

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
AND
INDEPENDENT AUDITORS' REPORT

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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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 December 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity, and cash flows for the 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 December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with Republic of China generally accepted accounting principles.

February 22 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.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(expressed in U.S. dollars)

ASSETS	2004		2003	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 3.1)	\$ 9,108,255	4	240,302	-
Accounts receivable, net	808,632	-	1,990,882	1
Agency current accounts (Note 11)	2,728,616	1	2,446,537	1
Other financial assets – current (Notes 4.4 and 7)	2,651,837	1	2,944,475	1
Inventories	1,611,616	1	1,434,264	1
Prepayments and other current assets	1,946,108	1	1,017,213	1
Restricted assets (Note 5)	491,667	-	731,667	-
	<u>19,346,731</u>	<u>8</u>	<u>10,805,340</u>	<u>5</u>
LONG-TERM EQUITY INVESTMENTS (Note 3.2)				
Long-term investment – equity method	1,750,159	1	2,726,183	2
Long-term investment – cost method	598,397	-	471,568	-
	<u>2,348,556</u>	<u>1</u>	<u>3,197,751</u>	<u>2</u>
PROPERTY AND EQUIPMENT (Notes 3.3 and 5)				
Vessel equipment	249,350,491	106	222,184,426	107
Less: accumulated depreciation	(55,531,247)	(23)	(44,103,416)	(21)
Prepayments for business facilities	6,581,903	3	2,327,722	1
Leasehold improvements	382,680	-	382,680	-
	<u>200,783,827</u>	<u>86</u>	<u>180,791,412</u>	<u>87</u>
OTHER ASSETS				
Deposits-out	10,193,506	4	10,998,606	5
Deferred charges	1,716,927	1	1,487,949	1
Long-term accounts receivable, net (Note 3.4)	-	-	-	-
	<u>11,910,433</u>	<u>5</u>	<u>12,486,555</u>	<u>6</u>
TOTAL ASSETS	<u>\$ 234,389,547</u>	<u>100</u>	<u>207,281,058</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 3.5)	\$ -	-	2,855,009	1
Accounts payable	1,403,172	-	2,302,185	1
Accrued expenses	1,604,451	1	2,213,323	1
Agency current accounts (Note 4)	541,807	-	7,949,980	4
Related-party payables (Note 4)	-	-	1,438,464	1
Collections in advance and other current liabilities	2,426,903	1	1,625,224	1
Current portion of long-term loans (Note 3.6)	24,747,379	11	14,269,161	7
	<u>30,723,712</u>	<u>13</u>	<u>32,653,346</u>	<u>16</u>
LONG-TERM LIABILITIES				
Long-term loans (Note 3.6)	103,315,223	44	106,396,632	51
	<u>103,315,223</u>	<u>44</u>	<u>106,396,632</u>	<u>51</u>
OTHER LIABILITIES				
Unrealized gain on sale and leaseback (Note 3.3)	6,055	-	11,245	-
	<u>6,055</u>	<u>-</u>	<u>11,245</u>	<u>-</u>
TOTAL LIABILITIES	<u>134,044,990</u>	<u>57</u>	<u>139,061,223</u>	<u>67</u>
STOCKHOLDERS' EQUITY				
Capital stock (Note 4.7)	60,851,392	26	53,951,392	26
Retained earnings	39,493,165	17	14,268,443	7
TOTAL STOCKHOLDERS' EQUITY	<u>100,344,557</u>	<u>43</u>	<u>68,219,835</u>	<u>33</u>
COMMITMENTS AND CONTINGENCIES (Note 6)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 234,389,547</u>	<u>100</u>	<u>207,281,058</u>	<u>100</u>

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 YEARS ENDED DECEMBER 31, 2004 AND 2003
(expressed in U.S. dollars)

	2004		2003	
	Amount	%	Amount	%
Operating revenue, net	\$ 70,003,862	100	52,976,326	100
Operating costs	48,828,032	70	43,933,462	83
Operating gross profit	21,175,830	30	9,042,864	17
Operating expenses	667,728	1	826,005	1
Operating income	20,508,102	29	8,216,859	16
Nonoperating income				
Interest income	219,064	-	254,604	-
Investment gain—equity method (Note 3.2)	4,817,868	7	-	-
Cash dividends (Note 3.2)	57,000	-	-	-
Gain on disposal of property and equipment	5,190	-	35,473	-
Other income	3,923,217	6	1,497,323	3
	9,022,339	13	1,787,400	3
Nonoperating expenses				
Interest expense	3,440,477	5	3,044,519	6
Investment loss—equity method (Note 3.2)	-	-	3,040	-
Foreign exchange loss	815,258	1	1,453,456	3
Other expenses	49,984	-	137,164	-
	4,305,719	6	4,638,179	9
Net income	\$ 25,224,722	36	5,366,080	10
Earnings per share (Note 3.8)	\$ 0.42		0.10	

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 YEARS ENDED DECEMBER 31, 2004 AND 2003
(expressed in U.S. dollars)

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances, January 1, 2003	\$ 53,951,392	8,902,363	62,853,755
Net income for 2003	-	5,366,080	5,366,080
Balance, December 31, 2003	53,951,392	14,268,443	68,219,835
Issuance of capital stock for cash	6,900,000	-	6,900,000
Net income for 2004	-	25,224,722	25,224,722
Balance, December 31, 2004	<u>\$ 60,851,392</u>	<u>39,493,165</u>	<u>100,344,557</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 YEARS ENDED DECEMBER 31, 2004 AND 2003
(expressed in U.S. dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 25,224,722	5,366,080
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	54,040	-
Depreciation	11,593,682	9,670,435
Amortization	1,039,701	995,614
Gain on disposal of property and equipment	(5,190)	(35,473)
Investment (gain) loss— equity method (excluding cash dividends)	(396,618)	3,040
Changes in assets and liabilities:		
Accounts receivable, net	1,128,210	22,150
Agency current accounts (debit)	(282,079)	4,183,259
Other financial assets— current	292,638	(918,580)
Inventories	(177,352)	(1,013,640)
Prepayments and other current assets	(928,895)	(836,446)
Accounts payable	(899,013)	(1,829,515)
Accrued expenses	(608,872)	(152,549)
Agency current accounts (credit)	(7,408,173)	3,736,860
Related-party payables	(1,438,464)	(2,140,375)
Collections in advance and other current liabilities	801,679	270,887
Net cash provided by operating activities	27,990,016	17,321,747
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(31,586,097)	(26,504,864)
Increase in long-term investments	(597,303)	(3,041,330)
Collection for long-term investments	1,843,116	-
Proceeds from sale of fixed assets	-	5,600,000
Increase in deferred charges	(1,268,679)	(1,415,925)
Increase in deposits-out	805,100	(3,709,007)
Increase in restricted assets	240,000	(378,465)
Net cash used in investing activities	(30,563,863)	(29,449,591)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term loans	(2,855,009)	630,009
Decrease in long-term related-party payables	-	(13,081,260)
Increase in long-term loans	7,396,809	24,770,215
Decrease in deposits-in	-	(100,000)
Issuance of capital stock for cash	6,900,000	-
Net cash provided by financing activities	11,441,800	12,218,964
Net increase in cash and cash equivalents	8,867,953	91,120
Cash and cash equivalents, beginning of period	240,302	149,182
Cash and cash equivalents, end of period	\$ 9,108,255	240,302
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for interest (excluding capitalized interest)	\$ 3,445,909	3,622,307
Cash paid during the period for income tax	\$ -	-
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Current portion of long-term liabilities	\$ 24,747,379	14,269,161

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

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(amounts expressed in U.S. 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), BLOSSOM PESCADORES S.A. (PANAMA), ROYAL PESCADORES S.A. (PANAMA), SHINING PESCADORES S.A. (PANAMA), BRILLIANT PESCADORES S.A. (PANAMA), SUNNY PESCADORES S.A. (PANAMA), GENIUS PESCADORES S.A. (PANAMA), GALLANT PESCADORES S.A. (PANAMA), GRAND PESCADORES S.A. (PANAMA), MOON BRIGHT SHIPPING CORP. (PANAMA), EXCELLENT PESCADORES S.A. (PANAMA), HONOR PESCADORES S.A. (PANAMA), BRIGHT PESCADORES S.A. (PANAMA), SUPERIOR PESCADORES S.A. (PANAMA), VALOR PESCADORES S.A. (PANAMA), GRAND OVERSEAS S.A. (PANAMA), UNICORN BRILLIANT S.A. (PANAMA), PHAROS PESCADORES S.A. (PANAMA), BEACON PESCADORES S.A. (PANAMA), POSEIDON PESCADORES S.A. (PANAMA) and LEADER PESCADORES S.A. (PANAMA). As of December 31, 2004, the Company and its subsidiaries owned twenty-one vessels: Babitonga (Great), Paragon, Best, Elegant, Brave, Advance, Oceanic, Buenos Aires (Giant), Blossom, Royal, Shining, Sunny, Scan Bulker, Gallant, Grand, Federal, Excellent, Honor, Bright, Grand Overseas and Unicorn.

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 business related to shipping vessels' parts.

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

As of December 31, 2004, the number of employees was 404.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 eliminated.

For the years ended December 31, 2004, the subsidiaries included in the consolidated financial statements were as follows:

Subsidiary	Direct / Indirect Ownership Percentage	Main Business Scope
FOURSEAS MARITIME S.A. (PANAMA)	100%	Primarily engaged in international transportation and shipping agency business
ELEGANT PESCADORES S.A. (PANAMA)	100%	"
BRAVE PESCADORES S.A. (PANAMA)	100%	"
GRAND OCEAN NAVIGATION S.A. (PANAMA)	100%	"
JACKSON STEAMSHIP S.A. (PANAMA)	100%	"
BLOSSOM PESCADORES S.A. (PANAMA)	100%	"
ROYAL PESCADORES S.A. (PANAMA)	100%	"
SHINING PESCADORES S.A. (PANAMA)	100%	"
BRILLIANT PESCADORES S.A. (PANAMA)	100%	"
SUNNY PESCADORES S.A. (PANAMA)	100%	"
GENIUS PESCADORES S.A. (PANAMA)	100%	"
GALLANT PESCADORES S.A. (PANAMA)	100%	"
GRAND PESCADORES S.A. (PANAMA)	100%	"
MOON BRIGHT SHIPPING CORP. (PANAMA)	100%	"
EXCELLENT PESCADORES S.A. (PANAMA)	100%	"
HONOR PESCADORES S.A. (PANAMA)	100%	"
BRIGHT PESCADORES S.A. (PANAMA)	100%	"
SUPERIOR PESCADORES S.A. (PANAMA)	100%	"
VALOR PESCADORES S.A. (PANAMA)	100%	"
GRAND OVERSEAS S.A. (PANAMA)	100%	"
UNICORN BRILLANTS S.A. (PANAMA)	100%	"
PHAROS PESCADORES S.A. (PANAMA)	100%	"
BEACON PESCADORES S.A. (PANAMA)	100%	"
POSEIDON PESCADORES S.A. (PANAMA)	100%	"
LEADER PESCADORES S.A. (PANAMA)	100%	"

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, checking accounts, time deposits rescindable anytime, certificates of deposit, 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.

(3) 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.

(4) Inventories

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

(5) Long-term equity investments

Non-controlling 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.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Long-term equity investments 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;
- 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 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 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, betterments and renewals, including related interest incurred up to the point when the fixed assets can be placed into service, are capitalized.

For vessels purchased under the installment method, due to the nature of this industry and the related accounting practice, the total installment amount is recorded as the vessel's carrying value.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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 income.

(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 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.

(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 U.S. 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.

(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. SUMMARY OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	2004	2003
Cash advance	\$ 407,247	143,916
Bank deposits		
Savings accounts	1,677,170	-
Checking accounts	47,892	8,281
Foreign currency deposits	1,975,946	88,105
Time deposits	5,000,000	-
Total	<u>\$ 9,108,255</u>	<u>240,302</u>

(2) Long-term equity investments

	2004		2003	
	Amount	Ownership	Amount	Ownership
<u>Under the Equity Method</u>				
EUROASIA II INC., PANAMA	\$ 1,748,087	45%	1,539,499	45%
EUROASIA III INC., PANAMA	2,072	45%	1,186,684	45%
Subtotal	<u>1,750,159</u>		<u>2,726,183</u>	
<u>Under the Cost Method</u>				
ETERNAL PESCADORES S.A. (PANAMA)	461,290	19%	336,361	19%
HARMONY SUCCESS S.A. (PANAMA)	137,107	19%	135,207	19%
Subtotal	<u>598,397</u>		<u>471,568</u>	
Total	<u>\$ 2,348,556</u>		<u>3,197,751</u>	

a. The Company invested in EUROASIA II INC., PANAMA and EUROASIA III INC., PANAMA in 2003. The companies were 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 both investee companies. As of December 31, 2004, the Company had a 45% shareholding in both of the investee companies and had paid \$1,353,493 for EUROASIA II INC., PANAMA and \$3,089 for EUROASIA III INC., PANAMA. In 2004, the Company had received cash dividends of \$4,421,250 from EUROASIA III INC., PANAMA. Investment gain (loss) recognized for 2004 and 2003 based on the audited financial statements with unqualified opinion issued by both of the investee companies' independent auditors is detailed below:

Investee company	Investment gain (loss)	
	2004	2003
EUROASIA II INC., PANAMA	\$ 396,199	(1,605)
EUROASIA III INC., PANAMA	4,421,669	(1,435)
Total	<u>\$ 4,817,868</u>	<u>(3,040)</u>

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- b. The Company invested in ETERNAL PESCADORES S.A. (PANAMA) during 2002. This company was established for the purpose of owning a newly built vessel – Pescadores Bulker. Stockholders of this company paid the construction price and related expenses in instalments according to the shareholding percentages. The Company has 19% ownership and paid \$461,290. During 2004, the Company received cash dividends of \$57,000 from the investee company.
- c. The Company invested in HARMONY SUCCESS S.A. (PANAMA) during May 2003. The 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 instalments according to the shareholding percentages. As of December 31, 2004, the vessel construction was not completed and the Company had paid a total of \$137,107.

(3) Property and equipment

	Cost	Accumulated Depreciation	Net Amount
2004			
Vessel equipment	\$ 249,350,491	55,260,779	194,089,712
Prepayments for business facilities	6,581,903	-	6,581,903
Leasehold improvements	382,680	270,468	112,212
Total	<u>\$ 256,315,074</u>	<u>55,531,247</u>	<u>200,783,827</u>
2003			
Vessel equipment	\$ 222,184,426	43,928,357	178,256,069
Prepayments for business facilities	2,327,722	-	2,327,722
Leasehold improvements	382,680	175,059	207,621
Total	<u>\$ 224,894,828</u>	<u>44,103,416</u>	<u>180,791,412</u>

- a. As of December 31, 2004 and 2003, the total insurance coverage for the above fixed assets amounted to \$195,140,000 and \$174,300,000, respectively.
- b. The Company sold the Id Trader (Orang Berani) for \$3,000,000 to K/S Ever Regal. Subsequently, on August 3, 1998, A/S Soloven (a 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%. The loan amount was recorded as “long-term accounts receivable” by JACKSON STEAMSHIP S.A. (PANAMA), which collected the whole amount in March 2003.
- c. The Company’s subsidiary BRILLIANT PESCADORES S.A. (PANAMA) disposed of its vessel the Brilliant, which resulted in a gain on sale of \$15,569.54 in 2003, and then the vessel was leased back. In accordance with R.O.C. SFAS 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 3 years for renting. As of December 31, 2004 and 2003, the unrealized gain on sale and leaseback amounted to \$6,055 and \$11,245, respectively.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Long-term accounts receivable, net

	2004	2003
Long-term accounts receivable	\$ -	-
Less: current portion (other current assets)	-	-
Net amount	\$ -	-

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 Company transferred relevant collection for the Bright to other financial assets – current in March 2003 and collected the whole amount in 2004.

(5) Short-term loans

	Period	2003
Credit loan	Within one year	\$ 2,855,009

The above loans bore interest at annual floating rates of 2.16%~3.15% for 2003.

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

	2004	2003
Secured loans	\$ 128,062,602	120,665,793
Less: Current portion	(24,747,379)	(14,269,161)
Net amount	\$ 103,315,223	106,396,632

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 1.55% ~ 4.88% and 2.0572% ~ 3.01% in 2004 and 2003, respectively.

(7) Capital stock

The Company was established on September 28, 1979, with registered capital of \$1,600,000. In 1997 and 1998, capital increase for cash amounted to \$19,000,000 and \$17,000,000, respectively. In 2000, 2002 and 2004, capital was increased by issuance of additional stock to offset payables to related party of \$12,754,296 and \$3,597,096 and for cash amounting to \$6,900,000, respectively.

As of December 31, 2004 and 2003, 60,851,392 and 53,951,392 shares, respectively, 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 shares outstanding for the years ended December 31, 2004 and 2003 was 60,276,392 and 53,951,392 respectively.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. 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	2004	%	2003	%
SHIH WEI NAVIGATION CO., LTD.	\$ 3,754,375	8	2,739,491	6

b. Agency current accounts (asset account)

Name of related party	2004	%	2003	%
SHIH WEI NAVIGATION CO., LTD.	\$ 2,728,616	100	2,446,537	100

c. Related-party payables

Name of related party	2004	%	2003	%
SHIH WEI NAVIGATION CO., LTD.	\$ -	-	1,438,464	100

d. Agency current accounts (liability account)

Name of related party	2004	%	2003	%
SHIH WEI NAVIGATION CO., LTD.	\$ 541,807	100	7,949,980	100

e. Purchase of long-term investments

Name of related party	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	\$ 575,268

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. PLEGED ASSETS

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

	2004	2003
Property and equipment		
Vessel equipment (net book value)	\$ 193,397,509	178,020,418
Restricted assets	491,667	731,667
Deposits-out	-	208,000
Total	<u>\$ 193,889,176</u>	<u>178,960,085</u>

6. COMMITMENTS AND CONTINGENCIES

(1) The construction and purchase agreements for vessels signed by the subsidiaries of the Company amounted to US\$6,000 thousand and JPY 15,021,400 thousand as of December 31, 2004, and US\$6,000 thousand and JPY 4,054,000 thousand as of December 31, 2003. They had paid US\$6,000 thousand and JPY 2,962,700 thousand as of December 31, 2004, and US\$0 and JPY 254,000 thousand as of December 31, 2003 (recorded as prepayments for business facilities).

(2) As of December 31, 2004 and 2003, the Company had signed significant operating lease contracts for cargo transportation as follows:

2004			
Vessel Name	Contracting Party	Period Covered	Deposits-out amount
WELL PESCADORES	MAN SHIPPING LP	1999 ~ 2014	\$ 4,585,000
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
GLARING	FORTUNATE TRANSPORT S.A.	2003 ~ 2008	1,848,507
ID Commander	ID SHIPPING A/S	2002 ~ 2005	750,000
Total			<u>\$ 10,183,507</u>
2003			
Vessel Name	Contracting Party	Period Covered	Deposits-out amount
WELL PESCADORES	MAN SHIPPING LP	1999 ~ 2014	\$ 4,697,500
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
GLARING	FORTUNATE TRANSPORT S.A.	2003 ~ 2008	1,848,507
Total			<u>\$ 9,940,606</u>

The above rental expenses of operating lease contracts for cargo transportation were valued

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

daily (365 days in a year) and paid monthly.

7. FINANCIAL INSTRUMENTS

(1) Derivative financial instruments:

a. Contract amount or nominal principal and credit risk

Financial Instruments	December 31, 2004	
	Contract Amount	Credit Risk
Forward Contracts		
Nontrading – The Company’s purchase contract	JPY 100,000,000	-
– Subsidiary company’s purchase contract	JPY 209,000,000	-
Financial Instruments	December 31, 2003	
	Contract Amount	Credit Risk
Forward Contracts		
Nontrading – The Company’s purchase contract	JPY -	-

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

b. Market risk

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

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

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

d. Types and purpose of financial derivative held

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

e. Presentation of financial derivatives in financial statements

The exchange gain resulting from foreign exchange forward contracts was \$378,154 and \$0 on December 31, 2004 and 2003, respectively. Foreign exchange forward contracts receivable and payable are netted, and the difference is booked as current assets or current liabilities. There were no foreign exchange forward contracts receivable or payable as of December 31, 2004 and 2003.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Fair value of financial instruments

Nonderivative Financial Instruments	2004	
	Book Value	Fair Value
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 25,982,513	25,982,513
Long-term equity investments		
– impossible to estimate fair value in practice	2,348,556	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	3,549,430	3,549,430
Long-term liabilities	128,062,602	128,062,602

Nonderivative Financial Instruments	2003	
	Book Value	Fair Value
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$19,352,469	19,352,469
Long-term equity investments		
– impossible to estimate fair value in practice	3,197,751	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	16,817,461	16,817,461
Long-term liabilities	120,665,793	120,665,793

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

b. 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.

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.

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(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

	2004			2003		
	Operating		Total	Operating		Total
	Operating cost	expense		Operating cost	expense	
Employee expense						
Payroll	\$ 5,368,014	-	5,368,014	4,465,709	-	4,465,709
Insurance	-	-	-	-	-	-
Retirement	-	-	-	-	-	-
Others	1,796,764	-	1,796,764	1,490,552	-	1,490,552
Depreciation	11,593,682	-	11,593,682	9,670,435	-	9,670,435
Depletion	-	-	-	-	-	-
Amortization	1,039,701	-	1,039,701	995,614	-	995,614

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