YANG MING MARINE TRANSPORT CORPORATION

2002 ANNUAL REPORT

May 2003

http://mops.tse.com.tw ; http://www.yml.com.tw

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CHAPTER 1 LETTER TO SHAREHOLDERS

1. A Report on Business Operations in 2002

In 2002, the weakened recovery of the U.S. economy and the continued over-capacity of the shipping industry plus the shutdown of the ports across the U.S. West Coast in the latter half of the year, all negatively affected freight rate stability, despite the welcomed increase of global container trade volume of between 7 and 8% from adjustments in inventories. Facing difficult conditions, we have adopted strategies focusing on flexibility and speed especially in areas such as aggressively adjusting our service and continuously reducing operating costs. After the utmost efforts of all of our employees, we have achieved a 2002 operating revenue amounting to NT$45.5 billion with net profits after-tax of NT$1.13 billion.

2. Business Outlook and Strategies for 2003

For this year, owing to the upbeat outlook of the global economy and the early finish of the Iraq war, it is becoming more apparent that the sea-borne trade should see further growth. Meanwhile, the pressure of over-tonnage will decline as the growth of capacity supply reduces this year. Thus, both TSA and FEFC are in the process of implementing rate restoration plans to improve upcoming profits. For the bulk market, due to the strong demand for steel and the expansion of foreign trade in China, the business environment is developing much more positively now.

Nevertheless, there are some uncertain factors for the recovery of the global economy such as the reconstruction of war-torn Iraq's infrastructure, the potential conflict of regional politics, and the SARS epidemic's economic impact. To cope with the changing environment and future challenges, our business strategies this year are as follows:

- To continuously expand strategic alliances and integrate services to improve the competitiveness and efficiency on our global liner services.
- To progressively strengthen our service network and increase market share by enhancing the cooperation with partners and enlarging China's market on our Intra-Asia services.
- To meet the future development of our fleet and requirements of service deployment through ship-building and/or purchasing as well as chartering of suitable vessels.
- To properly upgrade our global fleet and adjust business strategies to reduce operating costs and improve our profits in the bulk market.
- To integrate our group's resources and information technology systems to boost overall operating performance.

Facing versatile development and various trials of the shipping industry, this company will flexibly watch the changing market and continue innovation to provide excellent service for our clients. Our colleagues will continuously endeavor to enhance core competence to improve performance and provide added-value services. In the meantime, we look forward to having the full support and encouragement from all of our shareholders in order to achieve further profits.

Sincerely,

Ting-huei Chen
Chairman

CHAPTER 2　COMPANY UPDATE

1. Company Brief

1.1 Registration Date of the Establishment: December 29, 1972

1.2 Chronology of Yang Ming

1972-1981

- Yang Ming Marine Transport Corporation is established on Dec. 28, 1972 with a capital of NT$100,000,000.
- A 28,700 D.W.T.bulk carrier, Ming Joy, is completed and put into service.
- Four multiple-purpose ships, Ming Spring, Summer, Autumn and Winter, are added to Yang Ming's first container fleet.
- Asia/U.S. West Coast full-container Liner service was inaugurated.
- New full-container liner service between Asia / U.S. East & West Coast is inaugurated, with a fleet of seven 2,054 TEU full-container vessels serving the route.
- YML leased Dock No.70 at Kaohsiung Harbor for its exclusive use.
- Yang Ming inaugurates its Asia / Mediterranean liner service.

1982-1991

- Four more 2,054 TEU full-container vessels join Yang Ming's fleet. The Mediterranean-bound liner service is extended to North Europe, and the Asia / Europe full-container liner service is also inaugurated.
- Three 66,000 D.W.T. Panamax-class bulk carriers, Ming Wisdom, Ming Mercy and Ming Courage, are completed and put into service.
- Other than being named as one of the world's "most satisfactory marine transporters in service and reliability, "Yang Ming is also cited by the American press as one of the top ten liner services in the world.
- Eight 3,266 TEU full-container ships are completed. With the inauguration of the Asia / Australia and also Asia / Northeastern Asia liner service, a radial service network is accomplished.
- Yang Ming is cited by the London- based British Shipper Consultation (part of the Freight Transport Association Ltd.) as the world's "Second Most Acclaimed Shipping Company" in client service.
- Yang Ming inaugurates liner service to / from India / Persian Gulf, connecting its main liner service routes to USA, Europe, and also Intra-Asia, etc.
- IPI service is expanded. The scope of service connecting inland points in the USA is also enlarged.
- A linkage of Yang Ming liner service connecting Europe, Asia and America is completed.
- Intra-Asia full-Container liner service is inaugurated.
- A joint liner service with Hanjin Line is formed, serving the route between Asia and U.S. East Coast.

1992-2001

- Yang Ming shares are listed on the Taiwan Stock Exchange.
- Three 3,604 TEU full-container ships are completed and join Yang Ming's worldwide service.
- Five 3,725 full-container vessels, namely Ming East, Ming West, Ming South, Ming North, and Ming Zenith, are completed and put into service.

- The China Merchants Steam Navigation Co., Ltd. is merged into Yang Ming.
- A joint service with “K”LINE on both the Asia / U.S.A. Pacific Coast and the Asia / North Europe routes is inaugurated.
- Yang Ming successfully completed its privatization, effective from February 15, 1996.
- In 1996, Yang Ming obtains ISO 9002 / ISM CODE accreditation and also the ROC's National Outstanding Quality Case Award.
- Through a consortium agreement with “K”LINE ,Yang Ming inaugurates its TA (Trans-Atlantic) service, providing a weekly North Europe / North America full-container Liner service to meet its global accounts' requirements.
- Off-shore transhipment link service between Kaohsiung and Xiamen and weekly service routes in Asia / Persian Gulf (U.A.E.) / Sub-continent (India / Pakistan) full-container liner service are inaugurated.
- Yang Ming provides free marine service by transporting relief materials for Taiwan’s 9-21 earthquake disaster area.
- Seven 5,500 TUE Post-panamax full-container vessels, Ming Plum, Ming Orchid, Ming Bamboo, Ming Pine, Ming Cosmos, Ming Cypress and Ming Green, are completed and join Yang Ming’s fleet service.

2002

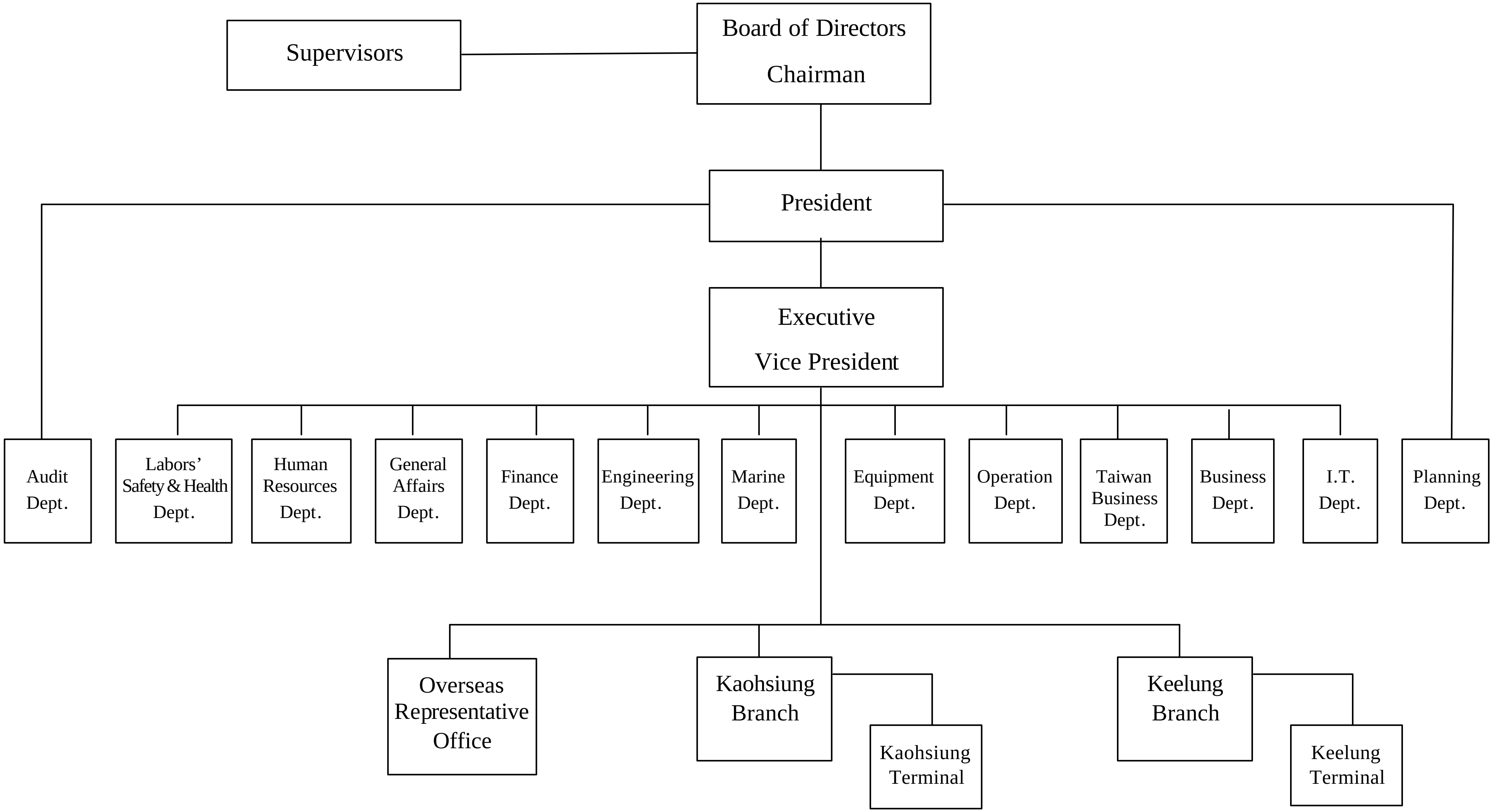
- Yang Ming and “K-Line rationalize their global service routes to provide customers best service. The new joint service, including PSW-1 / AES-1 Pendulum service, PSW2 service, PSW3 service, PNW service, AES2 service, begin at end of March, 2002.
- Yang Ming, COSCON, “K”LINE and Hanjin Shipping conclude a Europe / U.S. Atlantic & Gulf Coast Slot Purchase Agreement with Americana Ships and Grand Alliance.
- Yang Ming cooperates with K-Line, COSCON and Hanjin to restructure their Trans-Atlantic services into Asia / All Water U.S. East Coast and Trans Atlantic III (U.S. East Coast / Mediterranean) service and also purchases slot of North Europe and Gulf Coast of United States service (GASS & SGX).
- Yang Ming terminates a slot-purchasing agreement with Australia Liners and suspends Asia / Australia service.
- The Global Logistics Center in Kaohsiung Harbor is completed.
- Yang Ming sets up a “ Taiwan Business Department” to manage all shipping affairs in Taiwan.
- Yang Ming cooperated with CNC to provide Taiwan / Vietnam II joint service route.
- Yang Ming purchases three 76,000 DWT Panamax-class bulk carriers, Ming Cultivation, Ming Equality and Ming Governing to enhance its tramp service.
- Yang Ming sets up operation headquarters in Taiwan to integrate the resource of whole group for best results.

2003

- Yang Ming, COSCON and Hanjin cooperate to inaugurate two Far East / Europe services – CEX and NEX**.**
- A new 76,000 DWT Bulk carrier, Ming Virtue, is completed and delivered to Yang Ming.
- Yang Ming and Evergreen extend their co-operation with a new North China / Philippines service.
- Yang Ming and K-Line commence Asia / Mediterranean service (AMS service) and restructure AES-2 service by adjusting the calling port.

2. Organizational Structure

2.1 Yang Ming organizational structure is shown below:



2.2 Directors and Supervisors

Dec. 31, 2002

Position		Chairman Board of Directors	Director	Director	Director	Director	Executive Supervisor	Supervisor	Director	Director
Name		Ting –huei Chen	Wong-hsiu Huang	Ding-yan Tsai	Chia-juch Chang	Fu-mei Chu	Bing-huang Shih	He-gui Chen	Benny T. Hu	Nina Kung
Date appointed		Jun. 20, 2001	Jun. 20, 2001	Jun. 20, 2001	Jun. 20, 2001	Jun. 20, 2001	Jun. 20, 2001	Jun. 20, 2001	Jun. 20, 2001	Jun. 20, 2001
Term of Appointment		reelectable upon expiration of effectual period								
Holding shares	shares	Directors and Supervisors herein as representatives of the MOTC, and holding a total of 781,738,458 shares							925,846	51,322,802
	ratio of holding shares(%)	which represent 42.62% of the company's stocks							0.05%	2.80%
Directors and Supervisors individual holding shares	shares	228,816	263,460	—	—	—	—	—	—	4,525,074
	ratio of holding shares(%)	0.01	0.01	—	—	—	—	—	—	0.25
Spouse, under-aged children's holding shares	shares	—	767	—	—	—	—	—	—	—
	ratio of holding shares(%)	—	—	—	—	—	—	—	—	—

2.3 Top management

Dec. 31, 2002

Position	Name	Date appointed	Entitled for other companies presently
President	Wong-hsiu Huang	Aug. 1, 2001	Chairman of Yang Ming Line (Singapore) Pte.Ltd.
Senior Executive Vice President	Ming-sheu Tsai	July 3, 2001	President of Young-Carrier Co., Ltd.
Executive Vice President	Robert Shuh-shun Ho	Feb. 15, 1996	Chairman of All Oceans Transportation Inc.
Executive Vice President	Pier-yuan Shieh	July 1, 1996	President of Yang Ming Shipping Europe GmbH Hamburg
Executive Vice President	Chi-shung Liu	Jan. 1, 2001	President of All Oceans Transportation Inc.
Vice President / Keelung Branch	Jinn-hsing Wang	Feb. 15, 1996	President of Jing Ming Transportation Co., Ltd.
Vice President / Kaohsiung Branch	Sen-rong Liu	Jan. 1, 2001	President of Hong Ming Terminal & Stevedoring Co., Ltd.

3. Capital and Shares Issuance

3.1 Capital and shares

3.1.1 Shares category

Dec. 31, 2002

Shares category	Authorized capital					Amount of shares of convertible bonds
	Shares Issued			Non-issuance shares	Total shares	
	Listed	Unlisted	Total			
Common stock	1,834,316,030	—	1,834,316,030	565,683,970	2,400,000,000	58,569,604

3.1.2 Shares issuance

Date	Par value (NT$)	Authorized capital		Actual capital received		Notes	
		Shares	Amount (NT$)	Shares	Amount (NT$)	Sources of capital	Capital source other than cash
Sep. 2001	10	2,400,000,000	24,000,000,000	1,834,316,030	18,343,160,300	Capital increase from earnings 356,177,870 Capital increase from capital surplus 178,088,940	-

3.2 Market price per share, net worth, earnings, and dividends during the latest 2 years

Unit：NT Dollars

Items	Year	2001	2002	Jan. 1, 2003~ Apr. 30, 2003
Market-price per share	Highest price	15.40	13.15	22.90
	Lowest price	5.90	6.40	12.65
	Average price	9.31	8.80	17.26
Net worth per share	Unappropriated	13.11	13.28	14.39
	Appropriated	13.11	-	-
Earnings per share	Weighted average number of outstanding shares	1,834,316 thousand shares	1,765,928(Note) thousand shares	1,767,709(Note) thousand shares
	Earnings per share	(0.37)	0.64	0.61
Dividends per share	Cash dividend	0	-	-
	Stock dividend	0	-	-
Return on Investment	Price / Earnings ratio	-	13.75	-
	Price / Cash dividends ratio	-	14.67	-
	Cash dividends/ Price ratio	-	0.068	-

Note：The Shares are weighted average shares after Treasury stock deduction.

4 Issuance of Corporate Bonds

4.1 Status of Corporate Bonds Issuance：

Dec 31,2002

Bond Category	First Domestic Convertible Bonds	Third Debenture Bonds (secured)	Forth Debenture Bonds (secured)	Fifth Debenture Bonds (secured)	Sixth Debenture Bonds	Seventh Debenture Bonds	Eighth Debenture Bonds	Ninth Debenture Bonds	Second Domestic Convertible Bonds
Date of Issuance	Aug. 2, 1997	June 30, 1999	July 20, 1999	Nov. 25, 1999.	June 1, 2000	Nov. 20, 2000	July 16, 2001	July 2, 2002 ~ July 5, 2002	Note 1
Par Value	NTD 100 thousand	NTD 1 million	NTD 1 million	NTD 1 million	NTD 1 million	NTD 1 million	NTD 1 million	NTD 1 million	NTD 100 thousand
Place of Issuance and Exchange	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.	R.O.C.
Issuance Price	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value	100% of par value
Total Amount	NTD 2,500 million	NTD1,000 million	NTD 1,300 million	NTD 700 million	NTD 3,000 million	NTD 2,400 million	NTD 1,100 million	NTD 3,000 million	NTD 8,000 million
Interest Rate	4.5%	5.8000~5.8841%	5.72%	5.75%	7 years（1,200 million）-5.70% 10 years (1,800 million）-6.09%	6.02%	4.49%	3.85%	0%
Terms of Reimbursement	7 years, Date of maturity: Aug. 1, 2004	3 years, Date of maturity: July 7, 2002	3 years, Date of maturity: July 23, 2002	5 years, Date of maturity: Nov. 25, 2004	7 years, Date of maturity: June 7, 2007 10 years, Date of maturity: June 9, 2010	12years, Date of maturity: Nov. 29, 2012	7years, Date of maturity: July 20, 2008	5years, Date of maturity: July 5, 2007	5years
Guarantor	Nil	Nil (Vessels as guarantees)	The International Commercial Bank of China Foreign Dept. Hua Nan Commercial Bank Ltd Chi Du Branch Land Bank of Taiwan Business Dept	Taipei Bank Chien Cheng branch	Nil	Nil	Nil	First Commercial Bank Keelung Branch、 Land Bank of Taiwan Business Dept、The International Commercial Bank of China Foreign Dept、Chiao Tung Bank Loan Dept、Hua Nan Commercial Bank Chi Du Branch.	Note 1
Trustee	Bank of Taiwan Trust Dep.	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Central Trust of China Trust Dep.	Land Bank Of Taiwan Trust Dep.
Underwriter	Capital Securities Corp.	Capital Securities Corp.	Taiwan International Securities Corp. ; Capital Securities Corp.	Masperlink Securities Corp. ; Taiwan Securities Corp.	Taiwan International Securities Corp.、Taiwan Securities Corp.、Capital Securities Corp.、MasterLink Securities Corp.、Core Securities Corp.	Jih Sun Securities Corp. Taiwan Securities Corp.	Yuanta Core Pacific Securities	Nil	KGI Securities Co.Ltd
Audit Lawyer	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin	Attorney at Law Jason S. G. Lin
Audit Accountant	TN SOONG & Co.	TN SOONG & Co.	TN SOONG & Co.	TN SOONG & Co.	TN SOONG & Co.	TN SOONG & Co.	TN SOONG & Co.	TN SOONG & Co.	TN SOONG & Co.
Way of Reimbursement	Reimbursed in cash upon maturity	Reimbursed in cash upon maturity	Reimbursed in cash upon maturity	Reimbursed in cash upon maturity	Maturity : 7years:For5,6,7years, 33%, 33%, 34% due respectively. 10years: For8,9,10 years, 33%, 33%, 34% due respectively.	Maturity : For 10,11,12 years, 20%, 40%,40% due respectively.	Maturity : For 5,6,7 years, 20%, 40%,40% due respectively.	Reimbursed in cash upon maturity	Note 1
Unreimbursed Amount	NTD 917. 2 million	NTD 1,000 million	NTD 1,300 million	NTD 700 million	NTD 3,000 million	NTD 2,400 million	NTD 1,100 million	NTD 3,000 million	NTD 8,000 million
Conditions of Recall or Recall in Advance	Yes	Yes	Nil	Nil	Nil	Nil	Nil	Nil	Yes
Conditions of Restriction	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Credit Rating Agency, Rating Date, Rating	Nil	Nil	Nil	Nil	Taiwan Ratings Corporation, Mar. 6, 2000 twA	Taiwan Ratings Corporation, Sep. 26, 2000 twA	Taiwan Ratings Corporation, June 21, 2001 twA	Nil	Taiwan Ratings Corporation, Jan. 27, 2003 twBBB+
Amount of Converted Common Stock , GDR or other valuable securities	NTD 1,582.80 million	Inappropriate	Inappropriate	Inappropriate	Inappropriate	Inappropriate	Inappropriate	Inappropriate	Note 1

Note 1: The Second Dom estic Convertible Bonds is expected to be issued on July ,2003; however, partial issued terms have not been concluded.

4.2 Issuance of Convertible Bonds

Bond Category		First Domestic Convertible Bonds				
Items \ Period		1999	2000	2001	2002	Jan. 1, 2003~ Apr. 30, 2003
Market Price	the highest	120.80	100.80	101.60	104.00	125.00
	the lowest	91.00	95.00	96.00	95.90	119.00
	the average	101.10	97.22	99.81	101.35	120.34
Convertible Price		20.70	17.10	15.66	15.66	15.66
Issuance Date		Apr. 2, 1997				
Convertible Price at Issuance Date		NT$31.67				

5. Issuance of GDR

Conditions of the issuance of GDR

Apr. 30, 2003

Items \ Date of Issuance			Nov. 14, 1996
Place of Issuance and Exchange			London Stock Exchange
Total amount of Issuance			USD 116,392,201.2
Issuance price			USD 11.64
Total units of Issuance			9,999,330 units of GDR
Underling security			Capital increase by public offering of common shares
Units of underling security			99,993,300 common shares
The right & obligation of GDR holders			Same right & obligation with the YMTC'S common shares
Depository			Citibank N. A.
Custodian			Citibank N. A. Taipei branch
Outstanding shares			92,931,438 shares
Allocation of related expenses for issuance and During existence.			To be borne by the company
Major covenants of deposit agreement and Custody agreement			In accordance with the law of R.O.C. and State of New York, U.S.A.
Market price per unit	2002	the highest	USD 3.696
		the lowest	USD 1.840
		the average	USD 2.440
	From Jan. 1, 2003 to Apr. 30, 2003	the highest	USD 6.409
		the lowest	USD 3.924
		the average	USD 5.240

CHAPTER 3　BUSINESS UPDATE

1. Business Profile, Operating Fleet & Service Scope

1.1 Business Profile：

1.1.1 Domestic and international maritime service on carriage of cargo.

1.1.2 Domestic and international maritime service on carriage of passengers.

1.1.3 Operation of warehouse, terminal, tug, barge and container freight station business.

1.1.4 Repair, lease and sale of vessels.

1.1.5 Repair, lease and sale of container and chassis.

1.1.6 Operation of shipping agency.

1.2 Operating Fleet＆Service Scope：

On Dec. 31, 2002, YML is operating 52 vessels consisting of 44 full container vessels, 4 panamax bulk carriers and 4 tankers.

The service scope of the year 2002 included the following three categories:

－Container Liner Service

Offering frequent fixed-day weekly services for the following service routes : Asia / US East Coast, Asia / US West Coast, Asia / North Europe, Asia / Mediterranean, US East Coast / North Europe, US East Coast / Mediterranean, and Intra-Asia regional routes.

－Tramp Service

Providing bulk cargo service.

－Proxy Service

Operating 4 tankers on behalf of other Carriers.

1.3 Cargo structure for full container vessel from 2000 to 2002：

Unit : TEU

Items	2000	%	2001	%	2002	%
Cargo for Trans-ocean	1,168,215	76	1,148,906	75	1,159,005	68
Cargo for Intra-Asia	369,431	24	381,376	25	553,040	32
Total	1,537,646	100	1,530,282	100	1,712,045	100

2. Market Analysis

2.1 Transpacific Trade

In 2002, due to weak market confidence after the September-Eleventh attack, the contracted ocean freight of eastbound Transpacific trade declined compared to the level of year 2001. For westbound traffic, the trade suffered a further decline.

Viewing the gradual recovery of the U.S. economy, eastbound volume after the Chinese New Year shows the trend of a continuous upturn. The TSA has readjusted earlier cargo forecasts from 4 percent to a stronger 5 percent for 2003 growth. As the balance between supply and demand was much tighter, and a similar situation is expected in 2003, we expect more modest rates of growth to prevail this year.

2.2 F.E.-Europe Trade

On the supply side, the capacity on the Asia-North Europe trade has increased by about 4% for both eastbound and westbound in 2002. On the demand side, the worldwide economy was strengthened during 2002, especially in China; the cargo volume rose about 7% on both eastbound and westbound services. Though utilization has seen continuous strength, the impact of the Iraq War may limit this estimation to a more conservative figure. In the longer term, along with economic recovery, the 2003 outlook could possibly be a little more optimistic.

2.3 Transatlantic Trade

The capacity supply on Transatlantic trade grew by about 2.1% overall in 2002. On the demand side, the growth rate of cargo volume was about 6.9% for westbound and 2.3% for eastbound. Because utilization estimates for westbound and eastbound are at about 90% and 60% respectively in 2003, westbound ocean freight might slightly rise and that for eastbound might stay at a similar low level.

2.4 Intra-Asia Trade

The Intra-Asia trade has become the biggest liner trade in the world. The Asian economy has been growing vigorously after recovering from financial crisis, and thus, the volume growth for the Intra-Asia trade is expected to be maintained at 5% yearly through 2003. On the supply side, due to delivery of Post-Panamax vessels in succession in the second half of 2000, these medium-sized vessels have been deployed for north-south trade and Intra-Asia trade. Meanwhile, due to the recent Intra-Asia trade boom, several carriers have expanded their service capacity since last year, and therefore, the oversupply in the Intra-Asia trade will likely continue. The possibility of increasing ocean freight is very limited.

3. Employees Status

Apr. 30, 2003

Year		2001	2002	Apr. 30, 2003
Number of employees	Office service	654	822	812
	Sea service	408	372	308
	Total	1,062	1,194	1,120
Average age		40.38	41.27	41.14
Average service years		11.57	11.82	12.11
Education level	Ph. D	1	1	2
	Master degree	72	68	68
	College	697	850	800
	High school	214	205	187
	Middle school and below	78	70	63

4. Environmental Protection

All of our company's vessels are installed with pollution prevention equipment which is periodically inspected in order to meet the requirements of international conventions.

5. Relationship with Employees

The employment relationship is good and there is no significant dispute amongst our employees with our management.

6. Important Contracts

Dec. 31, 2002

Name of contract	Party	Contract Period	Primary content
Agency agreement	Kung Ming Shipping Corp.	Indefinite contract signed on 6/1/1997.Each party may terminate this agreement prior to 90 days notice.	Booking agency for liner service in Taiwan
Lease	Kaohsiung Harbor Bureau	9/16/1999－9/15/2005	Terminal use agreement
Lease	Keelung Harbor Bureau	1/1/1996－11/30/2005	Terminal use agreement
Lease	POLA	10/11/1996－10/10/2021	Terminal use agreement
Coal C/P	TPC	8/1/1996－7/31/2003	Coal shipment transportation
Tanker operation agreement	CPC	4/1/1997－5/31/2003	Ship management for 4 CPC tankers
Service contract	MS. CSF	7/1/1999－12/31/2002	Military cargo transportation
Space Allocation & Operation Agreement	K LINE	3/22/2002-3/21/2007	Asia/U.S. West Coast , Asia/Med/Europe liner service
Slot Allocation & Sailing Agreement	K LINE / Hanjin shipping Co., Ltd	3/21/2002-3/20/2003	Asia/U.S. West Coast , Asia/Med/Europe, U.S. East Coast / North Europe liner service
Cross slot charter (USEC)	Hanjin shipping Co., Ltd.	2/1/1991－3/2/2003	FE-US East Coast all water liner service
Cross slot charter(TA1/TA2)	K LINE	10/1/1998~10/31/2002	Transatlantic liner service
Cross slot charter(ISE)	The Shipping Corporation of India Ltd. Zim lsreal Navigation co., Ltd. EMC K LINE MISC	1/6/2002~1/5/2003, Subject to 3 month pre-notice of termination	India-N. Europe liner service
Cross slot charter(AMX)	K LINE	4/30/2000~4/30/2003	FE-Mediterranean liner service
Slot Exchange(JTX)	CNC	10/1/2002 ~9/30/2003	Thailand-Japan liner service
Cross slot charter(PRD)	Uniglory Marine Corp. / Yi-Tong Shipping Co., Ltd.	9/7/2001 – 8/31/2003	Taiwan – Hong Kong Express Service
Cross slot charter(JTM)	CNC TSL	11/16/2002-11/15/2003	Japan-Singapore, Malaysia liner service
Vessel chartering	Shoei Kisen Kaisha, Ltd. / Imabari Shipbuilding Co., Ltd.	Agreement signed on Nov. 13, 2001. Vessels to be delivered in 1st half of 2003.	Long term lease for 3x1620 TEU full container vessels
Vessel chartering	Shoei Kisen Kaisha, Ltd. / Imabari Shipbuilding Co., Ltd.	Agreement signed on Dec. 27, 2001. Vessels to be delivered during April and June of 2004.	Long term lease for 2x5500 TEU full container vessels
New Building Contract	CSBC	6/18/2002 signed the contract ; vessels to be delivered in 2004 April and June	2 x 5500 TEU full container vessels
New Building Contract (Bulk)	Shoei Kisen/ Imabari Shipbuilding	12/6/1999 signed the contract ; vessels to be delivered in 2/13/2003	1 x Panamax Bulk
Vessel Purchase Contract (Bulk)	BEL TRAMP Shipping S.A.	11/21/2002 signed the contract ; vessels to be delivered in 12/15/2002 and 2/7/2003	2 x Panamax Bulk

7. Disposal or Acquisition of Major Assets

7.1 Acquisition of Major Assets

7.1.1 Yang Ming Marine Transport Corp Acquisition of Major Assets (Unit: NT$1,000)

Items	Acquisition Date	Price	Sellers	Relationship with YMTC	Status
Bulk Carrier	Dec. 2002	469,980	Bel Tramp Shipping S. A.	Non related Party	In operating
Container Vessel	Apr. 2003	450,284	All Oceans Transportation Inc.	Related Party	In operating

7.1.2 Subsidiaries Acquisition of Major Assets (Unit: NT$1,000)

Company	Items	Acquisition Date	Price	Sellers	Relationship with the Company	Status
All Oceans Transportation Inc.	Container Vessel	Mar. 2002	1,883,484	Yang Ming Marine Transport Corp.	Related Party	Charter out
	Container Vessel	Mar. 2002	1,890,759	Yang Ming Marine Transport Corp.	Related Party	Charter out
	Container Vessel	Dec. 2002	686,055	Yang Ming Marine Transport Corp.	Related Party	Charter out
	Container Vessel	Dec. 2002	705,556	Yang Ming Marine Transport Corp.	Related Party	Charter out
	Container Vessel	Jan. 2003	709,408	Yang Ming Marine Transport Corp.	Related Party	Charter out
	Bulk Carrier	Feb. 2003	467,692	Bel Tramp Shipping S. A.	None Related Party	Charter out
	Bulk Carrier	Feb. 2003	734,963	Imabari Shipbuilding Co., Ltd.	None Related P arty	Charter out
	Container Vessel	Mar. 2003	397,117	Yang Ming Marine Transport Corp.	Related Party	Charter out
Yang Ming Line (Singapore) Pte. Ltd.	Container Vessel	Dec. 2002	873,000	GRC Leasing III Pte Ltd.	None Related Party	Sold
Kuang Ming Shipping (Panama) Corp.	Container Vessel	Dec. 2002	873,000	Yang Ming Line (Singapore) Pte. Ltd.	Related Party	Charter out
Kuang Ming Shipping Corp.	Container Vessel	Apr. 2003	459,334	All Oceans Transportation Inc.	Related Party	Charter out

7.2 Disposal of Major Assets

7.2.1 Yang Ming Marine Transport Corp Disposal of Major Assets (Unit: NT$1,000)

Items	Acquisition Date	Disposal Date	Book Value	Disposal Price	Disposal Income	Buyers	Relationship with the Company
Container Vessel	Mar. 2001	Mar. 2002	1,883,484	1,883,484	-	All Oceans Transportation Inc.	Related Party
Container Vessel	Apr. 2001	Mar. 2002	1,890,759	1,890,759	-	All Oceans Transportation Inc.	Related Party
Container Vessel	Nov. 1991	Dec. 2002	686,055	686,055	-	All Oceans Transportation Inc.	Related Party
Container Vessel	Dec. 1991	Dec. 2002	705,556	705,556	-	All Oceans Transportation Inc.	Related Party
Building	July 1995	Nov. 2002	42,371	126,980	84,609	Taiwan Land Bank	Non related Party
Container Vessel	May 1992	Jan. 2003	709,408	709,408	-	All Oceans Transportation Inc.	Related Party
Container Vessel	Jan. 1988	Mar. 2003	397,117	397,117	-	All Oceans Transportation Inc.	Related Party

7.2.2 Subsidiaries Disposal of Major Assets (Unit: NT$1,000)

Company	Items	Acquisition Date	Disposal Date	Book Value	Disposal Price	Disposal Income	Buyers	Relationship with the Company
All Oceans Transportation Inc.	Container Vessel	Nov. 2001	Mar. 2003	450,284	450,284	-	Yang Ming Marine Transport Corp.	Related Party
	Container Vessel	Nov. 2001	Mar. 2003	459,334	459,334	-	Kuang Ming Shipping Corp.	Related Party
Yang Ming Line (Singapore) Pte. Ltd.	Container Vessel	Dec. 2002	Dec. 2002	873,000	873,000	-	Kuang Ming Shipping (Panama) Corp.	Related Party

CHAPTER4　FUND UTILIZATION PLAN

Fund Utilization for the ninth Unsecured Bond issued in 2002

UNIT：NT$1,000

Items of Plan	Utilization		Accumulated
Build of Kaohsiung logistics center	Expenditure	Planned	409,855
		Actual	409,855
	Completion	Planned	100 %
		Actual	100 %
IT system improvement program	Expenditure	Planned	150,124
		Actual	150,124
	Completion	Planned	100 %
		Actual	100 %
Payment of the third / fourth unsecured bond	Expenditure	Planned	2,300,000
		Actual	2,300,000
	Completion	Planned	100 %
		Actual	100 %
Operating capital	Expenditure	Planned	1,500,000
		Actual	1,500,000
	Completion	Planned	100 %
		Actual	100 %
Total	Expenditure	Planned	3,009,979
		Actual	3,009,979
	Completion	Planned	100 %
		Actual	100%

CHAPTER 5 FINANCIAL STATEMENTS AND REPORTS

1. Condensed Balance Sheets and Income Statements for the years from 1998 to 2003

1.1 Balance Sheet

UNIT：NT$1,000

Items \ Year		Accounting data for the recent 5 years					
		Dec. 31, 1998	Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002	Mar. 31, 2003
Current Assets		5,956,186	8,523,526	13,603,805	10,572,307	13,993,990	12,436,104
Investments in Shares of Stock		3,954,128	3,887,715	7,369,362	8,383,490	7,761,195	7,921,393
Net Properties		18,354,328	17,241,468	16,275,097	19,443,064	12,538,377	11,293,080
Other Assets		11,871,461	9,003,932	7,078,853	7,106,119	12,108,382	13,094,252
Total Assets		40,136,103	38,656,641	44,327,117	45,504,980	46,401,944	44,744,829
Current Liabilities	Unappropriated	11,345,713	7,085,203	8,464,124	9,067,338	6,553,383	5,274,861
	Appropriated	11,345,713	7,764,071	9,007,866	9,067,338	-	-
Total Long-Term Debts		5,867,158	6,516,287	10,020,069	11,210,422	13,917,769	12,282,345
Other Liabilities		598,850	698,020	798,956	1,174,189	1,573,808	1,638,545
Total retained earnings	Unappropriated	17,811,721	14,299,510	19,283,149	21,451,949	22,044,960	19,675,390
	Appropriated	17,811,721	14,978,378	19,826,891	21,451,949	-	-
Capital stock		15,652,692	16,800,842	17,808,893	18,343,160	18,343,160	18,343,160
Capital surpius		4,568,706	4,854,754	4,006,744	3,828,660	2,400,244	2,427,421
Retained earnings	Unappropriated	1,081,538	2,632,613	2,995,688	1,413,423	3,981,532	4,651,754
	Appropriated	1,081,538	1,953,745	2,095,768	2,844,810	-	-
Unrealized loss on investments in shares of stock		-	-	15,386	3,172	21,293	23,320
Cumulative translation		85,989	68,922	248,029	470,960	186,469	186,469
Total Stockholders' Equities	Unappropriated	22,324,382	24,357,131	25,043,968	24,053,031	24,356,984	25,069,439
	Appropriated	22,324,382	23,678,263	24,500,226	24,053,031	-	-

1.2 Income Statement

UNIT：NT$1,000

Items	Accounting data for the recent 5 years					
	July 1, 1998~ Dec. 31, 1998	Jan. 1, 1999~ Dec. 31, 1999	Jan. 1, 2000~ Dec. 31, 2000	Jan. 1, 2001~ Dec. 31, 2001	Jan. 1, 2002~ Dec. 31, 2002	Jan. 1, 2003~ Mar. 31, 2003
Operating revenue	19,268,482	45,168,078	50,575,836	45,411,519	45,511,610	12,583,924
Gross profit(loss)	(580,300)	2,337,487	1,583,778	46,021	1,147,639	912,433
Operating income(loss)	(964,407)	1,484,319	609,523	(813,886)	159,815	624,656
Non-operating income	549,017	1,499,797	2,639,347	1,471,354	2,334,577	516,967
Non-operating expenses	618,105	1,149,615	1,484,941	1,106,870	1,350,002	284,776
Income (loss) before income tax	(1,033,495)	1,879,648	1,763,929	(449,402)	1,144,390	856,847
Net income (loss)	(895,833)	1,675,055	1,200,846	(675,045)	1,135,451	670,222
Earnings per share	(0.57)	1.00	0.67	(0.37)	0.64	0.38

1.3 CPA and Audit results for the past 5 years

Year	CPA name	Audit results
July 1, 1998 ~ Dec. 31, 1998	Clark Chen、 Elic C. Wang	Unqualified
Jan. 1, 1999 ~ Dec. 31,1999	Clark Chen、 Victor Wang	Unqualified
Jan. 1, 2000 ~ Dec. 31, 2000	Clark Chen、 Victor Wang	Revise Unqualified
Jan. 1, 2001 ~ Dec. 31, 2001	Clark Chen、 Victor Wang	Revise Unqualified
Jan. 1, 2002 ~ Dec. 31, 2002	Clark Chen、 Victor Wang	Revise Unqualified

2. Financial Statement Analysis for the years from 1998 to 2003

Items		Year	Financial Analysis for the years from 1998 to 2003					
			July 1, 1998~ Dec. 31, 1998	Jan. 1, 1999~ Dec. 31, 1999	Jan. 1, 2000~ Dec. 31, 2000	Jan. 1, 2001~ Dec. 31, 2001	Jan. 1, 2002~ Dec. 31, 2002	Jan. 1, 2003~ Mar. 31, 2003
Financial conditions	Debt to Total Assets Ratio		44.38	36.99	43.50	47.14	47.51	43.97
	Long-term funds to net properties		150.64	175.95	212.28	178.90	301.44	330.75
Institutional solvency	Current ratio（%）		52.50	120.30	160.57	116.60	213.54	235.76
	Acid-test ratio（%）		41.37	102.41	149.57	106.68	202.18	191.82
	Time interest earned		(1.67)	4.68	4.32	0.34	2.59	5.69
Operating performance	Receivables turnover		35.70	37.34	30.55	26.15	26.47	24.25
	Average collection period(days)		10.23	9.78	11.95	13.96	13.79	15.05
	Payables turnover		19.82	18.37	13.96	10.94	12.35	16.36
	Turnover of the fixed assets		2.10	2.62	3.10	2.34	3.63	4.46
	Turnover of the total assets		0.96	1.17	1.14	1.00	0.98	1.12
Profitability	Return on total assets（%）		(1.49)	5.22	3.86	(0.36)	3.65	1.77
	Return on stockholder' s equity（%）		(3.95)	7.18	4.86	(2.75)	4.69	2.71
	Ratio of income against paid-in capital（%）	Operating income	(6.16)	8.83	3.42	(4.44)	0.87	3.41
		Pre-tax income	(6.60)	11.19	9.90	(2.45)	6.24	4.67
	Profit Margin（%）		(4.65)	3.71	2.37	(1.49)	2.49	5.33
	Earnings per share (note1)		(0.57) (0.50)	1.00 0.91	0.67 0.65	(0.37) (0.37)	0.64 -	0.38 -
Cash flow	Cash flow ratio（%）		0.47	74.23	45.59	31.15	27.08	(36.42)
	Cash flow adequacy ratio（%）		47.26	59.77	66.60	50.15	60.80	55.79
	Cash reinvestment ratio（%）		0.11	9.86	5.76	4.23	3.10	(3.55)
Leverage	Operation Leverage		-	5.09	11.73	-	(0.29)	3.37
	Finance Leverage		0.71	1.52	7.83	0.54		1.41

Note 1：According to the adjusted outstanding shares.

3. Financial Report as of Dec. 31, 2002

3.1 Independent Auditors' Report

February 28, 2003

The Board of Directors and the Stockholders
Yang Ming Marine Transport Corporation

We have audited the accompanying balance sheets of Yang Ming Marine Transport Corporation as of December 31, 2002 and 2001 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements as of and for the years ended December 31, 2002 and 2001 of Kuang Ming Shipping Corp., Transyang Shipping Pte. Ltd., Yang Ming Line (Singapore) Pte. Ltd. and China Mariners' Assurance Corp., in which the Corporation has equity investments accounted for by the equity method. As shown in the accompanying balance sheets, the carrying values of these investments were NT$1,719,597 thousand and NT$1,660,161 thousand as of December 31, 2002 and 2001, respectively. The equity in these investees' net income was NT$614,370 thousand in 2002 and NT$124,942 thousand in 2001. The financial statements of these investees were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the above investees' amounts is based solely on the reports of other auditors.

We conducted our audits in accordance with the Regulations for Audit of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Yang Ming Marine Transport Corporation as of December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting for Public Company and generally accepted accounting principles in the Republic of China.

As described in Note 3 to the financial statements, effective January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stocks," which requires the Corporation to treat its stocks held by subsidiaries as treasury stocks instead of investments. The adoption of SFAS No. 30 resulted in a decrease of NT$166,346 thousand in the 2002 net income. In addition, equity investments decreased and treasury stock increased by NT$525,441 thousand each as of December 31, 2002.

T N Soong & Co
An Associate Member Firm of Deloitte Touche Tohmatsu
Taipei, Taiwan
The Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with 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.

3.2

YANG MING MARINE TRANSPORT CORPORATION
BALANCE SHEETS
December 31, 2002 and 2001
(In Thousands of New Taiwan Dollars, Except Par Value)

	2002		2001	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 1,758,190	4	$ 4,251,248	9
Short-term investments - net (Notes 2 and 5)	6,130,776	13	1,785,007	4
Accounts receivable - net of allowance for doubtful accounts of $7,415 (Note 2)	1,290,695	3	988,009	2
Receivables from related parties (Note 20)	2,228,974	5	897,362	2
Shipping fuel - net (Note 2)	482,161	1	399,010	1
Prepaid expenses (Note 20)	262,371	-	500,090	1
Advances to shipping agents	1,469,405	3	969,577	2
Pledged time deposits (Note 21)	18,645	-	434,909	1
Other current assets (Notes 2 and 17)	352,773	1	347,095	1
Total Current Assets	13,993,990	30	10,572,307	23
INVESTMENTS IN SHARES OF STOCK (Notes 2, 3, 6 and 20)	7,761,195	17	8,383,490	18
PROPERTIES (Notes 2, 7, 20, 21 and 23)				
Cost				
Land	38,901	-	38,901	-
Buildings	691,014	2	691,014	2
Containers and chassis	10,789,226	23	11,659,634	26
Ships	14,764,752	32	21,241,261	47
Leased containers and chassis	2,041,688	4	1,906,238	4
Leasehold improvements	183,541	-	106,344	-
Miscellaneous equipment	1,379,942	3	1,395,219	3
Total cost	29,889,064	64	37,038,611	82
Accumulated depreciation	(17,350,687)	(37)	(17,663,861)	(39)
	12,538,377	27	19,374,750	43
Construction in progress	-	-	68,314	-
Net Properties	12,538,377	27	19,443,064	43
OTHER ASSETS				
Assets leased to others - net (Notes 2, 7 and 8)	1,106,569	2	962,134	2
Nonoperating assets - net (Notes 2, 7, 9 and 21)	498,247	1	686,171	2
Prepaid expenses on long-term rent agreements	348,930	1	211,615	-
Deferred charges - net (Note 2)	330,817	1	406,741	1
Receivables from related parties (Note 20)	9,720,111	21	4,796,317	11
Restricted assets (Note 10)	40,609	-	-	-
Miscellaneous (Note 2)	63,099	-	43,141	-
Total Other Assets	12,108,382	26	7,106,119	16
TOTAL ASSETS	$46,401,944	100	$45,504,980	100

	2002		2001	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term debts (Notes 11 and 21)	$ 102,597	-	$ 202,283	-
Payables to related parties (Note 20)	1,793,123	4	1,742,515	4
Accrued expenses	1,644,628	3	873,472	2
Advances from customers (Note 20)	744,337	2	709,226	2
Current portion of long-term debts (Notes 2, 7, 12 and 21)	609,664	1	2,581,952	6
Payables to shipping agents	1,275,226	3	2,571,192	5
Other current liabilities (Notes 2 and 17)	383,808	1	386,698	1
Total Current Liabilities	6,553,383	14	9,067,338	20
LONG-TERM DEBTS				
Bank loans (Notes 12 and 21)	1,181,500	3	1,365,000	3
Bonds (Notes 12 and 21)	11,117,200	24	8,117,200	18
Obligations under capital leases (Notes 2, 7 and 12)	1,139,430	2	1,248,583	3
Total Long-term Debts	13,438,130	29	10,730,783	24
RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	479,639	1	479,639	1
OTHER LIABILITIES (Notes 2, 6, 14, 17, 19, 20 and 21)	1,573,808	4	1,174,189	2
Total Liabilities	22,044,960	48	21,451,949	47
STOCKHOLDERS' EQUITY				
Capital stock - $10 par value				
Authorized - 2,400,000 thousand shares				
Issued - 1,834,316 thousand shares	18,343,160	39	18,343,160	40
Capital surplus:				
Paid-in capital in excess of par value	2,390,186	5	2,390,186	6
Treasury stocks transactions	4,242	-	-	-
Gain on sales of properties	-	-	1,431,387	3
From investments in shares of stock	5,816	-	7,087	-
Total capital surplus	2,400,244	5	3,828,660	9
Retained earnings:				
Legal reserve	414,623	1	906,167	2
Special reserve	1,141,939	3	1,141,939	2
Unappropriated earnings (accumulated losses)	2,424,970	5	(634,683)	(1)
Total retained earnings	3,981,532	9	1,413,423	3
Unrealized loss on investments in shares of stock	(21,293)	-	(3,172)	-
Cumulative translation adjustments	186,469	-	470,960	1
Net loss not recognized as pension costs	(7,687)	-	-	-
Treasury stocks - 67,619 thousand shares	(525,441)	(1)	-	-
Total Stockholders' Equity	24,356,984	52	24,053,031	53
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$46,401,944	100	$45,504,980	100

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

(With T N Soong & Co report dated February 28, 2003)

YANG MING MARINE TRANSPORT CORPORATION

STATEMENTS OF INCOME
For the Years Ended December 31, 2002 and 2001
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2002		2001	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 20)	$45,511,610	100	$45,411,519	100
OPERATING COSTS (Notes 2 and 20)	44,363,971	98	45,365,498	100
GROSS INCOME	1,147,639	2	46,021	-
OPERATING EXPENSES (Note 20)				
Selling	793,503	2	671,529	2
General and administrative	194,321	-	188,378	-
Total Operating Expenses	987,824	2	859,907	2
OPERATING INCOME (LOSS)	159,815	-	(813,886)	(2)
NONOPERATING INCOME				
Equity in investees' net income - net (Note 2)	945,291	2	-	-
Interest (Note 20)	535,460	1	436,550	1
Gain on sale of investments	260,861	1	197,808	-
Foreign exchange gain - net	215,784	-	315,438	1
Gain on sale of properties and nonoperating assets	89,403	-	247,635	-
Other	287,778	1	273,923	1
Total Nonoperating Income	2,334,577	5	1,471,354	3
NONOPERATING EXPENSES				
Interest (Note 7)	719,968	1	685,490	2
Provision for losses on investments (Note 2)	363,610	1	214,818	-
Equity in investees' net loss - net (Note 2)	-	-	112,757	-
Other (Note 23)	266,424	1	93,805	-
Total Nonoperating Expenses	1,350,002	3	1,106,870	2
INCOME (LOSS) BEFORE INCOME TAX	1,144,390	2	(449,402)	(1)
INCOME TAX EXPENSE (Notes 2 and 17)	8,939	-	225,643	-
NET INCOME (LOSS)	$ 1,135,451	2	($ 675,045)	(1)

(Forward)

	2002		2001	
	Income (Loss) Before Income Tax	Net Income (Loss)	Income (Loss) Before Income Tax	Net Income (Loss)
PRIMARY EARNINGS PER SHARE (Note 18)	$ 0.65	$ 0.64	($ 0.25)	($ 0.37)
DILUTED EARNINGS PER SHARE (Note 18)	$ 0.65	$ 0.64	($ 0.25)	($ 0.37)

Pro forma information, assuming that the Corporation's stocks held by subsidiaries are accounted for as investments rather than as treasury stocks (Notes 2, 3, 16 and 18), is as follows:

	2002	
NET INCOME	$ 1,301,797	
	Income Before Income Tax	Net Income
PRIMARY EARNINGS PER SHARE	$ 0.71	$ 0.71
DILUTED EARNINGS PER SHARE	$ 0.71	$ 0.70

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

(With T N Soong & Co report dated February 28, 2003)

3.4

YANG MING MARINE TRANSPORT CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2002 and 2001
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	CAPITAL STOCK Issued		CAPITAL SURPLUS (Notes 2 and 15)					RETAINED EARNINGS (Notes 2 and 15)				UNREALIZED LOSS ON INVESTMENTS IN SHARES OF STOCK (Note 2)	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	NET LOSS NOT RECOGNIZED AS PENSION COSTS (Notes 2 and 19)	TREASURY STOCKS (Notes 2, 3 and 16)	TOTAL STOCKHOLDERS' EQUITY
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	Treasury Stocks transactions	Gain on Sales of Properties	From Investments in Shares of Stock	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Losses)	Total					
BALANCE, JANUARY 1, 2001	1,780,889	$ 17,808,893	$ 2,568,275	$ -	$ 1,431,387	$7,082	$ 4,006,744	$801,973	$ 1,141,939	$ 1,051,776	$ 2,995,688	($15,386)	$248,029	$ -	$ -	$ 25,043,968
Appropriation of 2000 earnings																
Legal reserve	-	-	-	-	-	-	-	104,194	-	(104,194)	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	-	(9,476)	(9,476)	-	-	-	-	(9,476)
Cash dividends - $0.3 per share	-	-	-	-	-	-	-	-	-	(534,266)	(534,266)	-	-	-	-	(534,266)
Stock dividends - 2%	35,618	356,178	-	-	-	-	-	-	-	(356,178)	(356,178)	-	-	-	-	-
Capitalization of capital surplus - 1%	17,809	178,089	(178,089)	-	-	-	(178,089)	-	-	-	-	-	-	-	-	-
Net loss in 2001	-	-	-	-	-	-	-	-	-	(675,045)	(675,045)	-	-	-	-	(675,045)
Reversal of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	12,214	-	-	-	12,214
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	222,931	-	-	222,931
Decrease in the equity in the net assets of an equity-accounted investee resulting from not subscribing proportionately to the additional shares issued by the investee companies	-	-	-	-	-	-	-	-	-	(7,295)	(7,295)	-	-	-	-	(7,295)
Equity in changes in capital surplus reported by equity-accounted investees	-	-	-	-	-	5	5	-	-	(5)	(5)	-	-	-	-	-
BALANCE, DECEMBER 31, 2001	1,834,316	18,343,160	2,390,186	-	1,431,387	7,087	3,828,660	906,167	1,141,939	(634,683)	1,413,423	(3,172)	470,960	-	-	24,053,031
Offset of accumulated losses in 2001	-	-	-	-	-	-	-	(634,683)	-	634,683	-	-	-	-	-	-
Reclassification of the Corporation's stocks held by subsidiaries into treasury stocks - 67,619 thousand shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(525,441)	(525,441)
Disposal of the Corporation's stocks held by subsidiaries	-	-	-	4,242	-	-	4,242	-	-	-	-	-	-	-	-	4,242
Net income in 2002	-	-	-	-	-	-	-	-	-	1,135,451	1,135,451	-	-	-	-	1,135,451
Reclassification of capital surplus from gain on sales of properties to retained earnings	-	-	-	-	(1,431,387)	-	(1,431,387)	143,139	-	1,288,248	1,431,387	-	-	-	-	-
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(284,728)	-	-	(284,728)
Reversal of recognized equity in the capital surplus reported by equity-accounted investee as a result of the disposal of the investment	-	-	-	-	-	(9)	(9)	-	-	9	9	3,027	237	-	-	3,264
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,687)	-	(7,687)
Recognition of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	(21,292)	-	-	-	(21,292)
Equity in changes in capital surplus reported by equity-accounted investees	-	-	-	-	-	(1,262)	(1,262)	-	-	1,262	1,262	144	-	-	-	144
BALANCE, DECEMBER 31, 2002	1,834,316	$ 18,343,160	$ 2,390,186	$4,242	$ -	$5,816	$ 2,400,244	$414,623	$ 1,141,939	$ 2,424,970	$ 3,981,532	($21,293)	$186,469	($ 7,687)	($ 525,441)	$ 24,356,984

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

(With T N Soong & Co report dated February 28, 2003)

3.5 YANG MING MARINE TRANSPORT CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

(In Thousands of New Taiwan Dollars)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$1,135,451	($ 675,045)
Adjustments to reconcile net income (loss) with net cash provided by operating activities:		
Depreciation	2,268,539	2,309,024
Amortization	191,473	223,590
Gain on sale of investments	(260,861)	(197,808)
Gain on sale of properties and nonoperating assets	(89,096)	(246,983)
Provision for pension cost	76,760	79,049
Provision for losses on investments	363,610	214,818
Equity in investees' net loss (income) - net	(945,291)	112,757
Provision for losses on properties	170,000	-
Cash dividends received from equity-accounted investments	41,141	27,409
Deferred income taxes	5,269	225,643
Other	(55,409)	(49,020)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(302,686)	485,538
Receivables from related parties	(552,290)	1,434,193
Shipping fuel	(85,146)	155,530
Prepaid expenses	237,719	(128,205)
Advances to shipping agents	(499,828)	(549,086)
Pledged time deposits	416,264	(422,072)
Other current assets	77,196	(253,190)
Increase (decrease) in:		
Payables to related parties	50,608	(150,154)
Accrued expenses	771,157	(456,863)
Advances from customers	35,111	42,653
Payables to shipping agents	(1,295,966)	803,065
Other current liabilities	20,927	(163,213)
Net Cash Provided by Operating Activities	1,774,652	2,821,630
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	(4,407,989)	3,200
Acquisition of investments in shares of stock	(151,959)	(1,088,822)
Proceeds from disposal of investments in shares of stock	389,077	-
Acquisition of properties	(557,952)	(9,347,924)
Proceeds from sale of properties and nonoperating assets	332,344	1,002,264

(Forward)

	2002	2001
Increase in prepaid expenses on long-term rent agreements	($ 137,315)	$ -
Increase in deferred charges	(170,718)	(206,337)
Decrease (increase) in restricted assets	(40,609)	3,751,751
Increase in other assets	(19,957)	(182,147)
Net Cash Used in Investing Activities	(4,765,078)	(6,068,015)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (principal repayments on) short-term debts	(99,686)	161,196
Proceeds from long-term debts	3,198,749	2,465,000
Repayment of principal of long-term debts	(2,300,000)	(1,238,850)
Payment of obligations under capital leases	(299,141)	(98,904)
Decrease in other liabilities	(2,554)	(4,220)
Payment of dividend and employees' bonus	-	(543,742)
Net Cash Provided by Financing Activities	497,368	740,480
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,493,058)	(2,505,905)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,251,248	6,757,153
CASH AND CASH EQUIVALENTS, END OF YEAR	$1,758,190	$4,251,248
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 727,923	$ 673,356
Income tax paid	$ 4,199	$ 27,837
Noncash investing and financing activities		
Reclassification of investments in shares of stock into short-term investments	$ 122,753	$ -
Reclassification of the Corporation's stock held by subsidiaries from investments into treasury stocks	$ 525,441	$ -
Reclassification of nonoperating assets to assets leased to others	$ 187,934	$ -
Current portion of long-term debts	$ 609,664	$2,581,952
Cash paid for additions to properties:		
Costs of properties acquired	$ 709,658	$9,849,386
Decrease (increase) in payable for equipment	(16,256)	250,288
Increase in obligations under capital leases	(135,450)	(751,750)
	$ 557,952	$9,347,924
Proceeds from sale of properties and nonoperating assets		
Total sales contract prices	$5,363,560	$4,683,413
Increase in receivables from related parties	(487,422)	(57,547)
Increase in long-term receivables from related parties	(4,543,794)	(3,623,602)
	$ 332,344	$1,002,264

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

(With T N Soong & Co report dated February 28, 2003)

3.6 NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. GENERAL

Yang Ming Marine Transport Corporation (hereafter "the Corporation") primarily provides marine cargo transportation services. It also provides services related to the maintenance of old vessels and leases or sells old vessels, containers and chassis of vessels. In addition, it acts as a shipping agent and manages ships owned by others.

The Corporation was majority-owned by the Ministry of Transportation and Communications (MOTC) of the Republic of China (ROC) until February 15, 1996 when MOTC reduced its holdings in the Corporation. As of December 31, 2002, MOTC owned 42.62% of the Corporation's outstanding capital stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation's significant accounting policies, which conform to the Guidelines for Securities Issuers' Financial Reporting for Public Company and generally accepted accounting principles in the ROC, are summarized below.

<u>Cash equivalents</u>

Bonds acquired under agreements to resell within three months from acquisition dates are classified as cash equivalents.

<u>Short-term investments</u>

Short-term investments are carried at the lower of cost or market value. An allowance for losses is provided when the aggregate carrying value of the investments exceeds the total market value, with the related provision for losses charged to income in the current year. Subsequent recoveries of market value (up to cost) are recognized in income.

<u>Allowance for doubtful receivables</u>

Allowance for doubtful receivables is provided on the basis of a review of the collectibility of individual receivables.

<u>Shipping fuel</u>

Shipping fuel is carried at the lower of weighted-average cost or market value. Market value is based on replacement cost.

<u>Investments in shares of stock and deferred income</u>

Investments in shares of stock of companies in which the Corporation owns at least 20% of voting common stock or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method. Under this method, investment is initially carried at cost, and the difference between investment cost and the Corporation's equity in the investee's net assets on the acquisition date is amortized over five years. The investment carrying values are subsequently adjusted for the Corporation's proportionate share in the investee's net income or net loss and the amortized difference. The current year's equity of the Corporation in the investee's net income or net loss is based on the investee's financial statements for the same period. If the investee's financial statements are not timely available, equity calculation is based on the investee's latest balance sheet.

The Corporation's cumulative equity in the investee's net loss is presented as other liability.

Any cash dividends received are recognized as a reduction in the carrying value of the investments. Any stock dividends received are recorded as an increase in the number of shares held but are not recognized as investment income.

The equity in the net income or net loss in investees that also have investments in the Corporation (reciprocal holdings) is computed using the treasury stock method.

Gain on sale of listed stocks to equity-accounted investees is deferred and are realized only upon subsequent sale to third parties.

Other investments in shares of stock are carried at cost plus the par value of the stock dividends received before 1989. An allowance is recognized for the decline in the market value of listed stocks or stocks traded over the counter, and is debited to stockholders' equity. For unlisted stocks, the carrying amount of the investment is reduced to recognize other than temporary decline in the value, with the corresponding loss, charged to current income. Cash dividends received in the year the investment is made are accounted for as a reduction in the carrying value of investment, while cash dividends received in subsequent years are recognized as dividend income.

The new cost basis of listed stocks that are reclassified from long-term to short-term investments or vice versa is the lower of cost or market value on the date of reclassification. Any carrying amount in excess of market value is accounted for as realized loss.

Effective January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stocks," and thus reclassified the Corporation's shares held by subsidiaries from investment in shares of stock to treasury stock. The amount reclassified is equivalent to the carrying value of the Corporation's shares as of January 1, 2002. However, these shares continue to be presented as short-term investments in the subsidiaries' financial statements.

Costs of investments sold are determined using the weighted-average method.

Properties and assets leased to others

Properties and assets leased to others are stated at cost less accumulated depreciation. Major renewals and betterment are capitalized, while maintenance and repairs are expensed currently.

Depreciation is computed using the straight-line method over service lives initially estimated as follows (plus one year to represent estimated salvage value): buildings, 36 to 55 years; containers and chassis, 6 to 8 years; ships, 18 to 20 years; leased containers and chassis, 5 to 9 years; leasehold improvements, 3 to 10 years; and miscellaneous equipment, 3 to 10 years. Properties still being used by the Corporation beyond their initially estimated service lives are depreciated over newly estimated service lives.

Upon sale or other disposal of properties and assets leased to others, the related cost and accumulated depreciation are removed from the accounts, and resulting gain or loss is credited or charged to income. Any gain (less applicable income tax) on sales of properties generated before January 1, 2001 is reclassified to capital surplus at year-end.

Capital lease obligations pertaining to containers and chassis are recorded, at the start of the lease, at the lower of the (a) fair market value of leased assets, or (b) present value of the sum of the minimum lease payables and the bargain purchase option price.

Nonoperating assets

Nonoperating assets are stated at net realizable value.

Deferred charges

Deferred charges consist of costs of spare parts of ships, ship-overhaul costs and bond issuance expenses. These are capitalized and amortized using the straight-line method over periods ranging from 2.5 years to 12 years.

Pension

Pension cost is based on actuarial calculations. Unrecognized net transition assets, prior service cost and actuarial gains or losses are amortized using the straight-line method over the average remaining service years of employees.

Unrealized gain (loss) on sale and leaseback

A gain or loss on the sale of containers, chassis and ships that are leased back by the Corporation is deferred and amortized over the term of the lease or their estimated service life, whichever is shorter.

Revenue recognition

Revenue from service delivery is recognized when the earnings process is completed or virtually complete and revenue is realized or realizable and measurable. The costs of providing services are recognized as incurred. Cargo revenues are recognized using the completion of voyage method. Monthly rental revenues on ships leased to others and ship management revenue are recognized in the month when services are rendered.

Income tax

Deferred income taxes are recognized for the tax effects of temporary differences, unused tax credits, and operating loss carryforwards. Valuation allowance is provided for deferred income tax assets that are not expected to be realized. Deferred tax liabilities and assets are classified as current or noncurrent according to the classification of the related assets or liabilities for financial reporting. A deferred tax liability or asset that cannot related to an asset or liability for financial reporting is classified as current or noncurrent on the expected reversal or realization date of the temporary difference.

Income tax credits for certain purchases of eligible equipment, research and development expenses, personnel training expenditures and stock investments are recognized in the current year.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's income tax expense.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders resolve to retain the earnings.

Foreign-currency transactions

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the period of settlement. At year-end, the balances of foreign-currency assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as follows:

a. Equity-accounted investments in shares of stock - as part of cumulative translation adjustments under stockholders' equity;

b. Cost-accounted investments in shares of stock - similarly accounted for as in (a) above when the restated amounts are lower than their carrying amounts; otherwise, no adjustment is made;

c. Other assets and liabilities - as credits or charges to income.

Foreign-currency options

Amounts received on options written are recognized as liabilities and amounts paid on options bought are treated as assets. Contracts outstanding as of the balance sheet dates are marked to market, with the unrealized gains or losses arising from changes in market values recognized in current income. The carrying amounts (either asset or liability) of the options are credited or charged to income once the options are exercised.

Cross-currency swap contracts

The notional amounts of cross-currency swap agreements are not recognized in the financial statements because these agreements do not require the settlement of such notional amounts. However, a memorandum entry is made to note the transaction. The forward component of the contracts outstanding as of the balance sheet dates are marked to market, with the unrealized gains or losses arising from changes in market values recognized in current income. The carrying amounts (either assets or liabilities) of the contracts are credited or charged to income once the swap contracts are settled.

Forward exchange contracts

Forward exchange contracts are entered into as hedge of foreign currency assets and liabilities are recorded in New Taiwan dollars as receivable and/or payable using the spot rates on the starting dates of the contracts. The premium or discount, computed using the contract amount multiplied by the difference between the contracted forward rate and the spot rates on the contract starting dates is also recognized. The premium or discount is amortized using the straight-line method over the term of the forward contract, with the amortization charged to income.

On the balance sheet dates, the gains or losses on the contracts, computed by multiplying the contract amounts by the difference between the spot rates on the balance sheet dates and the spot rates on the contract starting dates (or the spot rates last used to measure a gain or loss on that contract for an earlier period), are charged to income. Also, the balances of the receivables and payables under the forward contracts are then netted, and the resulting amount is classified as either an asset or a liability.

Reclassifications

Certain accounts for 2001 have been reclassified to conform to the 2002 financial statement presentation.

3. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2002, the Corporation adopted Statement of Financial Accounting Standard (SFAS) No. 30, "Accounting for Treasury Stocks," which requires the Corporation to treat its stocks held by subsidiaries as treasury stocks instead of investments. Thus, the Corporation reclassified the carrying value of the Corporation's shares held by subsidiaries (shown as part of short-term investments in the subsidiaries' balance sheets) of $535,973 from the investment in those subsidiaries to treasury stocks. This change resulted in a decrease in long-term investments and an increase in shares of the Corporation held by subsidiaries by $525,441 each as of December 31, 2002 and decrease of $166,346 in the 2002 net income.

4. CASH AND CASH EQUIVALENTS

	December 31 2002	December 31 2001
Cash		
Petty cash and cash on hand	$ 3,815	$ 2,040
Checking deposits	103,906	98,553
Demand deposits	437,498	462,952
Time deposits: Interest - 1.20% to 4.40% in 2002 and 1.76% to 3.95% in 2001	1,212,971	1,887,703
	1,758,190	2,451,248
Cash equivalents		
Bonds purchased under agreements to resell - 1.80% to 1.95% yield	-	1,800,000
	$ 1,758,190	$ 4,251,248

5. SHORT-TERM INVESTMENTS

	December 31 2002	December 31 2001
Mutual funds	$ 5,439,649	$ 943,314
Marketable equity securities	1,775,837	1,570,442
Convertible bonds: Interest - 0% to 5% in 2002 and 5% to 9% in 2001	16,115	31,100
	7,231,601	2,544,856
Less: Allowance for decline in value	1,100,825	759,849
	$ 6,130,776	$ 1,785,007

6. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2002		2001	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Equity method (unlisted stocks)				
Yang Ming Line (B.V.I.) Holding Co., Ltd.	$ 2,789,686	100.00	$ 2,585,536	100.00
Yang Ming Line (Singapore) Pte. Ltd.	1,359,232	100.00	1,049,606	100.00
Chunghwa Investment Co., Ltd.	801,541	40.00	-	-
YES Logistics Corp.	427,186	90.50	427,460	90.50
Honming Terminal & Stevedoring Co., Ltd.	352,051	79.00	366,273	79.00
Kuang Ming Shipping Corp.	283,897	100.00	285,250	82.05
All Oceans Transportation, Inc.	228,780	100.00	644,212	100.00
Yang Ming Line Holding Co.	106,181	100.00	43,233	100.00
Transyang Shipping Pte. Ltd.	76,468	24.99	65,943	24.99
Jing Ming Transportation Co., Ltd.	61,018	50.80	56,087	50.80
Ching Ming Investment Co., Ltd.	-	99.96	384,215	99.96
China Mariners' Assurance Corp.	-	-	221,045	22.71
	6,486,040		6,128,860	

(Forward)

	December 31			
	2002		2001	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Cost method				
Listed common stock				
Waterland Financial Holdings Co., Ltd.	$ 70,000	0.43	$ -	-
Hotung Investment Holdings Ltd	40,268	0.70	40,268	0.70
Senao International Co., Ltd.	-	-	96,000	1.83
Data Corp.	-	-	430	0.01
	110,268		136,698	
Less - allowance for decline in value	(21,293)		-	
	88,975		136,698	
Unlisted common stock				
United Venture Capital Corp.	80,000	9.04	80,000	9.04
Ritekom Photonics Corp.	45,000	2.00	45,000	2.00
SF Technology Venture Capital Investment Corp.	40,000	7.24	40,000	7.24
Taiwan Nano Electro-optical Technology Co., Ltd.	37,590	4.53	61,953	9.09
China Technology Venture Capital Corp.	30,000	8.96	-	-
Kingmax Technology Corp.	24,000	1.40	24,000	1.40
Ascentek Venture Capital Corp.	20,080	2.14	20,080	2.14
Forwin Securities Corp.	20,000	2.00	20,000	2.00
Imaging Quality Technology Inc.	3,500	2.14	4,000	3.09
Grand Orient Security Corp.	-	-	70,000	6.51
U-Tech Media Corp.	-	-	46,125	1.20
Yes Mobile Taiwan Inc.	-	1.00	6,000	1.00
	300,170		417,158	
Unlisted preferred stock				
New Century Infocomm Co., Ltd.	864,000	1.68	864,000	1.68
Penguin Computing Inc.	7,698	0.93	15,395	0.93
Arescom Inc.	7,698	0.24	15,395	0.24
	879,396		894,790	
	1,268,541		1,448,646	
Deposit on subscriptions				
Taipei Port Container Terminal Co., Ltd.	6,614		5,984	
Chunghwa Investment Co., Ltd.	-		800,000	
	6,614		805,984	
	$ 7,761,195		$ 8,383,490	

The Corporation's equity in the net income or net loss of Transyang Shipping Pte Ltd. was recognized using the financial statements of the immediately preceding year and the equivalent equity interest of the Corporation as of the latest balance sheet date presented since the financial statements covering the same year as that of the Corporation were not timely available.

The carrying values of the equity-accounted stock investments were based on audited financial statements.

As of December 31, 2002, the Corporation continues to recognize investment losses on Ching Ming Investment Co., Ltd. although cumulative losses already exceeded investment cost by $244,213. The excess is presented as liability.

The accounts of Yang Ming Line (B.V.I.) Holding Co., Ltd. and All Oceans Transportation, Inc. were included in the Corporation's consolidated financial statements because their individual total assets or total revenues were at least 10% of the total assets or revenues of the Corporation ("10% rule"). For other subsidiaries not covered by the 10% rule, their total assets and their total revenues were added up. The sum of either total assets or total revenues of all these subsidiaries did not exceed 30% of the total assets or revenues of the Corporation; hence, the subsidiaries were not consolidated.

Information on cost-accounted investments is as follows:

	December 31 2002	December 31 2001
Listed stocks (based on market value)	$ 88,975	$ 159,818
Equity in net assets pertaining to unlisted stocks (mainly based on unaudited financial statements)	1,004,742	1,169,137
	$ 1,093,717	$ 1,328,955

7. PROPERTIES

	December 31 2002	December 31 2001
Accumulated depreciation		
Buildings	$ 59,458	$ 47,093
Containers and chassis	5,586,642	5,445,847
Ships	10,367,940	11,205,880
Leased containers and chassis	787,200	512,349
Leasehold improvements	51,436	28,063
Miscellaneous equipment	498,011	424,629
	$ 17,350,687	$ 17,663,861

The Corporation leases containers and chassis under agreements that qualify as capital leases. Lease terms are from five years to nine years for containers and seven years for chassis. The annual rent payable on leased containers under the agreements is US$8,794 thousand. At the end of the lease terms, the Corporation has an option to buy all leased containers at bargain purchase prices of US$1. The annual rent payable on leased chassis is based on contract terms, and, at the end of the lease terms, the ownership of all the leased chassis will be transferred to the Corporation at no additional cost. As of December 31, 2002 and 2001, the details of these leases were as follows:

	December 31			
	2002		2001	
	U.S. Dollars (Thousand)	New Taiwan Dollars (Thousand)	U.S. Dollars (Thousand)	New Taiwan Dollars (Thousand)
Total obligations under capital leases (undiscounted)	$ 47,111	$ 1,637,102	$ 51,709	$ 1,809,811
Less: Unamortized interest expense	(7,777)	(270,258)	(7,979)	(279,276)
	$ 39,334	$ 1,366,844	$ 43,730	$ 1,530,535

Depreciation expenses for the years ended December 31, 2002 and 2001 aggregated $2,261,263 and $2,301,695, respectively. Costs of properties included capitalized interest of $12,296 for the year ended December 31, 2001. The amount capitalized using the annual interest rate of 6.02%.

The insurance for properties, assets leased to others and nonoperating assets as of December 31, 2002 amounted to $17,219,106.

8. ASSETS LEASED TO OTHERS - NET

	December 31	
	2002	2001
Cost		
Land	$ 803,218	$ 615,323
Buildings	344,642	408,263
	1,147,860	1,023,586
Accumulated depreciation	(41,291)	(61,452)
	$ 1,106,569	$ 962,134

Depreciation expenses for the years ended December 31, 2002 and 2001 were $7,247 and $7,300, respectively.

9. NONOPERATING ASSETS - NET

	December 31	
	2002	2001
Cost		
Land	$ 497,827	$ 685,722
Buildings	6,044	6,265
	503,871	691,987
Accumulated depreciation	5,624	5,816
	$ 498,247	$ 686,171

10. RESTRICTED ASSETS

Restricted assets are proceeds from issuance of bonds earmarked for constructing forwarding center and information systems.

11. SHORT-TERM DEBTS

	December 31	
	2002	2001
Bank debts: Due in January 2003, 1.6% to 1.8% interest	$ 100,000	$ -
Commercial paper issued: Due in February 2002; issued at 3.13% discount	-	199,400
Bank overdraft: Interest - 6.94% in 2002 and 4.75% to 6.68% in 2001	2,597	2,883
	$ 102,597	$ 202,283

As of December 31, 2002, the Corporation had unused credit lines aggregating $4,199,125, which were available for issuance of commercial paper and meeting other short-term debts.

12. LONG-TERM DEBTS

	Current	Long-term	Total
December 31, 2002			
Unsecured bank loans	$ 382,250	$ 1,181,500	$ 1,563,750
Domestic bonds:			
Unsecured	-	6,500,000	6,500,000
Secured	-	3,700,000	3,700,000
Unsecured convertible bonds - domestic	-	917,200	917,200
Obligations under capital leases (Note 7)	227,414	1,139,430	1,366,844
	$ 609,664	$ 13,438,130	$ 14,047,794

December 31, 2001	Current	Long-term	Total
Unsecured bank loans	$ -	$ 1,365,000	$ 1,365,000
Domestic bonds:			
Unsecured	-	6,500,000	6,500,000
Secured	2,300,000	700,000	3,000,000
Unsecured convertible bonds - domestic	-	917,200	917,200
Obligations under capital leases (Note 7)	281,952	1,248,583	1,530,535
	$ 2,581,952	$ 10,730,783	$ 13,312,735

Unsecured bank loans

These loans are repayable in eight consecutive semiannual installments from February 2003 with the final payment due on April 2007. The loans bear interest semiannually at an annual rate between 2.2643% and 2.4259%.

Domestic unsecured bonds

On various dates, the Corporation issued domestic unsecured bonds with aggregate face values, as follows: $3,000,000 on June 1, 2000 (the "June 2000 Bonds") $2,400,000 on November 20, 2000 (the "November 2000 Bonds"); and $1,100,000 on July 16, 2001 (the "July 2001 Bonds").

Other bond features and terms were as follows:

June 2000 Bonds	Type A - Face value: $1,200,000; aggregate face value payable as follows: 33% - June 1, 2005, 33 % - June 1, 2006, and 34% - June 1, 2007; 5.7% annual interest; Type B - Face value: $1,800,000; aggregate face value payable as follows: 33% - June 1, 2008, 33% - June 1, 2009, and 34%, and June 1, 2010; 6.09% annual interest;
November 2000 Bonds	Aggregate face value payable as follows: 20% - November 20, 2010; 40% - November 20, 2011; and 40% - November 20, 2012; 6.02% annual interest;
July 2001 Bonds	Aggregate face value payable as follows: 20% - July 2006; 40% - July 2007, and 40% - July 2008; 4.49% annual interest

Domestic secured bonds

On June 30, 1999, the Corporation issued three-year domestic secured bonds with an aggregate face value of $1,000,000. The bonds are classified as "Type A" and "Type B." The Type A bonds bear 5.8841% annual interest, while Type B bonds bears 5.8% interest compounded semiannually. The bonds may be redeemed on maturity or, starting June 30, 2001, the bondholders can exercise their option to have the Corporation redeem the bonds at face value plus accrued interest on these bonds.

On July 20, 1999, the Corporation issued domestic secured bonds with face value of $1,300,000, maturity on July 20, 2002, and 5.72% annual interest, compounded semiannually. On November 25, 1999, the Corporation issued a similar type of bonds with face value of $700,000, maturity on November 25, 2004, and 5.75% annual interest.

The Corporation issued five-year domestic secured bonds over the period June 27, 2002 to July 5, 2002, with an aggregate face value of $3,000,000 and 3.85% annual interest rate.

Domestic unsecured convertible bonds

Domestic unsecured convertible bonds were issued on August 2, 1997 with a face value of $2,500,000 and 4.5% annual interest payable every June 27. The modes of settling the bonds are as follows:

a. Lump-sum payment of face value plus accrued interest upon maturity (in 2004);

b. Conversion by the holders, starting September 2, 1997, into capital stock of the Corporation at the prevailing conversion price ($15.66 dollars per share as of December 31, 2002); and

c. Redemption by the Corporation, under certain conditions, at varying prices before bond maturity.

As of December 31, 2002, bonds with face value of $1,578,900 had been converted into 73,284 thousand shares of the Corporation.

As of December 31, 2002, the Corporation had unused credit lines of about $528,200 available for long-term bank loans.

13. RESERVE FOR LAND VALUE INCREMENT TAX

Reserve for land value increment tax resulted from the merger with China Merchants Stean Navigation Company (CMSNC).

14. UNREALIZED GAIN ON SALE AND LEASEBACK

	December 31	
	2002	2001
Chassis	$ 46,776	$ 54,556
Vessel Ming North	10,918	12,068
Containers	9,316	36,252
Vessel Med Keelung	627	1,150
Vessel Ming Zenith	-	21,014
	$ 67,637	$ 125,040

These properties had been sold and then leased back. The resulting gains on the sale have been deferred (included in "Other liabilities" in the balance sheets) and amortized over the expected lease term or estimated service lives, whichever is shorter.

15. STOCKHOLDERS' EQUITY

On November 14, 1996, the Corporation issued 10 million units of Global Depositary Receipts (GDR), representing 100 million shares of stock, at US$11.64 per unit. The holders of the GDRs may not exchange them for the Corporation's stocks. However, starting February 14, 1997, GDR holders may request the depository bank to sell the stocks represented by the GDRs.

Under the Company Law, capital surplus from equity-method investments cannot be used for any purpose. All other components of capital surplus, under the Company Law and related regulations, can only be used to offset a deficit. In addition, only the capital surplus from paid-in capital in excess of par value and treasury stocks transactions can be transferred to capital. Capitalization of paid-in capital in excess of par value and treasury stocks transactions is conducted by issuing new shares to stockholders in proportion to their holdings, and capitalized amounts should be within certain limits.

The Corporation's Articles of Incorporation provide that the following should be appropriated from annual net income, less any losses of prior years:

a. 10% legal reserve

b. 10% special reserve, as needed.

c. Dividends, and at least 1% bonus to employees and up to 2% remuneration to directors and supervisors.

These appropriations and other allocations of earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

The Articles of Incorporation provide that the Corporation should declare at least 50% of the distributable earnings as dividends. At least 20% of the dividends should be in the form of cash, with the Corporation first taking into account its capital expenditure and working capital requirements.

Under Securities Exchange Law, the Corporation should appropriate a special reserve equal to the debit balance of any stockholders' equity item (other than the deficit). The balance of the reserve is adjusted on the basis of the debit balances as the end of the Corporation's current financial reporting year.

Under the Company Law, legal reserve should be appropriated until the accumulated reserve equals the aggregate par value of the Corporation's outstanding capital stock. This reserve can only be used to offset a deficit. When the reserve reaches 50% of the aggregate par value of the Corporation's outstanding capital stock, up to 50% thereof can be capitalized.

Under the Integrated Income Tax System, which took effect on July 1, 1998, noncorporate ROC resident stockholders are entitled to tax credit for the income tax paid by the Corporation on earnings generated since July 1, 1998. An Imputation Credit Account (ICA) is maintained by the Corporation to monitor the balance of such income tax and the tax credits allocated to each stockholder. The maximum credit available for allocation to each stockholder cannot exceed the ICA balance on the dividend distribution date.

On June 21, 2002, the stockholders resolved not to appropriate earnings and to use the legal reserve of $634,683 to offset accumulated losses. The stockholders also resolved the reclassification of capital surplus of $1,431,387 from gain on sale of properties to retained earnings after appropriating a legal reserve of $143,139.

As of February 28, 2003, the Corporation's board of directors had not decided the appropriation of the 2002 earnings. Information on the appropriation of the Corporation's earnings can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

16. TREASURY STOCKS

	Outstanding Shares (Thousands)			
Reason for Repurchase	Beginning of the Year	Increase	Decrease	End of the Year
For the year ended December 31, 2002				
Stocks of the Corporation held by subsidiaries	68,981	187	1,549	67,619

On January 1, 2002, the Corporation reclassified the Corporation's stocks held by subsidiaries from investments to treasury stocks. The reclassified amount of $535,973 was equal to the carrying value of stocks (shown as short-term investments in the subsidiaries' balance sheets). The proceeds from the subsidiaries' disposal of these shares were $16,229 in 2002. As of December 31, 2002, the Corporation's shares held by subsidiaries had a carrying value of $525,411 and a market value of $687,545.

The subsidiaries' rights on shares of the Corporation they hold are similar to the rights of other stockholders although the shares are treated as treasury stock instead of investments.

17. INCOME TAX

a. Computation of current income tax payable:

	Year Ended December 31 2002	Year Ended December 31 2001
Tax on pretax income (loss) at 25% statutory rate	$ 286,098	($ 112,351)
Add (deduct) tax effects of:		
Permanent differences	(120,937)	100,962
Deferred income tax	(73,835)	(20,784)
Loss carryforward and investment tax credit	(91,326)	-
Currently payable	$ -	$ -

b. Components of income tax expense:

	Year Ended December 31 2002	Year Ended December 31 2001
Income tax (10%) on undistributed earnings	$ 9,300	$ -
Income tax expense - deferred	5,269	225,643
Adjustments of prior years' taxes	(5,630)	-
	$ 8,939	$ 225,643

c. Deferred income tax assets (liabilities) as of December 31, 2002 and 2001:

	December 31 2002	December 31 2001
Current (included in other current assets (liabilities))		
Loss carryforwards	$ 189,292	$ 39,470
Investment tax credits	10,169	3,668
Unrealized foreign exchange gain	(22,665)	(47,822)
Other	6,819	7,747
Valuation allowance on deferred income tax assets	(100,741)	(43,138)
	$ 82,874	($ 40,075)
Noncurrent (included in other liabilities):		
Cumulative equity in investees' net income	($ 412,575)	($ 310,546)
Differences in estimated service lives of containers	(253,943)	(198,411)
Deferred pension cost	75,644	56,713
Provision for loss on properties	42,500	-
Investment tax credits	7,987	27,293
Loss carryforwards	-	261,384
Valuation allowance on deferred income tax assets	-	(248,602)
	($ 540,387)	($ 412,169)

The above deferred income taxes were computed at the 25% income tax rate.

d. Integrated income tax system information:

	December 31 2002	December 31 2001
Balance of the imputation credit account (ICA)	$ 27,982	$ 14,909

The stockholders resolved not to appropriate any earnings in 2001. The estimated creditable tax ratio, computed using the ICA balance and the unappropriated earnings as of December 31, 2002, for earnings expected to be distributed in 2003 was 1.86%.

The tax credits will be accumulated until the date of dividend distribution. Upon dividend distribution, the ratio of the imputed tax credits to unappropriated earnings will be used for allocating tax credits to each stockholder.

e. As of December 31, 2002 and 2001, the total of the balances of special reserve and unappropriated retained earnings that generated before June 30, 1998 aggregated to $1,141,939.

f. Unused investment tax credits as of December 31, 2002:

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of equipment	$ 15,016	$ 7,991	2003
	Purchase of equipment	141	141	2005
	Investments in shares of stock	1,137	1,137	2003
	Investments in shares of stock	3,978	3,978	2004
	Investments in shares of stock	409	409	2005
	Personnel training expenditures	1,041	1,041	2003
	Personnel training expenditures	2,028	2,028	2004
	Personnel training expenditures	1,431	1,431	2005
		$ 25,181	$ 18,156	

g. As of December 31, 2002, the Corporation had unused operating loss carryforwards of $757,169, which are available to reduce future income taxes. The amount of the unused operating loss carried forward has been cleared by the tax authorities and will expire in 2003.

Income tax returns through 1999 have been examined and cleared by the tax authorities.

The Corporation's income tax return for the year ended June 30, 1995 had been assessed for additional taxes of $38,556. The assessment was related to the accreted redemption put on foreign unsecured convertible bond. The redemption put was accreted (recognized as expense) using the effective interest method. The tax authorities ruled that the accreted premium put is deductible only when actually paid by the Corporation. The Corporation is contesting the assessment by filing a lawsuit in court. Management did not recognize assessment-related liabilities because it believes that the Corporation will win the lawsuit.

18. EARNINGS PER SHARE

The earnings per share are calculated as follows:

	Amount (Numerator)			Net Income (Loss) Per Share (Dollars)	
	Income (Loss) Before Income Tax	Net Income (Loss)	Capital Stock (Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income (Loss)
For the year ended December 31, 2002					
Primary earnings per share	$ 1,144,390	$ 1,135,451	1,765,928	$ 0.65	$ 0.64
The impact of dilutive potential common shares					
Domestic unsecured convertible bonds	41,274	30,956	58,570		
Diluted earnings per share	$ 1,185,664	$ 1,166,407	1,824,498	$ 0.65	$ 0.64
For the year ended December 31, 2001					
Primary losses per share	($ 449,402)	($ 675,045)	1,834,316	($ 0.25)	($ 0.37)
The impact of dilutive potential common shares					
Domestic unsecured convertible bonds	-	-	-		
Diluted losses per share	($ 449,402)	($ 675,045)	1,834,316	($ 0.25)	($ 0.37)

The calculation of pro forma net income per share, assuming that the Corporation's stocks held by subsidiaries are treated as investments rather than as treasury stocks, is as follows:

	Amount (Numerator)			Earnings Per Share (Dollars)	
	Income Before Income Tax	Net Income	Capital Stock (Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
For the year ended December 31, 2002					
Pro forma primary earnings per share	$ 1,310,736	$ 1,301,797	1,834,316	$ 0.71	$ 0.71
The impact of dilutive potential common shares					
Domestic unsecured convertible bonds	41,274	30,956	58,570		
Pro forma diluted earnings per share	$ 1,352,010	$ 1,332,753	1,892,886	$ 0.71	$ 0.70

The earnings per share had been retroactively adjusted for the stock dividend declared.

19. PENSION PLAN

The Corporation adopted three pension plans when it was privatized on February 15, 1996, as follows:

a. Pension plan for onshore employees. Benefits under this plan are based on service years and average monthly salary (excluding bonus and allowance) of the six months before retirement. The pension fund, to which the Corporation contributes amounts equal to 3% of salaries every month, is administered by an employees' pension fund committee and deposited in the committee's name in the Central Trust of China.

b. Pension plan for the ship's crew. Benefits under this plan are based on service years and level of basic salary at the time of retirement. The plan is unfunded and the benefits are paid as they become due.

c. Pension plan for retired employees of CMSNC. Benefits under this plan are based on service years and level of basic salary at the time of retirement.

The service years of employees before privatization are used to determine qualification for retirement. Those service years, however, are not considered in benefit calculation.

Certain information on pension is as follows:

	Year Ended December 31	
	2002	2001
a. Components of net pension costs:		
Service cost	$ 99,905	$ 105,216
Interest cost	23,691	25,097
Expected return on plan assets	(4,799)	(4,767)
Amortization of net transition assets	(14,171)	(14,171)
Amortization of prior service cost	436	436
Amortization of net loss	968	3,330
	$ 106,030	$ 115,141

	December 31	
	2002	2001
b. Reconciliation of funded status of the pension plan to accrued pension cost at end of year		
Benefit obligation:		
Vested benefit obligation	$ 106,319	$ 130,366
Non-vested benefit obligation	360,039	210,935
Accumulated benefit obligation	466,358	341,301
Additional benefits based on future salaries	129,019	138,767
Projected benefit obligation	595,377	480,068
Fair value of plan assets	(105,321)	(88,976)
Funded status	490,056	391,092
Unrecognized net transition assets	24,078	38,249
Unrecognized prior service cost	(5,671)	(6,107)
Unrecognized net loss	19,932	28,401
Additional liability	7,687	-
Accrued pension cost (included in other liabilities)	$ 536,082	$ 451,635
c. Vested benefits	$ 204,448	$ 165,195

	Year Ended December 31	
	2002	2001
d. Assumptions used		
Discount rate	4.00%	5.00%
Rate of increase in compensation	2.25%	3.25%
Expected rate of return on plan assets	4.00%	5.00%
e. Changes in pension fund		
Contributions	$ 15,196	$ 14,201
Payment of benefits	$ 14,074	$ 21,891

20. RELATED-PARTY TRANSACTIONS

The Corporation had significant transactions with related parties for the years ended December 31, 2002 and 2001. The summary of these transactions as well as the names of the related parties and nature of relationship with the Corporation are summarized in Schedules A and B.

The transactions with related parties were conducted under contract terms.

21. ASSETS PLEDGED OR MORTGAGED

The following assets had been pledged as collaterals for short-term debts, long-term bank loans, bonds and credit lines:

	December 31	
	2002	2001
Pledged time deposits	$ 18,645	$ 434,909
Properties - net	1,114,919	2,970,485
Nonoperating assets - net	89,230	89,230
	$ 1,222,794	$ 3,494,624

22. COMMITMENTS AND CONTINGENT LIABILITY

Commitments and contingent liability as of December 31, 2002 were as follows:

a. Obligations to provide crews to four ships of Chinese Petroleum Corporation under contracts expiring on various dates by August 2003. The daily compensation under the contracts is $578.

b. Operating leases of office premises, ships and container yard under agreements expiring on various dates until December 2010. The total rent for the year ended December 31, 2002 was $4,360,937 and future minimum rentals are as follows:

Fiscal Year	Amount
2003	$ 2,951,117
2004	2,228,520
2005	2,037,929
2006	1,632,525
2007	1,482,933

Rentals after 2007 amount to $2,139,310, with present value of about $2,030,086 based on 1.875% annual interest rate.

c. Leases of containers and chassis under capital lease agreements expiring on various dates until May 2011. Total rent for the year ended December 31, 2002 was about $328,501 (deducted from leases payable), and future minimum rentals are as follows:

Fiscal Year	Amount
2003	$ 305,580
2004	291,509
2005	291,724
2006	552,381
2007	55,028

Rentals after 2007 amount to $124,743, with present value of about $112,627, based on 1.875% annual interest rate.

d. Guarantee on loans obtained by Yang Ming Line (B.V.I.) Holding Co., Ltd., (an equity-accounted investee of the Corporation), All Oceans Transportation Inc. (an equity-accounted investee of the Corporation) and Solar International Shipping Agency, Inc., amounting to US$100,196,000, US$89,302,000 and US$1,500,000, respectively.

e. The Corporation and Yang Ming Line Holding Co. (an equity-accounted investee of the Corporation) guaranteed a loan of US$4,015,000 obtained by West Basin Container Terminal LLC.

f. As of December 31, 2002, 43 former shipping crew members who retired after the Corporation's privatization sued the Corporation and claimed $102,749 as additional severance benefit. The computation of this amount was based on the Labor Standards Law instead of the Rules of Privatization for the Government-Owned Corporations. The Taipei District Court had decided in favor of the Corporation. Nevertheless, those plaintiffs appealed to a higher court. No liability was accrued since management believed the appeal would not prosper.

23. SUBSEQUENT EVENTS

a. On November 8, 2002, the board of directors resolved to sell the ship Ming Europe, at its carrying value of $709,408 to All Oceans Transportation Inc., an equity-accounted investeee. The ship was delivered on January 7, 2003.

b. On December 26, 2002, the board of directors approved to sell the ship Ming Courage. Under a contract made on February 12, 2001, Eddie Steamship Company agreed to buy the ship for US$4,375,000. The ship will be delivered in March 2003, and an expected loss of $170,000 on this sale was accrued in 2002.

24. FINANCIAL INSTRUMENTS

a. The Corporation uses cross-currency swap contracts to manage the effects of the exchange rate fluctuations on foreign-currency net assets or liabilities. Information on the contracts is as follows:

1) Open contracts and credit risk as of December 31, 2001

Type of Transaction	Notional Amount	Fair Value	Credit Risk
Cross-currency swap	EUR$14,940,000	$742	$742

The Corporation recognized gains on those contracts amounting to $5,783 and $24,733 for the years ended December 31, 2002 and 2001. There were no such contracts outstanding as of December 31, 2002.

The Corporation is exposed to credit risks if counter-parties default on their contractual obligations. To manage this risk, the Corporation transacts only with selected financial institutions with good credit ratings. Thus, management does not anticipate any material losses resulting from defaults.

2) Market risk

The Corporation is exposed to market risk arising from exchange rate fluctuations on the cross-currency swap contracts. The Corporation entered into these contracts to manage the effects of the exchange rate fluctuations on foreign-currency net assets or liabilities. The contracts were settled at net amounts; thus, the market risk is not material.

3) Liquidity risk, cash-flow risk and future cash demand

The cross-currency swap contracts are settled at net amounts and the expected cash demand is not material. Management believes that the Corporation has enough operating capital to meet its cash demand.

4) The purpose of derivative financial instruments held or issued and the strategies to meet the purpose.

The Corporation uses the cross-currency swap contracts for managing risks associated with exchange rates fluctuations on foreign-currency net assets or liabilities and not for trading purposes. The effectiveness of these instruments is evaluated periodically.

b. The Corporation entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on foreign-currency net assets or liabilities. It realized exchange gains on those contracts of $319 and $458 for the years ended December 31, 2002 and 2001, respectively. No such contracts were outstanding as of December 31, 2002.

c. The Corporation has written foreign-currency options for trading purposes from which it realized gains of $378 for the year ended December 31, 2002. The Corporation did not enter into any foreign-currency put options in 2001.

d. The fair values of the Corporation's financial instruments were as follows:

	December 31			
	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative instruments				
Assets				
Short-term financial instruments				
Cash and cash equivalents	$ 1,758,190	$ 1,758,190	$ 4,251,248	$ 4,251,248
Short-term investments	6,130,776	6,130,776	1,785,007	1,785,007
Accounts receivable	1,290,695	1,290,695	988,009	988,009
Receivables from related parties	2,228,974	2,228,974	897,362	897,362
Advances to shipping agents	1,469,405	1,469,405	969,577	969,577
Pledged time deposits	18,645	18,645	434,909	434,909
Investments in shares of stock	7,761,195	7,761,195	8,383,490	8,383,490
Long-term receivables from related parties	9,720,111	9,720,111	4,796,317	4,796,317
Liabilities				
Short-term financial instruments				
Short-term debts	102,597	102,597	202,283	202,283
Payables to related parties	1,793,123	1,793,123	1,742,515	1,742,515
Accrued expenses	1,644,628	1,644,628	873,472	873,472
Payables to shipping agents	1,275,226	1,275,226	2,571,192	2,571,192
Bank loans	1,563,750	1,563,750	1,365,000	1,365,000
Bonds	11,117,200	12,202,237	10,417,200	11,218,098
Obligations under capital leases	1,366,844	1,366,844	1,530,535	1,530,535
Derivatives				
Exchange rate swap contracts	-	-	742	742

The methods and assumptions applied in estimating fair values are as follows:

1) Except for short-term investments, the carrying values of short-term financial instruments approximate fair values because of the short maturity of these instruments.

2) Fair values of short-term investments and investments in shares of stock are based on market prices or, if market prices are unavailable, upon the costs of investments.

3) Fair values of long-term receivable from related parties, bank loans, bonds, obligations under capital leases are based on market prices or, if market prices are unavailable, based on the present values of the expected cash inflows or outflows. Discount rate used in determining the present values is based on rate of bank loans that the Corporation can obtain under similar conditions.

4) Fair values of derivatives for the remaining contract periods are calculated at quoted forward exchange rates, obtained from Reuter's New Agency or Associated Press.

25. INFORMATION RELATED TO SIGNIFICANT TRANSACTIONS INVESTEE COMPANIES AND INVESTMENT IN MAINLAND CHINA

Except those mentioned in Note 24 and schedule C to H, there are no additional disclosures required by the Securities and Futures Commission for the Corporation, investees and investment in Mainland China.

26. SEGMENT AND GEOGRAPHIC INFORMATION

a. The Corporation operates in a single business, namely, ocean freight transportation.

b. The Corporation had no revenue-generating unit (branch or office) outside Taiwan.

c. Cargo transportation revenues

	Years Ended December 31			
	2002		2001	
Line Service	Amount	%	Amount	%
U.S. Western coast line	$ 12,309,561	27	$ 8,445,516	19
Asia line	8,038,722	18	5,801,944	13
U.S. Eastern coast line	8,001,130	18	7,381,324	16
European line	5,609,478	12	9,237,806	20

d. No single customer accounts for more than 10% of total operating revenues.

4. Parents and Subsidiaries Financial Reports as of Dec. 31, 2002

4.1Independent Auditors' Report

February 28, 2003

The Board of Directors and the Stockholders
Yang Ming Marine Transport Corporation

We have audited the accompanying consolidated balance sheets of Yang Ming Marine Transport Corporation and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Kuang Ming Shipping Corp., Transyang Shipping Pte. Ltd., Yang Ming Line (Singapore) Pte. Ltd. and China Mariners' Assurance Corp., in which the Corporation has equity investments accounted for by the equity method. As shown in the accompanying balance sheets, the carrying values of these investments were NT$1,719,597 thousand and NT$1,660,161 thousand as of December 31, 2002 and 2001, respectively. The equity in these investees' net income was NT$614,370 thousand in 2002 and NT$124,942 thousand in 2001. The financial statements of these investees were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the above investees' amounts is based solely on the reports of other auditors.

We conducted our audits in accordance with the Regulations for Audit of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yang Ming Marine Transport Corporation and subsidiaries as of December 31, 2002 and 2001 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting for Public Company and generally accepted accounting principles in the Republic of China.

As described in Note 3 to the financial statements, effective January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stocks," which requires the Corporation to treat its stocks held by subsidiaries as treasury stocks instead of investments. The adoption of SFAS No. 30 resulted in a decrease of NT$166,346 thousand in the 2002 net income. In addition, equity investments decreased and treasury stock increased by NT$525,441 thousand each as of December 31, 2002.

T N Soong & Co
An Associate Member Firm of Deloitte Touche Tohmatsu
Taipei, Taiwan
The Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with 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.

YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2001
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2002 Amount	%	2001 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	$ 2,098,984	4	$ 4,612,466	8
Short-term investments - net (Notes 2 and 6)	6,130,776	10	1,785,007	3
Accounts receivable - net of allowance for doubtful accounts of $9,313 in 2002 and $7,415 in 2001 (Note 2)	1,816,983	3	1,411,155	2
Receivables from related parties (Note 21)	557,393	1	349,116	-
Shipping fuel - net (Note 2)	753,150	1	568,030	1
Prepaid expenses (Note 21)	263,409	-	358,316	-
Advances to shipping agents	1,469,405	3	969,577	2
Pledged time deposits (Note 22)	18,645	-	434,909	1
Other current assets (Notes 2 and 18)	412,879	1	430,460	1
Total Current Assets	13,521,624	23	10,919,036	18
INVESTMENTS IN SHARES OF STOCK (Notes 2, 7 and 17)	4,747,987	8	5,153,767	9
PROPERTIES (Notes 2, 8 and 22)				
Cost				
Land	38,901	-	38,901	-
Buildings	691,014	1	691,014	1
Containers and chassis	10,789,225	18	11,659,634	20
Ships	29,882,770	50	31,193,425	52
Leased assets	8,344,644	14	8,254,539	14
Leasehold improvements	190,741	-	110,219	-
Miscellaneous equipment	1,497,849	3	1,484,683	3
Total cost	51,435,144	86	53,432,415	90
Accumulated depreciation	19,895,307	33	18,883,874	32
	31,539,837	53	34,548,541	58
Construction in progress	602,643	1	68,315	-
Net Properties	32,142,480	54	34,616,856	58
OTHER ASSETS				
Assets leased to others - net (Notes 2, 8 and 9)	1,106,569	2	962,134	2
Nonoperating assets - net (Notes 2, 8, 10 and 22)	498,247	1	686,171	1
Refundable deposits (Note 23)	6,781,669	11	6,454,459	11
Deferred charges - net (Note 2)	393,179	1	450,864	1
Prepaid expenses on long-term rent agreements	348,930	-	211,615	-
Restricted assets (Notes 11 and 22)	40,609	-	-	-
Miscellaneous (Note 2)	50,211	-	28,170	-
Total Other Assets	9,219,414	15	8,793,413	15
TOTAL ASSETS	$ 59,631,505	100	$ 59,483,072	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2002 Amount	%	2001 Amount	%
CURRENT LIABILITIES				
Short-term debts (Notes 12 and 22)	$ 110,203	-	$ 202,283	-
Accounts payable	76,835	-	44,764	-
Payables to related parties (Note 21)	501,570	1	912,431	2
Accrued expenses	1,727,834	3	983,675	2
Advances from customers (Note 21)	830,935	1	901,938	2
Current portion of long-term debts (Notes 2, 8, 13 and 22)	1,318,952	2	3,516,720	6
Payables to shipping agents	3,034,880	5	3,847,622	6
Other current liabilities (Notes 2 and 18)	393,284	1	702,215	1
Total Current Liabilities	7,994,493	13	11,111,648	19
LONG-TERM DEBTS				
Bank loans (Notes 13 and 22)	6,605,245	11	7,449,172	13
Bonds (Notes 13 and 22)	11,117,200	19	8,117,200	13
Obligations under capital leases (Notes 2, 8 and 13)	7,470,014	12	7,063,252	12
Total Long-Term Debts	25,192,459	42	22,629,624	38
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	479,639	1	479,639	1
OTHER LIABILITIES (Notes 2, 7, 15, 18, 20 and 22)	1,607,930	3	1,209,130	2
Total Liabilities	35,274,521	59	35,430,041	60
STOCKHOLDERS' EQUITY				
Capital stock - $10 par value				
Authorized - 2,400,000 thousand shares				
Issued - 1,834,316 thousand shares	18,343,160	31	18,343,160	31
Capital surplus:				
Paid-in capital in excess of par value	2,390,186	4	2,390,186	4
Treasury stocks transactions	4,242	-	-	-
Gain on sales of properties	-	-	1,431,387	2
From investments in shares of stock	5,816	-	7,087	-
Total capital surplus	2,400,244	4	3,828,660	6
Retained earnings:				
Legal reserve	414,623	1	906,167	2
Special reserve	1,141,939	2	1,141,939	1
Unappropriated earnings (accumulated losses)	2,424,970	4	(634,683)	(1)
Total retained earnings	3,981,532	7	1,413,423	2
Unrealized loss on investments in shares of stock	(21,293)	-	(3,172)	-
Cumulative translation adjustments	186,469	-	470,960	1
Net loss not recognized as pension cost	(7,687)	-	-	-
Treasury stocks - 67,619 thousand shares	(525,441)	(1)	-	-
Total Stockholders' Equity	24,356,984	41	24,053,031	40
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 59,631,505	100	$ 59,483,072	100

The accompanying notes are an integral part of the consolidated financial statements.
(With T N Soong & Co report dated February 28, 2003)

4.3 YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2002 and 2001
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2002		2001	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 21)	$53,584,426	100	$53,276,226	100
OPERATING COSTS (Notes 2 and 21)	51,589,043	96	52,627,007	99
GROSS INCOME	1,995,383	4	649,219	1
OPERATING EXPENSES (Note 21)				
Selling	793,503	2	671,529	1
General and administrative	194,370	-	212,771	1
Total Operating Expenses	987,873	2	884,300	2
OPERATING INCOME (LOSS)	1,007,510	2	(235,081)	(1)
NONOPERATING INCOME				
Equity in inveestee's net income - net (Note 2)	537,812	1	-	-
Interest	393,277	1	541,060	1
Foreign exchange gain - net	266,903	-	249,755	1
Gain on sale of investments	260,861	-	197,808	-
Gain on sale of properties and nonoperating assets (Note 2)	89,403	-	247,635	-
Other	287,869	1	274,177	1
Total Nonoperating Income	1,836,125	3	1,510,435	3
NONOPERATING EXPENSES				
Interest (Note 8)	1,068,116	2	1,154,659	2
Provision for losses on investments (Note 2)	363,610	1	214,818	-
Equity in investee's net losses - net (Note 2)	-	-	266,741	1
Other (Note 24)	268,021	-	94,661	-
Total Nonoperating Expenses	1,699,747	3	1,730,879	3
INCOME (LOSS) BEFORE INCOME TAX	1,143,888	2	(455,525)	(1)
INCOME TAX EXPENSE (Notes 2 and 18)	8,437	-	219,520	-
CONSOLIDATED NET INCOME (LOSS)	$ 1,135,451	2	($ 675,045)	(1)

(Forward)

	2002		2001	
	Income (Loss) Before Income Tax	Consolidated Net Income (Loss)	Income (Loss) Before Income Tax	Consolidated Net Income (Loss)
CONSOLIDATED PRIMARY EARNINGS PER SHARE (Note 19)	$ 0.65	$ 0.64	($ 0.25)	($ 0.37)
CONSOLIDATED DILUTED EARNINGS PER SHARE (Note 19)	$ 0.65	$ 0.64	($ 0.25)	($ 0.37)

Pro forma information, assuming that the Corporation' s stocks held by subsidiaries are accounted for as investments rather than as treasury stocks (Notes 2, 3, 17 and 19), is as follows:

	2002
CONSOLIDATED NET INCOME	$ 1,301,797

	Income Before Income Tax	Net Income
CONSOLIDATED PRIMARY EARNINGS PER SHARE	$ 0.71	$ 0.71
CONSOLIDATED DILUTED EARNINGS PER SHARE	$ 0.71	$ 0.70

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

(With T N Soong & Co report dated February 28, 2003)

YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2002 and 2001
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	CAPITAL STOCK Issued		CAPITAL SURPLUS (Notes 2 and 16)					RETAINED EARNINGS (Notes 2 and 16)				UNREALIZED LOSS ON INVESTMENTS IN SHARES OF STOCK (Note 2)	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	NET LOSS NOT RECOGNIZED AS PENSION COSTS (Notes 2 and 20)	TREASURY STOCKS (Notes 2, 3 and 17)	TOTAL STOCKHOLDERS' EQUITY
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	Treasury Stocks transactions	Gain on Sales of Properties	From Investments in Shares of Stock	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Losses)	Total					
BALANCE, JANUARY 1, 2001	1,780,889	$ 17,808,893	$ 2,568,275	$ -	$ 1,431,387	$7,082	$ 4,006,744	$801,973	$ 1,141,939	$ 1,051,776	$ 2,995,688	($15,386)	$248,029	$ -	$ -	$ 25,043,968
Appropriation of 2000 earnings																
Legal reserve	-	-	-	-	-	-	-	104,194	-	(104,194)	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	-	(9,476)	(9,476)	-	-	-	-	(9,476)
Cash dividends - $0.3 per share	-	-	-	-	-	-	-	-	-	(534,266)	(534,266)	-	-	-	-	(534,266)
Stock dividends - 2%	35,618	356,178	-	-	-	-	-	-	-	(356,178)	(356,178)	-	-	-	-	-
Capitalization of capital surplus - 1%	17,809	178,089	(178,089)	-	-	-	(178,089)	-	-	-	-	-	-	-	-	-
Consolidated net loss in 2001	-	-	-	-	-	-	-	-	-	(675,045)	(675,045)	-	-	-	-	(675,045)
Reversal of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	12,214	-	-	-	12,214
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	222,931	-	-	222,931
Decrease in the equity in the net assets of an equity-accounted investee resulting from not subscribing proportionately to the additional shares issued by the investee companies	-	-	-	-	-	-	-	-	-	(7,295)	(7,295)	-	-	-	-	(7,295)
Equity in changes in capital surplus reported by equity-accounted investees	-	-	-	-	-	5	5	-	-	(5)	(5)	-	-	-	-	-
BALANCE, DECEMBER 31, 2001	1,834,316	18,343,160	2,390,186	-	1,431,387	7,087	3,828,660	906,167	1,141,939	(634,683)	1,413,423	(3,172)	470,960	-	-	24,053,031
Offset of accumulated losses in 2001	-	-	-	-	-	-	-	(634,683)	-	634,683	-	-	-	-	-	-
Reclassification of the Corporation's stock held by subsidiaries into treasury stocks - 67,619 thousand shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(525,441)	(525,441)
Disposal of the Corporation's stocks held by subsidiaries	-	-	-	4,242	-	-	4,242	-	-	-	-	-	-	-	-	4,242
Consolidated net income in 2002	-	-	-	-	-	-	-	-	-	1,135,451	1,135,451	-	-	-	-	1,135,451
Reclassification of capital surplus from gain on sales of properties to retained earnings	-	-	-	-	(1,431,387)	-	(1,431,387)	143,139	-	1,288,248	1,431,387	-	-	-	-	-
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(284,728)	-	-	(284,728)
Reversal of recognized equity in the capital surplus reported by equity-accounted investee as a result of the disposal of the investment	-	-	-	-	-	(9)	(9)	-	-	9	9	3,027	237	-	-	3,264
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,687)	-	(7,687)
Recognition of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	(21,292)	-	-	-	(21,292)
Equity in change in the capital surplus reported by equity-accounted investees	-	-	-	-	-	(1,262)	(1,262)	-	-	1,262	1,262	144	-	-	-	144
BALANCE, DECEMBER 31, 2002	1,834,316	$ 18,343,160	$ 2,390,186	$4,242	$ -	$5,816	$ 2,400,244	$414,623	$ 1,141,939	$ 2,424,970	$ 3,981,532	($21,293)	$186,469	($7,687)	($ 525,441)	$ 24,356,984

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

(With T N Soong & Co report dated February 28, 2003)

4.5 YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

(In Thousands of New Taiwan Dollars)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net (loss) income	$ 1,135,451	($ 675,045)
Adjustments to reconcile consolidated net (loss) income with net cash provided by operating activities:		
Depreciation	3,586,651	3,176,962
Amortization	221,851	241,535
Gain on sale of investments	(260,861)	(197,808)
Net gain on sale of properties and nonoperating assets	(89,403)	(246,983)
Provision for pension cost	76,760	79,049
Provision for losses on investments	363,610	214,818
Equity in investees' net (income) loss - net	(537,812)	266,741
Provision for losses on properties	170,000	-
Cash dividends received on equity-accounted investments	41,141	27,409
Deferred income taxes	5,269	225,643
Other	(52,987)	(48,498)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(407,726)	274,387
Receivables from related parties	(124,877)	108,893
Shipping fuel	(187,115)	8,668
Prepaid expenses	94,907	46,486
Advances to shipping agents	(499,828)	(549,086)
Pledged time deposits	416,264	(422,072)
Other current assets	100,455	(350,285)
Increase (decrease) in:		
Accounts payable	32,071	(7,920)
Payables to related parties	(410,861)	(354,492)
Accrued expenses	744,159	(486,640)
Payables to shipping agents	(812,742)	1,584,154
Advances from customers	(71,003)	221,822
Other current liabilities	(285,111)	(144,993)
Net Cash Provided by Operating Activities	3,248,263	2,992,745
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in short-term investments	(4,407,989)	3,200
Acquisition of investments in shares of stock	(187,453)	(1,088,822)
Proceeds from disposal of investments in shares of stock	389,077	-
Acquisition of properties	(1,112,799)	(11,700,301)
Proceeds from sale of properties and nonoperating assets	182,480	1,002,264
Increase in prepaid expenses on long-term rent agreement	(137,315)	(211,615)
Increase in refundable deposits	(327,210)	(1,289,893)

(Forward)

	2002	2001
Increase in deferred charges	($ 270,849)	($ 246,171)
(Increase) decrease in restricted assets	(40,609)	3,751,751
(Increase) decrease in other assets	(22,041)	27,199
Net Cash Used in Investing Activities	(5,934,708)	(9,752,388)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (principal repayments on) short-term debts	(92,080)	161,196
Proceeds from long-term debts	3,198,749	6,950,688
Repayment of principal long-term debts	(3,176,440)	(1,688,663)
Increase (decrease) in obligations under capital leases	207,308	(435,245)
Decrease in other liabilities	(3,897)	(3,329)
Payment of dividend and employees' bonus	-	(543,742)
Net Cash Provided by Financing Activities	133,640	4,440,905
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	39,323	(190,264)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,513,482)	(2,509,002)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,612,466	7,121,468
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,098,984	$ 4,612,466
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 1,056,431	$ 1,124,817
Income tax paid	$ 4,199	$ 42,112
Noncash investing and financing activities:		
Reclassification of investments in shares of stock into short-term investments	$ 122,753	$ -
Reclassification of nonoperating assets to assets leased to others	$ 187,934	$ -
Current portion of long-term debts	$ 1,318,952	$ 3,516,720
Reclassification of the Corporation's stock held by subsidiaries from investments into treasury stocks	$ 525,441	$ -
Cash paid for additions to properties:		
Cost of properties acquired	$ 1,264,505	$14,543,011
Increase in obligations under capital leases	(135,450)	(2,799,046)
Increase in current payable for equipment	(16,256)	(43,664)
	$ 1,112,799	$11,700,301

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

(With T N Soong & Co report dated February 28, 2003)