cash amounting to \$6,900,000.

As of June 30, 2004 and 2003, 60,851,392 and 53,951,392 shares were issued and outstanding, with par value of \$1 per share.

(8) Earnings per share

Earnings per share are calculated based on the weighted-average number of shares outstanding during each period. The weighted-average number of outstanding shares for the six-month periods ended June 30, 2004 and 2003, were 59,701,392 and 53,951,392, respectively.

5. Related-party Transactions

(1) Related-party accounts

Name of related party	Relationship with the Company
Shih Wei Navigation Co., Ltd.	Parent company

(2) Significant transactions with related parties

a. Purchases

Name of related party	January 1 ~ June 30			
	2004	%	2003	%
Shih Wei Navigation Co., Ltd.	\$ 1,784,571	8	1,260,501	5

b. Agency current accounts (asset account)

	June 30			
	2004	%	2003	%
Shih Wei Navigation Co., Ltd.	\$ 2,815,846	100	2,884,772	100

c. Related-party payables

	June 30			
	2004	%	2003	%
Shih Wei Navigation Co., Ltd.	\$ -	-	1,502,802	100

d. Agency current accounts (liability account)

June 30

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	2004	%	2003	%
Shih Wei Navigation Co., Ltd.	<u><u>\$ 4,144,915</u></u>	<u><u>100</u></u>	<u><u>5,132,236</u></u>	<u><u>100</u></u>

e. Purchase of long-term investments

	Purchase of long-term investments	Purchase date	Purchase Price
Shih Wei Navigation Co., Ltd.	45% shareholding of Euroasia II & III Inc., Panama	April 7, 2003	<u><u>\$ 575,268</u></u>

6. Pledged Assets

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

	June 30	
	<u>2004</u>	<u>2003</u>
Property and equipment (net book value)		
— Vessel equipment	\$ 187,684,760	158,974,454
Restricted assets	731,667	731,667
Total	<u><u>\$ 188,416,427</u></u>	<u><u>159,706,121</u></u>

7. Commitments and Contingencies

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

(1) The Company entered into significant contracts as follows:

<u>Contract Title</u>	<u>Contracting Party</u>	<u>Period Covered</u>	<u>Contents</u>
Management Contract	Fortunate Transport S.A.	From Jan. 27, 2004 until Feb. 5, 2009	Acting as the Company's agent for management of the vessel

(2) As of June 30, 2004 and 2003, the Company had signed significant operating lease contracts for cargo transportation as follows:

<u>June 30, 2004</u>			
<u>Vessel Name</u>	<u>Contracting Party</u>	<u>Period Covered</u>	<u>Deposits-out amount</u>
Well Pescadores	Man Shipping LP	1999 ~ 2014	\$ 4,647,500

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Majestic	Majestic Pescadores S.A.	2002 ~ 2010	1,200,000
Fodas	Fodas Maritime S.A.	2002 ~ 2010	1,200,000
Mercy	Mercy Marine Lines S.A.	2003 ~ 2011	600,000
Id Commander	Id Shipping A/S	2003 ~ 2006	800,000
Glaring	Fortunate Transport S.A.	2004 ~ 2009	1,848,507
Total			<u><u>\$ 10,296,007</u></u>

June 30, 2003

<u>Vessel Name</u>	<u>Contracting Party</u>	<u>Period Covered</u>	<u>Deposits-out amount</u>
Well Pescadores	Man Shipping LP	1999 ~ 2014	\$ 4,750,000
Id Leader	K/S Danskid 27	1999 ~ 2005	615,000
Winsome	Winsome Wisdom	From 2001, should notify 60 days prior to contract termination	394,599 (JPY 48,950,000)
Fodas	Fodas Maritime S.A.	2002 ~ 2010	1,200,000
Majestic	Majestic Pescadores S.A.	2002 ~ 2010	1,200,000
Mercy	Mercy Marine Lines S.A.	2003 ~ 2011	600,000
Total			<u><u>\$ 8,759,599</u></u>

The above rental expense of operating lease contracts for cargo transportation were valued daily (365 days in a year) and paid monthly.

8. Financial Instruments

(1) Derivative financial instruments:

a. Contract amount or nominal principal and credit risk

<u>Financial Instruments</u>	<u>June 30, 2004</u>	
	<u>Contract Amount</u>	<u>Credit Risk</u>
Forward Contracts		
Nontrading purchase	<u>JPY 194,691,500</u>	<u>-</u>

The Company and its subsidiary didn't have any forward contracts for purchasing on June 30, 2004. 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's subsidiary's possible loss in the event of nonperformance by the counter-party to the financial instrument. Since parties to transactions with the Company and its subsidiary are all reputable banks, default is not expected, and the

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likelihood of credit risk is remote.

b. Market risk

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

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

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

d. Types and purpose of financial derivative held

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

e. Presentation of financial derivatives in financial statements

As of June 30, 2004, the exchange loss resulting from foreign exchange forward contracts was \$782 thousand. Foreign exchange forward contracts receivable and payable are cross-compensated, and the difference is booked as current assets or current liabilities. There were no foreign exchange forward contracts receivable or payable as of June 30, 2004.

(2) Fair value of financial instruments

Nonderivative Financial Instruments	June 30, 2004	
	Book Value	Fair Value
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 20,018,650	20,018,650
Long-term equity investments		
— impossible to estimate fair value in practice	3,538,525	-
<u>Financial liabilities:</u>		

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Financial liabilities with book value equal to fair value	10,239,073	10,239,073
Long-term liabilities (include current portion)	124,202,141	124,202,141

<u>Nonderivative Financial Instruments</u>	June 30, 2003	
	<u>Book Value</u>	<u>Fair Value</u>
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 19,486,030	19,486,030
Long-term equity investments		
– impossible to estimate fair value in practice	956,233	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	15,814,828	15,814,828
Long-term liabilities (include current portion)	105,606,630	105,606,630

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, accounts receivable (payable), agency current account (assets and liabilities account), related-party receivables payable, restricted assets, long-term accounts receivable (payable), short-term loans, accrued expenses, other current assets and liabilities and deposits-in and deposits-out.

(b) If the market value of marketable long-term equity investments is available, then the

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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.

(c) Long-term liabilities: Interest is computed using annual floating rates, and book value is equal to fair value.

(3) Financial instruments with off-balance-sheet credit risk: none

(4) Information on concentrations of credit risk

The Company's sales are scattered geographically, and there is no single major customer. As a result, there is no concentration of credit risk on its accounts receivable. In order to reduce credit risk, the Company regularly evaluates its customers' financial position. However, the Company usually does not require collateral from its customers.

(5) Summary of expenses for employees, depreciation, depletion and amortization:

	January 1~June 30, 2004			January 1~June 30, 2003		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee expense						
Payroll	\$ 2,554,089	-	2,554,089	2,574,671	-	2,574,671
Insurance	-	-	-	-	-	-
Retirement	-	-	-	-	-	-
Others	938,930	-	938,930	434,236	-	434,236
Depreciation	5,558,939	-	5,558,939	4,690,833	-	4,690,833
Depletion	-	-	-	-	-	-
Amortization	576,517	-	576,517	430,561	-	430,561

(6) Current analysis of assets and liabilities: none