

**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005 AND 2004**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

INDEX

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## **Independent Auditors' Report**

The Board of Directors  
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, 2005 and 2004, 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, 2005 and 2004, 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 26, 2006  
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, 2005 AND 2004**  
**(expressed in U.S. dollars)**

<u>ASSETS</u>	<b>2005</b>		<b>2004</b>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 4(1))	\$ 27,097,972	10	9,108,255	4
Short-term investment	3,000,000	1	-	-
Accounts receivable, net	568,335	-	808,632	-
Other accounts receivable—related party (Note 5)	89,878	-	-	-
Agency current accounts (Note 5)	7,424,072	3	2,728,616	1
Other financial assets—current (Note 8)	970,627	-	2,651,837	1
Inventories	1,998,224	1	1,611,616	1
Prepayments and other current assets	1,134,936	-	1,946,108	1
Restricted assets (Note 6)	491,667	-	491,667	-
	<u>42,775,711</u>	<u>15</u>	<u>19,346,731</u>	<u>8</u>
<b>LONG-TERM EQUITY INVESTMENTS (Note 4(2))</b>				
Long-term investment—equity method	1,936,578	1	1,750,159	1
Long-term investment—cost method	1,418,803	-	598,397	-
	<u>3,355,381</u>	<u>1</u>	<u>2,348,556</u>	<u>1</u>
<b>PROPERTY AND EQUIPMENT (Notes 4(3) and 6)</b>				
Vessel equipment	291,918,731	103	249,350,491	106
Leasehold improvements	242,784	-	382,680	-
Prepayments for business facilities	7,110,378	2	6,581,903	3
Less: accumulated depreciation	( 68,815,407)	( 24)	( 55,531,247)	( 23)
	<u>230,456,486</u>	<u>81</u>	<u>200,783,827</u>	<u>86</u>
<b>OTHER ASSETS</b>				
Deposits-out (Note 7(2))	4,898,507	2	10,193,506	4
Deferred charges	2,484,107	1	1,716,927	1
	<u>7,382,614</u>	<u>3</u>	<u>11,910,433</u>	<u>5</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 283,970,192</u></b>	<b><u>100</u></b>	<b><u>234,389,547</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 1,995,823	1	1,403,172	-
Accrued expenses	1,804,267	1	1,604,451	1
Agency current accounts (Note 5)	898,806	-	541,807	-
Collections in advance and other current liabilities	2,030,419	1	2,426,903	1
Current portion of long-term loans (Note 4(4))	18,440,528	6	24,747,379	11
	<u>25,169,843</u>	<u>9</u>	<u>30,723,712</u>	<u>13</u>
<b>LONG-TERM LIABILITIES</b>				
Long-term loans (Note 4(4))	119,556,202	42	103,315,223	44
<b>OTHER LIABILITIES</b>				
Unrealized gain on sale and leaseback (Note 4(3))	865	-	6,055	-
<b>TOTAL LIABILITIES</b>	<u>144,726,910</u>	<u>51</u>	<u>134,044,990</u>	<u>57</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock (Note 4(5))	60,851,392	21	60,851,392	26
Retained earnings	78,391,890	28	39,493,165	17
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>139,243,282</u>	<u>49</u>	<u>100,344,557</u>	<u>43</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 283,970,192</u></b>	<b><u>100</u></b>	<b><u>234,389,547</u></b>	<b><u>100</u></b>

**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, 2005 AND 2004**  
(expressed in U.S. dollars)

	2005		2004	
	Amount	%	Amount	%
<b>Operating revenue, net</b>	\$ 102,058,303	100	70,003,862	100
<b>Operating costs</b>	56,580,134	55	48,828,032	70
<b>Operating gross profit</b>	45,478,169	45	21,175,830	30
<b>Operating expenses</b>	886,892	1	667,728	1
<b>Operating income</b>	44,591,277	44	20,508,102	29
<b>Nonoperating income</b>				
Interest income	625,921	1	219,064	-
Investment gain – equity method (Note 4(2))	523,919	1	4,817,868	7
Cash dividends (Note 4(2))	68,400	-	57,000	-
Gain on disposal of property and equipment	5,190	-	5,190	-
Foreign exchange gain	3,377,169	3	-	-
Other income	1,542,146	1	3,923,217	6
	6,142,745	6	9,022,339	13
<b>Nonoperating expenses</b>				
Interest expense	5,641,558	6	3,440,477	5
Loss on disposal of short-term investment	10,811	-	-	-
Foreign exchange loss	-	-	815,258	1
Other expenses	182,928	-	49,984	-
	5,835,297	6	4,305,719	6
<b>Net income</b>	<b>\$ 44,898,725</b>	<b>44</b>	<b>25,224,722</b>	<b>36</b>
Earnings per share (Note 4(6))	<b>\$ 0.74</b>		<b>0.42</b>	

**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, 2005 AND 2004**  
(expressed in U.S. dollars)

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balances, January 1, 2004</b>	\$ 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
<b>Balance, December 31, 2004</b>	60,851,392	39,493,165	100,344,557
Cash dividends	-	(6,000,000)	(6,000,000)
Net income for 2005	-	44,898,725	44,898,725
<b>Balance, December 31, 2005</b>	<u>\$ 60,851,392</u>	<u>78,391,890</u>	<u>139,243,282</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, 2005 AND 2004**  
**(expressed in U.S. dollars)**

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>Net income</b>	\$ 44,898,725	25,224,722
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Bad debt expense	-	54,040
Depreciation	13,556,550	11,593,682
Amortization	1,561,108	1,039,701
Gain on disposal of property and equipment	( 5,190)	( 5,190)
Investment gain—equity method	( 523,919)	( 396,618)
Loss on disposal of short-term investment	10,811	-
<b>Changes in assets and liabilities:</b>		
Accounts receivable, net	240,297	1,128,210
Other accounts receivable—related party	( 89,878)	-
Agency current accounts (debit)	( 4,695,456)	( 282,079)
Other financial assets—current	1,681,210	292,638
Inventories	( 386,608)	( 177,352)
Prepayments and other current assets	811,172	( 928,895)
Accounts payable	592,651	( 899,013)
Accrued expenses	199,816	( 608,872)
Agency current accounts (credit)	356,999	( 7,408,173)
Related-party payables	-	( 1,438,464)
Collections in advance and other current liabilities	( 396,484)	801,679
<b>Net cash provided by operating activities</b>	<b>57,811,804</b>	<b>27,990,016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in restricted assets	-	240,000
Purchases of property and equipment	( 43,229,209)	( 31,586,097)
Purchase of long-term investments	( 820,406)	( 597,303)
Return of capital for long-term investments	337,500	1,843,116
Purchase of short-term investment	( 38,687,208)	-
Proceeds from sale of short-term investment	35,676,397	-
Increase in deferred charges	( 2,328,288)	( 1,268,679)
Decrease in deposits-out	5,294,999	805,100
<b>Net cash used in investing activities</b>	<b>( 43,756,215)</b>	<b>( 30,563,863)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Decrease in short-term loans	-	( 2,855,009)
Increase in long-term loans	9,934,128	7,396,809
Cash dividends	( 6,000,000)	-
Issuance of capital stock for cash	-	6,900,000
<b>Net cash provided by financing activities</b>	<b>3,934,128</b>	<b>11,441,800</b>
<b>Net increase in cash and cash equivalents</b>	17,989,717	8,867,953
<b>Cash and cash equivalents, beginning of period</b>	9,108,255	240,302
<b>Cash and cash equivalents, end of period</b>	<b>\$ 27,097,972</b>	<b>9,108,255</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest (excluding capitalized interest)	<b>\$ 5,414,854</b>	<b>3,445,909</b>
Cash paid during the period for income tax	<b>\$ -</b>	<b>-</b>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	<b>\$ 18,440,528</b>	<b>24,747,379</b>

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, 2005 AND 2004**  
**(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., 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 December 31, 2005, the Company and its subsidiaries owned twenty-four vessels: 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 business related to shipping vessels' parts.

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

As of December 31, 2005, the number of employees was 468.

**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 year ended December 31, 2005, the subsidiaries included in the consolidated financial statements were as follows:

<b>Subsidiary</b>	<b>Direct / Indirect Ownership Percentage</b>	<b>Main Business Scope</b>
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.	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.	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%	"
WELL 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) 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 which 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

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

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.

The difference 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 investments. 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.

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.

(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.

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.

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.

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

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.

(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 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.

(10) 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.

(11) Revenue recognition

Revenue is generally recognized when the earnings process is completed or virtually completed and revenue is realized or realizable and measurable. The relevant costs are

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

recognized when the revenue is recognized.

(12) Asset impairment

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment". In accordance with 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.

**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 December 31, 2005.

**4. SUMMARY OF SIGNIFICANT ACCOUNTS**

(1) Cash and cash equivalents

	<b>2005</b>	<b>2004</b>
	\$	
Cash advance	433,932	407,247
Bank deposits		
Savings accounts	1,930,718	1,677,170
Checking accounts	1,685	47,892
Foreign currency deposits	731,637	1,975,946
Time deposits	24,000,000	5,000,000
Total	<b>\$</b>	<b>9,108,255</b>

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

<u>270,097,972</u>	<u>                    </u>
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**DONG LIEN MARITIME S.A. (PANAMA) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(2) Long-term equity investments

	Share	Amount	Ownership
<b>2005</b>			
Under the Equity Method			
EUROASIA II INC., PANAMA (original investment cost \$1,022,173)	45	\$ 1,936,578	45%
Under the Cost Method			
ETERNAL PESCADORES S.A. (PANAMA)	19	461,290	19%
HARMONY SUCCESS S.A. (PANAMA)	19	930,715	19%
LANDO CO., LTD. (original investment cost JPY3,000,000)	6,000	26,798	18.75%
Subtotal		1,418,803	
Total		<b>\$ 3,355,381</b>	
<b>2004</b>			
Under the Equity Method			
EUROASIA II INC., PANAMA (original investment cost \$1,353,493)	45	\$ 1,748,087	45%
EUROASIA III INC., PANAMA (original investment cost \$3,089)	45	2,072	45%
Subtotal		1,750,159	
Under the Cost Method			
ETERNAL PESCADORES S.A. (PANAMA)	19	461,290	19%
HARMONY SUCCESS S.A. (PANAMA)	19	137,107	19%
Subtotal		598,397	
Total		<b>\$ 2,348,556</b>	

a. The Company invested in EUROASIA II INC., PANAMA and EUROASIA III INC., PANAMA in 2003. The companies were established for the purpose of owning two 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, but EUROASIA III INC., PANAMA transferred of the all assets and liabilities and equity accounts to EUROASIA II INC., PANAMA during July 2005. As of December 31, 2005, the Company had a 45% and 0% shareholding, respectively, for each of the investee companies and had paid \$1,022,173 for EUROASIA II INC., PANAMA and \$0 for EUROASIA III INC., PANAMA. Investment gain (loss) recognized for 2005 and 2004 based on the audited financial statements with unqualified opinion issued by both of the investee companies'

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

independent auditors are detailed below:

<u>Investee company</u>	<u>2005</u>	<u>2004</u>
	<u>Investment gain (loss)</u>	<u>Investment gain (loss)</u>
EUROASIA II INC., PANAMA	\$ 519,811	396,199
EUROASIA III INC., PANAMA	4,108	4,421,669
<b>Total</b>	<b>\$ 523,919</b>	<b>4,817,868</b>

- 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. In March 2004, the vessel construction was completed. The Company has 19% ownership and paid \$461,290. During 2005 and 2004, the Company received cash dividends of \$68,400 and \$57,000, respectively, 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 – Golden KIKU. Stockholders of this company paid the construction price and related expenses in instalments according to the shareholding percentages. As of December 31, 2005, the vessel construction was not completed and the Company had paid a total of \$930,715.
- d. The Company invested in LANDO CO., LTD during August 2005. As of December 31, 2005, the Company had 18.75% ownership and had paid \$26,798 (JPY3,000,000).

(3) Property and equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Amount</u>
<b>2005</b>			
Vessel equipment	\$ 291,918,731	68,666,203	223,252,528
Leasehold improvements	242,784	149,204	93,580
Prepayments for business facilities	7,110,378	-	7,110,378
<b>Total</b>	<b>\$ 299,271,893</b>	<b>68,815,407</b>	<b>230,456,486</b>
<b>2004</b>			
Vessel equipment	\$ 249,350,491	55,260,779	194,089,712
Leasehold improvements	382,680	270,468	112,212
Prepayments for business facilities	6,581,903	-	6,581,903

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

Total	\$		
	<u>256,315,074</u>	<u>55,531,247</u>	<u>200,783,827</u>

- a. As of December 31, 2005 and 2004, the total insurance coverage for the above fixed assets amounted to \$275,140,000 and \$195,140,000, respectively.

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

b. The Company's subsidiary BRILLIANT PESCADORES S.A. disposed of the vessel Brilliant in March 2003. The gain on disposal was \$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 3 years for renting. As of December 31, 2005 and 2004, the unrealized gain on sale and leaseback was \$865 and \$6,055 respectively.

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

	<b>2005</b>	<b>2004</b>
Secured loans	\$ 137,996,730	128,062,602
Less: Current portion	( 18,440,528 )	( 24,747,379 )
Net amount	<b>\$ 119,556,202</b>	<b>103,315,223</b>

The Company provided certain fixed assets as collateral for the above secured loans. The loans bore interest of 1.125% ~ 6.993% and 1.55% ~ 4.88% for 2005 and 2004, respectively.

(5) 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, 2005 and 2004, 60,851,392 shares were issued and outstanding, with par value of \$1 per share.

(6) 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, 2005 and 2004, was 60,851,392 and 60,276,392, respectively.

**5. RELATED-PARTY TRANSACTIONS**

(1) Related-party accounts

<b>Name of related party</b>	<b>Relationship with the Company</b>
SHIH WEI NAVIGATION CO., LTD.	Parent company
WISDOM MARINE LINES S.A.	The company's president was an immediate family member of the Company's chairman

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

(2) Significant transactions with related parties

a. Purchases

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
	\$			
SHIH WEI NAVIGATION CO., LTD.	<u>4,323,072</u>	<u>8</u>	<u>3,754,375</u>	<u>8</u>

b. Other accounts receivable — related party

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
	\$			
WISDOM MARINE LINES S.A.	<u>89,878</u>	<u>100</u>	<u>-</u>	<u>-</u>

c. Agency current accounts (asset account)

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
	\$			
SHIH WEI NAVIGATION CO., LTD.	<u>7,424,072</u>	<u>100</u>	<u>2,728,616</u>	<u>100</u>

d. Agency current accounts (liability account)

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
SHIH WEI NAVIGATION CO., LTD.	<u>\$ 898,806</u>	<u>100</u>	<u>541,807</u>	<u>100</u>

e. Operating expenses

<u>Name of related party</u>	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
SHIH WEI NAVIGATION CO., LTD.	<u>\$ 148,013</u>	<u>17</u>	<u>-</u>	<u>-</u>

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

**6. PLEDGED 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, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Vessel equipment (net book value)	\$ 222,430,758	193,397,509
Restricted assets	491,667	491,667
Total	<b>\$ 222,922,425</b>	<b>193,889,176</b>

**7. COMMITMENTS AND CONTINGENCIES**

(1) The construction and purchase agreements for vessels signed by the subsidiaries of the Company amounted to JPY7,511,400 thousand as of December 31, 2005, and US\$6,000 thousand and JPY15,021,400 as of December 31, 2004. They had paid JPY784,100 thousand as of December 31, 2005, and \$6,000 thousand and JPY2,962,700 thousand as of December 31, 2004 (recorded as prepayments for business facilities).

(2) As of December 31, 2005 and 2004, the Company had signed significant operating lease contracts for cargo transportation as follows:

<b>2005</b>			<b>Deposits-out</b>
Vessel Name	Contracting Party	Period Covered	amount
FODAS	FODAS MARITIME S.A.	2002 ~ 2010	\$ 1,200,000
MAJESTIC	MAJESTIC PESCADORES S.A.	2002 ~ 2010	1,200,000
GLARING	FORTUNATE TRANSPORT S.A.	2003 ~ 2008	1,848,507
ID COMMANDER	ID SHIPPING A/S	2002 ~ 2005	650,000
Total			<b>\$ 4,898,507</b>
<b>2004</b>			<b>Deposits-out</b>
Vessel Name	Contracting Party	Period Covered	amount
WELL PESCADORES	MAN SHIPPING LP	1999 ~ 2014	\$ 4,585,000

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

ID COMMANDER	ID SHIPPING A/S	2002 ~ 2005	750,000
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>\$</u> <u><b>10,183,507</b></u>

The above rental expenses 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

Financial Instruments	2004	
	Contract Amount	Credit Risk
Forward Contracts		
Nontrading – The Company’s purchase contract	<b>JPY 100,000,000</b>	-
– Subsidiary company’s purchase contract	<b>JPY 209,000,000</b>	-

The Company and its subsidiaries did not have any forward contracts for purchasing on December 31, 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 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 is an adjustment 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

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

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 derivatives 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 rates, 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 foreign exchange forward contracts resulted in an exchange loss of \$129,799 and a gain of \$378,154 on December 31, 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 December 31, 2005 and 2004.

(2) Fair value of financial instruments

<b>Nonderivative Financial Instruments</b>	<b>2005</b>	
	<b>Book Value</b>	<b>Fair Value</b>
<u>Financial assets:</u>		
Financial assets with book value equal to fair value	\$ 41,541,058	41,541,058
Short-term investments	3,000,000	2,984,920
Long-term equity investments		
— impossible to estimate fair value in practice	3,355,381	-
<u>Financial liabilities:</u>		
Financial liabilities with book value equal to fair value	4,763,407	4,763,407
Long-term liabilities	137,996,730	137,996,730
<b>2004</b>		
<b>Nonderivative Financial Instruments</b>	<b>Book Value</b>	<b>Fair Value</b>
<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 (including current portion)	128,062,602	128,062,602

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

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 available, market prices are the fair value of marketable securities; otherwise, financial or other information is used to estimate fair value.

c. If the market value of marketable long-term equity investments is available, then the market value is used as fair value. In addition, for long-term equity investments in unlisted companies, which are not traded publicly, it is impossible to estimate their fair values.

d. Long-term 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 for 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

	2005			2004		
	O p e r a t i n g c o s t	O p e r a t i n g e x p e n s e	T o t a l	O p e r a t i n g c o s t	O p e r a t i n g e x p e n s e	T o t a l
Employee expense						
Payroll	\$ 6,825,857	-	6,825,857	5,368,014	-	5,368,014
Insurance	-	-	-	-	-	-
Retirement	-	-	-	-	-	-
Others	2,187,399	-	2,187,399	1,796,764	-	1,796,764
Depreciation	13,556,550	-	13,556,550	11,593,682	-	11,593,682

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

Depletion	-	-	-	-	-	-
Amortization	1,561,108	-	1,561,108	1,039,701	-	1,039,701

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