YANG MING MARINE TRANSPORT CORPORATION

2003 ANNUAL REPORT

APRIL 2004

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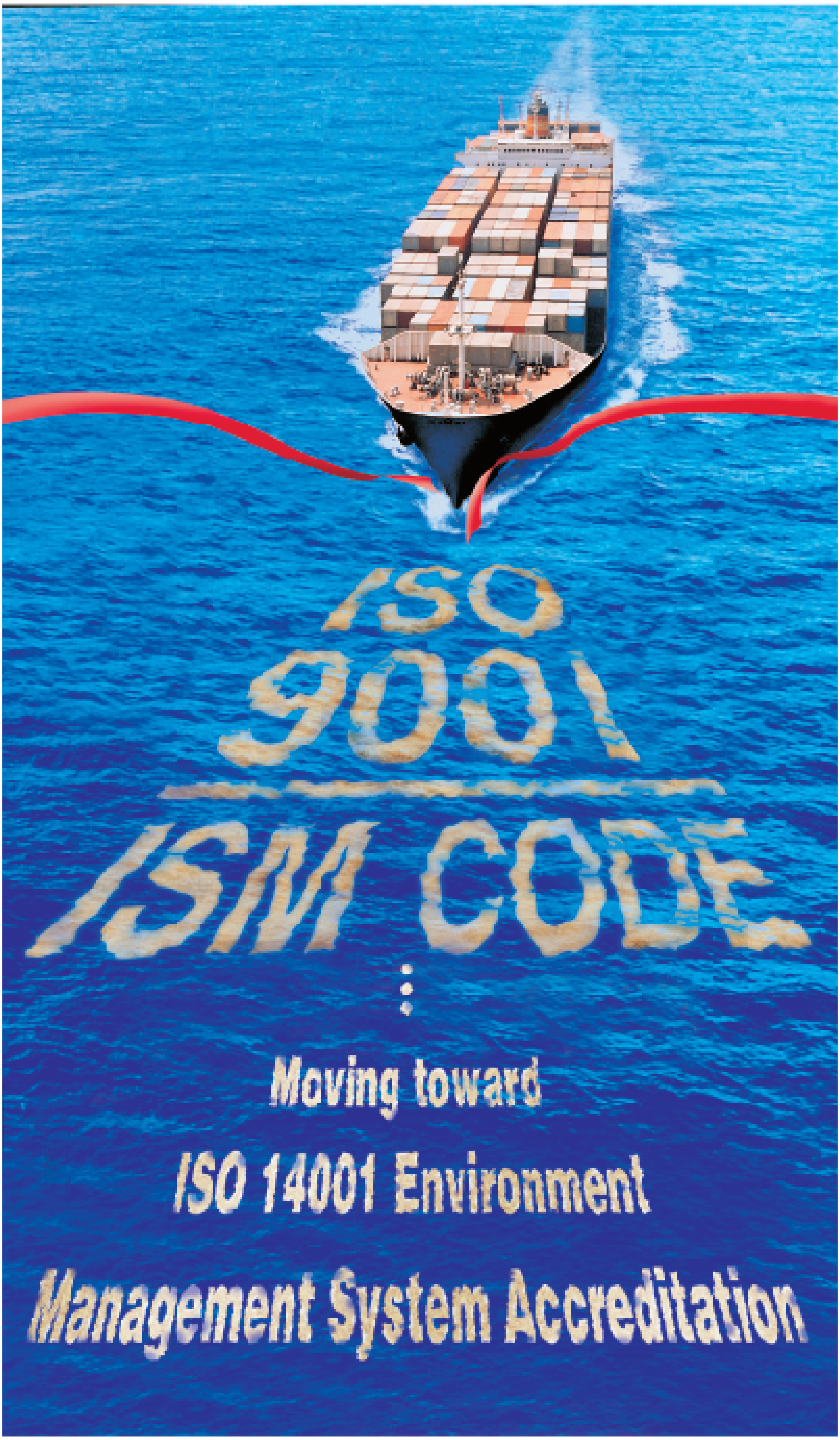
International Recognition Excellent Service



Yang Ming Spokesman

Name：Chi-Hsiung Liu
Position：Executive Vice President
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Tel：(07)812-9200

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Tel：(02)2717-5566
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Certified Public Accountant

CPA：Annie Lin, Clark C. Chen
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CHAPTER 1　LETTER TO SHAREHOLDERS

1. A Report on Business Operations in 2003

Yang Ming was privileged to have a bountiful year of productivity in 2003. Despite the outbreak of Severe Acute Respiration Syndrome (SARS) and the tensions of the Iraq War in the first half of the year, the marine shipping industry overall was fortunate with only limited ill effects from each crisis. Both liner shipping and bulk markets surged rapidly from the second half of 2003 after market uncertainty finally declined. Above all, with the help of the stronger recovery of the global economy as well as our own effective cost-down measures implemented, Yang Ming is now pleased to report that it has achieved an operating revenue amounting to NT$62.9 billion with after-tax net profits of NT$6.25 billion in 2003.

2. Business Outlook and Strategies for 2004

The outlook of the marine industry is still looking optimistic in 2004. For overall container transportation, trade has surpassed 8% in growth and the balance in terms of tonnage supply and demand remains positive. As for the bulk market, prospects for thriving business seem comparatively intact due to the strong demand for raw materials in China and the ensuing transportation bottleneck. However, the industry also faces high cost-inflation pressures from charter rates, rising prices for vessel construction, containers and fuel. Furthermore, China's tightening of policies and the pressure of rising U.S. interest rates are also two important inflationary factors to keep in mind.

To cope with the changing business environment and meet the requirements of customers, Yang Ming's business strategies for 2004 is as follows:

- To expand slot deployment in long-haul liner services to match market organic growth.
- To strengthen our business scale on our niche markets of the North American East Coast, the Mediterranean and the Middle East to further enhance our competitive edge.
- To realign working procedures and cost-down measures to control the costs of operations.
- To integrate information technology systems to improve our management efficiency.

In 2004, Yang Ming's current new vessel orders of three 5,500-TEU full-container vessels and two 77,000-DWT bulk carriers are expected to be delivered and deployed for our Trans Pacific routes and tramp operations respectively. In line with international formalities imposed by the International Maritime Organization (IMO), Yang Ming has obtained International Ship and Port

Facility Security (ISPS) Code accreditation in April of 2004. Each of the just-mentioned accomplishments is anticipated to further enhance and broaden the scope and efficiency of our global operations.

In light of a future full of opportunities and challenges, Yang Ming is fully committed to making every effort to improve our operations and empower ongoing innovation to assure sustained growth for years to come. Yang Ming is extremely grateful to all of our shareholders, customers and employees for their significant contributions and hope that our whole-hearted endeavors will continue to earn your trust and support.

Yours truly,

Dr. Frank F.H. Lu
Chairman

CHAPTER 2　COMPANY UPDATE

1. About our company

Yang Ming was established on December 28, 1972, and publicly listed on the Taiwan Stock Exchange in 1992. Originally, it was a state-owned enterprise, which was privatized in February 1996 as part of the government's privatization program. Our company is headquartered at No. 271, Ming De 1st Road, Chidu, Keelung, Taiwan, and maintains branch offices at Keelung, Taichung, and Kaohsiung. To provide global service, it has subsidiaries, agents, and representatives' offices in all service districts around the world.

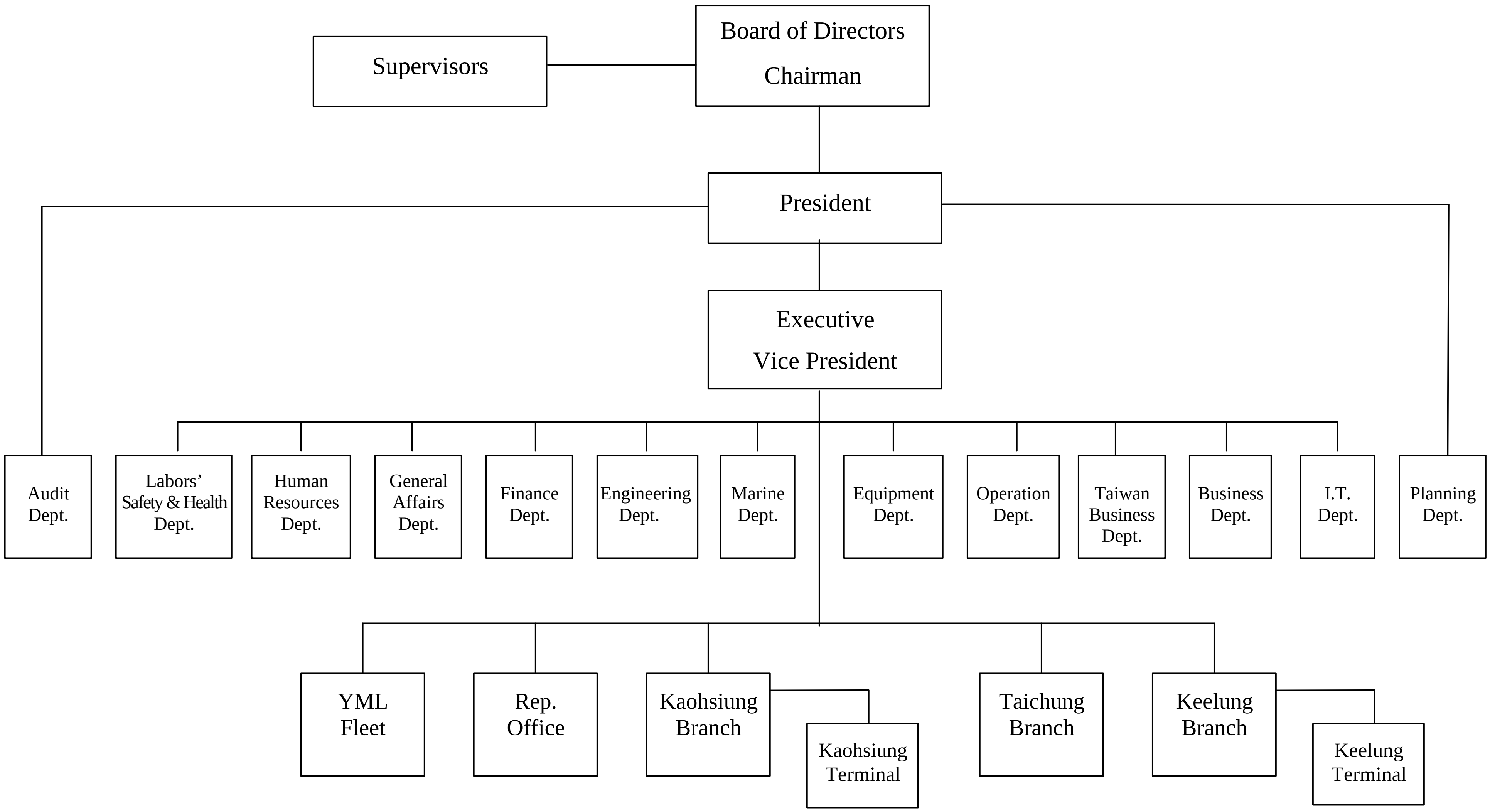
International shipping of containers is its core business with additional operations via bulk carriers and oil tankers. Yang Ming has established a close-knit, rapid, full-container global shipping network with various kinds of vessels including bulk carriers, an operating oil tanker for CPC, as well as large numbers of full-container ships, which crisscross 73 nations in Asia, North America, Europe, the Mediterranean, and the Middle East, which are served by more than 170 business stations. Yang Ming was cited as one of the most satisfactory marine transporters in service and reliability and also ranked as the world's second most acclaimed shipping company by the London-based British Shipper Consultation. In 1996, Yang Ming obtained ISO 9002 and ISM Code accreditation and also won the ROC's National Outstanding Quality Case Award. In 2003, we again passed the verification of ISO 9001:2000.

Since being privatized in 1996, Yang Ming has followed the policy of diversification and has gradually become an international conglomerate by extending its antenna to the fields of international logistics, wharf operations, inland transportation, and holding companies and by forming strong alliances with other shipping firms. This has enabled Yang Ming to greatly expand its business realm, increase its shipping routes, shorten the time of transportation, and reduce the costs of operations. Since 2002, it has accelerated its steps to rejuvenate its fleet aimed at providing better services and making more business breakthroughs.

Besides business operations, Yang Ming pays great attention to contributing back to society by holding international art carnivals, children's drawing contests, and by making marine visual materials for distribution to primary schools throughout the nation as teaching aids. When the devastating earthquake hit Taiwan on September 21, 1999, Yang Ming shipped large amounts of relief goods to the disaster area. In addition, we have regularly sponsored various public-interest and environmental-protection activities, including the International Container Art Festival, the Hakka Tong-flower Festivities, and the Clean Beach Campaign, etc.

2. Organizational Structure

2.1 Yang Ming organizational structure is shown below:



2.2 Directors and Supervisors

Dec. 31, 2003

Position		Chairman Board of Directors	Director	Director	Director	Director	Executive Supervisor	Supervisor	Director	Director
Name		Feng –Hai Lu	Wong-hsiu Huang	Jin-yuan Chen	Chia-juch Chang	Fu-mei Chu	Yu-Hsien Lin	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		Reelection 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 40.16％of the company’s stocks							0.05%	2.64%
Spouse, under-aged children’s holding shares	shares	—	767	—	—	—	—	—	—	—
	ratio of holding shares(%)	—	—	—	—	—	—	—	—	—

2.3 Top management

Dec. 31, 2003

Position	Name	Date appointed	Entitled for other companies presently
President	Wong-hsiu Huang	Aug. 1, 2001	Chairman of Ching Ming Investment Co.,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	R.B.Chiou	Nov. 1, 1998	Director 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, 2003

Shares category	Authorized capital					Amount of shares of convertible bonds
	Shares Issued			Non-issuance shares	Total shares	
	Listed	Unlisted	Total			
Common stock	1,946,706,501	—	1,946,706,501	453,293,499	2,400,000,000	252,340,316

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
Oct. 2003	10	2,400,000,000	24,000,000,000	1,853,358,152	18,533,581,520	Convertible bonds transformation 190,421,220	-
Dec.2003	10	2,400,000,000	24,000,000,000	1,946,706,501	19,467,065,010	Convertible bonds transformation 933,483,490（Note）	

Note：The incremental capital approved by the Ministry of Economic Affairs on Feb. 2004

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

Unit：NT Dollars

Items \ Year		2002	2003	Jan. 1, 2004~ Apr. 30, 2004
Market-price per share	Highest price	13.15	35.50	44.8
	Lowest price	6.40	12.65	27.5
	Average price	8.80	24.52	37.76
Net worth per share	Unappropriated	13.28	17.10	19.05
	Appropriated	12.68	-	-
Earnings per share	Weighted average number of outstanding shares	1,765,928(Note) thousand shares	1,796,716(Note) thousand shares	1,976,559(Note) thousand shares
	Earnings per share	0.64	3.70	1.23
Dividends per share	Cash dividend	0.60	2.30	-
	Stock dividend	-	0.50	-
Return on Investment	Price / Earnings ratio	13.75	6.63	-
	Price / Cash dividends ratio	14.67	10.66	-
	Cash dividends/ Price ratio	0.068	0.094	-

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

4. Issuance of Corporate Bonds

4.1 Status of Corporate Bonds Issuance：

Apr 30,2004

Bond Category	First Domestic Convertible Bonds	Third Debenture Bonds (secured)	Fourth 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	Aug. 7, 2003
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.	Nil
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	Reimbursed in cash upon maturity
Unreimbursed Amount	NTD100 thousand	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 2,812 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 2,499.90 million (Note 1)	Inappropriate	Inappropriate	Inappropriate	Inappropriate	Inappropriate	Inappropriate	Inappropriate	NTD 5,188 million

Note 1: The First Domestic Convertible Bonds were not traded on the market on March 12 ,2004.

4.2 Issuance of Convertible Bonds

Bond Category		First Domestic Convertible Bonds				
Items / Period		2000	2001	2002	2003	Jan. 1, 2004~ Apr. 30, 2004
Market Price	the highest	100.80	101.60	104.00	189.00	243.00
	the lowest	95.00	96.00	95.90	103.50	191.00
	the average	97.22	99.81	101.35	144.82	228.27
Convertible Price		20.70	17.10	15.66	15.66	--
Issuance Date		Aug. 2, 1997				
Convertible Price at Issuance Date		NT$31.67				

Bond Category		Second Domestic Convertible Bonds			
		2A		2B	
Items / Period		2003	Jan. 1, 2004~ Apr. 30, 2004	2003	Jan. 1, 2004~ Apr. 30, 2004
Market Price	the highest	133.30	170.00	133.20	168.00
	the lowest	103.10	117.20	103.10	113.00
	the average	119.97	145.37	119.44	143.57
Convertible Price		26.13	26.13	26.13	26.13
Issuance Date		Aug. 7, 2003			
Convertible Price at Issuance Date		NT$26.13			

5. Issuance of GDR

Conditions of the issuance of GDR

Apr. 30, 2004

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 (Dec. 31, 2003)			74,976,458 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	2003	the highest	USD 10.326
		the lowest	USD 3.924
		the average	USD 7.099
	From Jan. 1, 2004 to Apr. 30, 2004	the highest	USD 13.392
		the lowest	USD 8.348
		the average	USD 11.355

CHAPTER 3 BUSINESS UPDATE

1. Business Profile, Operating Fleet & Service Scope

1.1 Business Profile：

1.1.1 Domestic and overseas marine shipment service.
1.1.2 Domestic and overseas marine passenger service.
1.1.3 Warehouse, pier, tugboat, barge, container freight station and terminal operations.
1.1.4 Maintenance and repair, chartering sales and purchase of ships.
1.1.5 Maintenance and repair, lease, sale and purchase of containers as well as chassis.
1.1.6 Shipping agency.
1.1.7 Ocean freight forwarding service.
1.1.8 Besides licensed business, all other business items that are not banned or restricted.

1.2 Operating Fleet＆Service Scope：

As of Dec. 31, 2003, YML operates 68 vessels consisting of 61 full container vessels, 5 panamax bulk carriers and 2 tankers.

The service scope of year 2003 includes the following three categories:

－Container Liner Service

Offering frequent fixed-day weekly services for the trades of 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 2 tankers on behalf of other Carriers.

1.3 Cargo structure for full container vessels from 2001 to 2003：

Unit : TEU

Items	2003	Pct.	2002	Pct.	2001	Pct.
Cargo for Trans-ocean	1,290,166	64%	1,159,005	68%	1,148,906	75%
Cargo for Intra-Asia	737,790	36%	553,040	32%	381,376	25%
Total	2,027,956	100%	1,712,045	100%	1,530,282	100%

2. Market Analysis

2.1 Transpacific Trade

According to the JOC PIERS report, YML’s market share on the Transpacific eastbound was around 4.01% in 2003. The upgrading of PSW-2 Service and the launching of the new PSW-4 service provide moderate expansion for YML in 2004, with expected market share enhancement of 4.28%.

Looking ahead toward the FY 2004, harmonious market supply and demand should bring about a manageable balance.

2.2 F.E.-Europe/Mediterranean Trade

On the demand side, the worldwide economy has been bettered from 2002 while the cargo volume rose to about 20% in 2003. On the supply side, the capacity has increased by about 13% during the same period. With the launch of a new service and calling port adjustment, YML's market share grew from 4.67% in 2002 to 6.12% in 2003. .

It is widely expected that the Asia-Europe/Mediterranean trade will stay at the star position of the main East-West liner routes in 2004 with projections showing overall market growth at 10% or above.

2.3 Transatlantic Trade

Viewing the whole marine liner market, the growth of cargo volume in the Transatlantic trade is lower than the Transpacific Trade and the F.E.- Europe Trade. Nevertheless, the development of the Transatlantic trade is focusing on the Westbound sector from Europe and the Mediterranean to the East Coast of America.

2.4 Intra-Asia Trade

Intra-Asia trade has become the biggest liner trade in the world. The Asian economy has been growing vigorously after recovering from the Asian financial crisis. The volume of growth for the trade is expected to have an annual growth rate of 5% through 2004.

On the supply side, a reluctance to launch new services resulted from a soaring charter hire of vessels, and from the shifting of fleets from intra-Asia trade to East-West long haul sectors to accommodate the strong demand of the latter, and thus, the space shortage in the Intra-Asia trade is expected to worsen. Restoring ocean freights in this trade might be beneficial.

3. Employees Status

Year		2002	2003	Apr. 30, 2004
Number of employees	Office service	822	842	892
	Sea service	372	269	241
	Total	1,194	1,111	1,133
Average age		40.38	40.82	40.81
Average service years		11.57	11.86	11.89
Education level	Ph. D	1	3	3
	Master's degree	68	84	84
	College degree	850	853	821
	High school degree	205	143	167
	Middle school and below	70	28	58

Note: Number of employees are average of the year, and on-call shipmen waiting for dispatch are not included.

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

Apr. 30, 2004

Name of contract	Party	Contract Period	Primary content
Vessel Sharing and Slot Allocation Agreement	K LINE HJS SEN	1/1/2003-12/31/2004	Asia/U.S. West Coast ; Asia/U.S. East Coast ; Asia/Med/Europe ; U.S. East Coast / North Europe ; U.S. East Coast / Med liner service
Slot Release Agreement	MOL HMM K LINE	5/29/2003-5/28/2005	Asia/Med liner service
Slot Exchange Agreement	CNC	8/1/2003-9/30/2004	Intra-Asia service
Slot Exchange Agreement	EMC	9/1/2003-9/30/2004	Intra-Asia service
Slot Release Agreement	Yi-Tong Shipping Co., Ltd.	3/22/2003-3/22/2005	Intra-Asia service
Cross Slot Charter Agreement	PIL K LINE	5/29/2003~5/29/2004	FE-M.East liner service
Slot Charter Agreement	TCH	12/16/2003 ~12/15/2004	Taiwan – China liner service

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
Container Vessel	Apr. 2003	450,284	All Oceans Transportation Inc.	Related Party	In operating
Container Vessels	Jul. 2003	5,198,940	All Oceans Transportation Inc.	Related Party	One in operating/ Two in building
Bulk Carriers	Jul. 2003	1,393,180	Kuang Ming Shipping Corp.	Related Party	In building
Container Vessels	Aug. 2003	1,297,356	China Shipbuilding Corp.	Non Related Party	In building
Container Vessels	Oct. 2003	10,764,864	Hyundai Heavy Industries Co., Ltd.	Non Related Party	In building
Chassis	Dec. 2003	550,072	Hyundai Translead	Non Related Party	In operating
Container Box	Jan. 2004	804,409	Singamas Container Holding Limited	Non Related Party	In operating
Container Vessels	Feb. 2004	3,322,526	All Oceans Transportation Inc.	Related Party	In operating
Building	Mar. 2004	1,677,000	De He Construction Co. Ltd., Guang He Construction Co. Ltd., Guang He Investment Co. Ltd., Guang Ji Engineering Co. Ltd.	Non Related Party	Leasing out

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	Jan. 2003	1,732,980	China Shipbuilding Corp.	Non related party	Sold
	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.	Non related party	Charter out
	Bulk Carrier	Feb. 2003	734,963	Imabari Shipbuilding Co., Ltd.	Non related party	Charter out
	Container Vessel	Mar. 2003	397,117	Yang Ming Marine Transport Corp.	Related Party	Charter out
	Container Vessels	Jun. 2003	1,297,356	China Shipbuilding Corp.	Non related party	In building
	Container Vessels	Jan. 2004	1,989,482	Yang Ming Marine Transport Corp.	Related Party	Charter out
	Container Vessels	Jan. 2004	6,086,498	China Shipbuilding Corp.	None Related Party	In operating
	Container Vessel	Mar. 2004	1,729,038	Yang Ming Marine Transport Corp.	Related Party	Charter out
Kuang Ming Shipping (Panama) Corp.	Bulk Carriers	Jan. 2003	1,393,180	China Shipbuilding Corp.	Related Party	Sold
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	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
Container Vessels	May. ~ Sep. 1996	Jan. 2004	1,989,482	1,989,482	-	All Oceans Transportation Inc.	Related Party
Container Vessel	Jul. 2003	Mar. 2004	1,729,038	1,729,038	-	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
	Container Vessels	Jun. 2002 Jan. 2003	Jul. 2003	5,198,940	5,198,940	-	Yang Ming Marine Transport Corp.	Related Party
	Container Vessels	Apr. 2001	Feb. 2004	3,322,526	3,322,526	-	Yang Ming Marine Transport Corp.	Related Party
Kuang Ming Shipping (Panama) Corp.	Bulk Carriers	Jan. 2003	Jul. 2003	1,393,180	1,393,180	-	Yang Ming Marine Transport Corp.	Related Party

CHAPTER 4　FUND UTILIZATION PLAN

Fund Utilization for the **Second Domestic Convertible Bonds** issued in 2003

UNIT：NT$1,000

Items of Plan	Utilization		Accumulated
Build three 5,500 TEU container vessels	Expenditure	Planned	886,125
		Actual	2,123,454
	Completion	Planned	18.51 %
		Actual	44.37 %
Build two bulk carriers	Expenditure	Planned	69,500
		Actual	69,500
	Completion	Planned	5.41 %
		Actual	5.41 %
Build containers	Expenditure	Planned	0
		Actual	0
	Completion	Planned	0 %
		Actual	0 %
Total	Expenditure	Planned	955,625
		Actual	2,192,954
	Completion	Planned	11.95 %
		Actual	27.41%

CHAPTER 5 FINANCIAL STATEMENTS AND REPORTS

1. Condensed Balance Sheets and Income Statements for the years from 1999 to 2004

1.1 Balance Sheet

UNIT：NT$1,000

Items \ Year		Accounting data for the recent 5 years					
		Dec. 31, 1999	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Mar. 31, 2004
Current Assets		8,523,526	13,603,805	10,572,307	13,993,990	29,895,976	32,388,614
Investments in Shares of Stock		3,887,715	7,369,362	8,383,490	7,761,195	10,357,106	11,694,805
Net Properties		17,241,468	16,275,097	19,443,064	12,538,377	13,208,046	12,974,862
Other Assets		9,003,932	7,078,853	7,106,119	12,108,382	7,424,229	6,448,561
Total Assets		38,656,641	44,327,117	45,504,980	46,401,944	60,885,357	63,506,842
Current Liabilities	Unappropriated	7,085,203	8,464,124	9,067,338	6,553,383	8,967,664	9,465,371
	Appropriated	7,764,071	9,007,866	9,067,338	7,677,086	-	-
Total Long-Term Debts		6,516,287	10,020,069	11,210,422	13,917,769	16,628,083	13,772,519
Other Liabilities		698,020	798,956	1,174,189	1,573,808	1,999,666	2,354,395
Total Liabilities	Unappropriated	14,299,510	19,283,149	21,451,949	22,044,960	27,595,413	25,592,285
	Appropriated	14,978,378	19,826,891	21,451,949	23,168,663	-	-
Capital stock		16,800,842	17,808,893	18,343,160	18,343,160	19,569,299	20,892,735
Capital surpius		4,854,754	4,006,744	3,828,660	2,400,244	4,316,068	6,170,259
Retained earnings	Unappropriated	2,632,613	2,995,688	1,413,423	3,981,532	9,506,926	11,086,115
	Appropriated	1,953,745	2,095,768	2,844,810	2,857,829	-	-
Unrealized loss on investments in shares of stock		-	15,386	3,172	21,293	1	1
Cumulative translation adjustmenrs		68,922	248,029	470,960	186,469	338,729	206,526
Net loss not recognized as pension costs		-	-	-	7,687	18,457	18,457
Total Stockholders' Equities	Unappropriated	24,357,131	25,043,968	24,053,031	24,356,984	33,289,944	37,914,557
	Appropriated	23,678,263	24,500,226	24,053,031	23,233,281	-	-

1.2 Income Statement

UNIT：NT$1,000

Items \ Year	Accounting data for the recent 5 years					
	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~ Dec. 31, 2003	Jan. 1, 2004~ Mar. 31, 2004
Operating revenue	45,168,078	50,575,836	45,411,519	45,511,610	62,913,555	16,234,306
Gross profit (loss)	2,337,487	1,583,778	46,021	1,147,639	6,257,682	881,129
Operating income (loss)	1,484,319	609,523	(813,886)	159,815	4,474,504	474,533
Non-operating income	1,499,797	2,639,347	1,471,354	2,334,577	4,719,968	1,856,160
Non-operating expenses	1,149,615	1,484,941	1,106,870	1,350,002	955,946	302,131
Income (loss) before income tax	1,879,648	1,763,929	(449,402)	1,144,390	8,238,526	2,028,562
Net income (loss)	1,675,055	1,200,846	(675,045)	1,135,451	6,649,097	1,579,189
Earnings per share	1.00	0.67	(0.37)	0.64	3.70	0.81

1.3 CPA and Audit results for the past 5 years

Year	CPA name	Audit results
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
Jan. 1, 2002 ~ Dec. 31, 2003	Annie Lin、Clark Chen	Revise Unqualified

2. Financial Statement Analysis for the years from 1999 to 2004

Items		Year	Financial Analysis for the years from 1999 to 2004					
			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~ Dec. 31, 2003	Jan. 1, 2003~ Mar. 31, 2003
Financial conditions	Debt to Total Assets Ratio		36.99	43.50	47.14	47.51	45.32	40.30
	Long-term funds to net properties		175.95	212.28	178.90	301.44	374.31	394.67
Institutional solvency	Current ratio（%）		120.30	160.57	116.60	213.54	333.38	342.18
	Acid-test ratio（%）		102.41	149.57	106.68	202.18	323.66	332.55
	Time interest earned		4.68	4.32	0.34	2.59	13.45	14.24
Operating performance	Receivables turnover		37.34	30.55	26.15	26.47	35.12	35.17
	Average collection period(days)		9.78	11.95	13.96	13.79	10.39	10.38
	Payables turnover		18.37	13.96	10.94	12.35	14.68	14.43
	Turnover of the fixed assets		2.62	3.10	2.34	3.63	4.76	5.00
	Turnover of the total assets		1.17	1.14	1.00	0.98	1.03	1.02
Profitability	Return on total assets（%）		5.22	3.86	(0.36)	3.65	13.32	2.72
	Return on stockholder’s equity（%）		7.18	4.86	(2.75)	4.69	23.07	4.44
	Ratio of income against paid-in capital（%）	Operating income	8.83	3.42	(4.44)	0.87	22.86	2.27
		Pre-tax income	11.19	9.90	(2.45)	6.24	42.10	9.71
	Profit Margin（%）		3.71	2.37	(1.49)	2.49	10.57	9.73
	Earnings per share (note1)		1.00 0.91	0.67 0.65	(0.37) (0.37)	0.64 0.64	3.70 -	0.81 -
Cash flow	Cash flow ratio（%）		74.23	45.59	31.15	27.08	111.55	0.45
	Cash flow adequacy ratio（%）		59.77	66.60	50.15	60.80	91.30	68.16
	Cash reinvestment ratio（%）		9.86	5.76	4.23	3.10	13.36	0.06
Leverage	Operation Leverage		5.09	11.73	-	37.80	2.40	4.28
	Finance Leverage		1.52	7.83	0.54	(0.29)	1.17	1.48

Note 1：According to the adjusted outstanding shares.

3. Financial Report as of Dec. 31, 2003

3.1 INDEPENDENT AUDITORS' REPORT

March 1, 2004

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, 2003 and 2002 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 of Transyang Shipping Pte. Ltd. and Yang Ming Line (Singapore) Pte. Ltd. as of and for the year ended December 31, 2003 and those of Kuang Ming Shipping Corp., Transyang Shipping Pte. Ltd., and Yang Ming Line (Singapore) Pte. Ltd. as of and for the year ended December 31, 2002, 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 2.2% (NT$1,350,190 thousand) and 3.7% (NT$1,719,597 thousand) of the Corporation's total assets as of December 31, 2003 and 2002, respectively. The equity in these investees' net income was 3.7% (NT$305,233 thousand) and 53.7% (NT$614,370 thousand) of the Corporation's income before income tax for the years ended December 31, 2003 and 2002, respectively. The financial statements of these investees were audited by other auditors whose reports have been furnished to us and our opinion, insofar as they relate to the amounts included for these investees, is based solely on the reports of other auditors.

We conducted our audits in accordance with the Rules Governing Auditing and Certification 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, 2003 and 2002 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.

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, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Par Value)

	2003		2002	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 6,614,016	11	$ 1,758,190	4
Short-term investments—net (Notes 2 and 5)	13,900,013	23	6,130,776	13
Accounts receivable—net of allowance for doubtful accounts of $7,415 (Note 2)	722,115	1	1,290,695	3
Receivables from related parties (Note 20)	7,067,296	12	2,228,974	5
Shipping fuel—net (Note 2)	652,498	-	482,161	1
Prepaid expenses (Note 20)	218,883	-	262,371	-
Advances to shipping agents (Note 20)	558,745	1	1,469,405	3
Pledged time deposits (Note 21)	-	-	18,645	-
Other current assets (Notes 2 and 16)	162,410	-	352,773	1
Total current assets	29,895,976	49	13,993,990	30
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 6)				
Equity method	9,048,884	15	6,486,040	14
Cost method	1,308,222	2	1,268,541	3
Deposit on subscriptions	-	-	6,614	-
Total investments in shares of stocks	10,357,106	17	7,761,195	17
PROPERTIES (Notes 2, 7, 20, 21, 22 and 23)				
Cost				
Land	48,388	-	38,901	-
Buildings	549,722	1	521,410	1
Containers and chassis	11,822,031	20	10,789,226	23
Ships	8,926,011	15	14,764,752	32
Leased containers and chassis	2,041,688	3	2,041,688	5
Leasehold improvements	209,070	-	183,541	-
Miscellaneous equipment	1,609,924	3	1,549,546	3
Total cost	25,206,834	42	29,889,064	64
Accumulated depreciation	(14,552,571)	(24)	(17,350,687)	(37)
	10,654,263	18	12,538,377	27
Construction in progress	2,553,783	4	-	-
Net properties	13,208,046	22	12,538,377	27
OTHER ASSETS				
Assets leased to others—net (Notes 2, 7 and 8)	1,065,235	2	1,106,569	2
Nonoperating assets—net (Notes 2, 7, 9 and 21)	493,565	1	498,247	1
Prepaid expenses on long-term rent agreements	331,909	-	348,930	1
Deferred charges—net (Note 2)	57,263	-	330,817	1
Receivables from related parties (Note 20)	5,381,850	9	9,720,111	21
Miscellaneous	94,407	-	103,708	-
Total other assets	7,424,229	12	12,108,382	26
TOTAL ASSETS	$60,885,357	100	$46,401,944	100

	2003		2002	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term debts (Notes 10 and 21)	$ 15,080	-	$ 102,597	-
Payables to related parties (Note 20)	1,322,462	2	1,793,123	4
Income tax payable (Notes 2 and 16)	850,688	1	9,300	-
Accrued expenses	2,124,035	4	1,644,628	3
Advances from customers (Note 20)	1,108,418	2	744,337	2
Current portion of interest-bearing long-term debts (Notes 2, 7, 11, 13 and 21)	1,712,660	3	609,664	1
Payables to shipping agents	1,438,397	2	1,275,226	3
Other current liabilities (Notes 2 and 16)	395,924	1	374,508	1
Total ł current liabilities	8,967,664	15	6,553,383	14
INTEREST-BEARING LONG-TERM DEBTS—Net of current portion				
Bonds (Notes 2, 11 and 21)	15,060,800	25	11,117,200	24
Bank loans (Notes 11 and 21)	238,103	-	1,181,500	3
Capital lease obligations (Notes 2, 7 and 11)	849,541	1	1,139,430	2
Total interest-bearing long-term debts	16,148,444	26	13,438,130	29
RESERVE FOR LAND VALUE INCREMENT TAX (Note 12)	479,639	1	479,639	1
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 19)	604,450	1	536,082	1
Cumulative losses in excess of cost of investment in China Ming Investment Corp. (Notes 2 and 6)	-	-	244,213	1
Deferred income tax liabilities—noncurrent (Notes 2 and 16)	1,191,179	2	540,387	1
Others (Notes 2, 13 and 20)	204,037	-	253,126	1
Total other liabilities	1,999,666	3	1,573,808	4
Total liabilities	27,595,413	45	22,044,960	48
STOCKHOLDERS' EQUITY				
Capital stock—$10 par value				
Authorized—2,400,000 thousand shares				
Issued—1,946,707 thousand shares in 2003 and 1,834,316 thousand shares in 2003 and 2002	19,467,065	32	18,343,160	39
Certificates of conversion of bonds to stock—10,224 thousand shares	102,234	-	-	-
Total capital stock	19,569,299	32	18,343,160	39
Capital surplus:				
Issue of stock in excess of par value	4,075,397	7	2,390,186	5
Treasury stock transactions	234,855	-	4,242	-
Equity on capital surplus reported by equity—accounted investees	5,816	-	5,816	-
Total capital surplus	4,316,068	7	2,400,244	5
Retained earnings:				
Legal reserve	528,295	1	414,623	1
Special reserve	1,141,939	2	1,141,939	3
Unappropriated earnings	7,836,692	13	2,424,970	5
Total retained earnings	9,506,926	16	3,981,532	9
Other items of stockholders' equity				
Unrealized loss on investments in shares of stock	(1)	-	(21,293)	-
Cumulative translation adjustments	338,729	1	186,469	-
Net loss not recognized as pension costs	(18,457)	-	(7,687)	-
Total other items of stockholders' equity	320,271	1	157,489	-
Treasury stocks—54,384 and 67,619 thousand shares in 2003 and 2002	(422,620)	(1)	(525,441)	(1)
Total stockholders' equity	33,289,944	55	24,356,984	52
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$60,885,357	100	$46,401,944	100

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

(With Deloitte & Touche auditors' report dated March 1, 2004)

3.3 YANG MING MARINE TRANSPORT CORPORATION

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	2003		2002	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 20)	$ 62,913,555	100	$ 45,511,610	100
OPERATING COSTS (Notes 2, 17 and 20)	56,655,873	90	44,363,971	98
GROSS INCOME	6,257,682	10	1,147,639	2
OPERATING EXPENSES (Note 17)				
Selling	1,477,141	2	793,503	2
General and administrative	306,037	1	194,321	-
Total operating expenses	1,783,178	3	987,824	2
OPERATING INCOME	4,474,504	7	159,815	-
NONOPERATING INCOME AND GAINS				
Equity in investees' net income—net (Notes 2 and 6)	3,569,111	6	945,291	2
Interest (Note 20)	391,173	1	535,460	1
Gain on market price recovery of short-term investments (Note 2)	207,052	-	-	-
Foreign exchange gain—net	175,370	-	215,784	-
Gain on sale of investments	160,994	-	260,861	1
Gain on sale of properties and nonoperating assets	2,407	-	89,403	-
Others	213,861	1	287,778	1
Total nonoperating income and gains	4,719,968	8	2,334,577	5
NONOPERATING EXPENSES AND LOSSES				
Interest (Note 7)	661,964	1	719,968	1
Loss on disposal of properties	129,487	1	307	-
Provision for losses on investments (Note 2)	61,612	-	363,610	1
Others	102,883	-	266,117	1
Total nonoperating expenses and losses	955,946	2	1,350,002	3
INCOME BEFORE INCOME TAX	8,238,526	13	1,144,390	2
INCOME TAX EXPENSE (Notes 2 and 16)	1,589,429	2	8,939	-
NET INCOME	$ 6,649,097	11	$ 1,135,451	2

(Continued)

	2003		2002	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
PRIMARY EARNINGS PER SHARE (Note 18)	$ 4.59	$ 3.70	$ 0.65	$ 0.64
DILUTED EARNINGS PER SHARE (Note 18)	$ 4.02	$ 3.24	$ 0.65	$ 0.64

Pro forma information, assuming that the Corporation's stocks held by subsidiaries had been accounted for as investments rather than as treasury stocks (Notes 2, 3, 15 and 18), is as follows:

	2003		2002	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
NET INCOME	$8,936,375	$7,346,946	$1,310,736	$1,301,797
PRIMARY EARNINGS PER SHARE	$ 4.81	$ 3.96	$ 0.71	$ 0.71
DILUTED EARNINGS PER SHARE	$ 4.23	$ 3.48	$ 0.71	$ 0.70

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

(With Deloitte & Touche auditors' report dated March 1, 2004) (Concluded)

3.4 YANG MING MARINE TRANSPORT CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock ($10 Par Value)				Capital Surplus (Notes 2 and 14)					Retained Earnings (Notes 2 and 14)				Other Items of Stockholder's Equity (Note 2)					
	Shares (thousands)	Amount	Certificates of conversion of bonds to stocks	Total	Issue of stock in excess of par value	Treasury stock transactions	Gain on sale of properties	Equity on capital surplus reported by equity-accounted investees	Total	Legal reserve	Special reserve	Unappropriated earnings (accumulated deficit)	Total	Unrealized loss on investments in shares of stock	Cumulative translation adjustments	Net loss not recognized as pension costs	Total	Treasury Stocks (Notes 2, 3 and 15)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2002	1,834,316	$18,343,160	$ -	$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	$ -	$467,788	$ -	$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)	-	(284,728)
Reversal of recognized equity in the capital surplus reported by equity-method investee as a result of the investee's disposal of an investment	-	-	-	-	-	-	-	(9)	(9)	-	-	9	9	3,027	237	-	3,264	-	3,264
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,687)	(7,687)	-	(7,687)
Recognition of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	(21,292)	-	-	(21,292)	-	(21,292)
Equity in changes in capital surplus reported by equity-method investees	-	-	-	-	-	-	-	(1,262)	(1,262)	-	-	1,262	1,262	144	-	-	144	-	144
BALANCE, DECEMBER 31, 2002	1,834,316	18,343,160	-	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)	157,489	(525,441)	24,356,984
Appropriation of 2002 earnings																			
Legal reserve	-	-	-	-	-	-	-	-	-	113,672	-	(113,672)	-	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	-	-	-	(23,113)	(23,113)	-	-	-	-	-	(23,113)
Cash dividends—$0.6 per share	-	-	-	-	-	-	-	-	-	-	-	(1,100,590)	(1,100,590)	-	-	-	-	-	(1,100,590)
Cash dividends acquired by subsidiaries	-	-	-	-	-	32,643	-	-	32,643	-	-	-	-	-	-	-	-	-	32,643
Disposal of the Corporation's stocks held by subsidiaries	-	-	-	-	-	197,970	-	-	197,970	-	-	-	-	-	-	-	-	102,821	300,791
Net income in 2003	-	-	-	-	-	-	-	-	-	-	-	6,649,097	6,649,097	-	-	-	-	-	6,649,097
Reversal of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	21,292	-	-	21,292	-	21,292
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	152,260	-	152,260	-	152,260
Domestic convertible bonds converted into certificates of conversion of bonds to stock and capital stocks	112,391	1,123,905	102,234	1,226,139	1,685,211	-	-	-	1,685,211	-	-	-	-	-	-	-	-	-	2,911,350
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,770)	(10,770)	-	(10,770)
BALANCE, DECEMBER 31, 2003	1,946,707	$19,467,065	$102,234	$19,569,299	$ 4,075,397	$234,855	$ -	$5,816	$ 4,316,068	$528,295	$ 1,141,939	$ 7,836,692	$ 9,506,926	($ 1)	$338,729	($ 18,457)	$320,271	($422,620)	$33,289,944

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

(With Deloitte & Touche auditors' report dated March 1, 2004)

3.5 YANG MING MARINE TRANSPORT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,649,097	$ 1,135,451
Adjustments to reconcile net income with net cash provided by operating activities:		
Depreciation	2,015,229	2,268,539
Amortization	223,375	191,473
Gain on sale of investments	(160,994)	(260,861)
Net loss (gain) on sale of properties and nonoperating assets	127,080	(89,096)
Provision for pension cost	57,597	76,760
Provision for losses on investments	61,612	363,610
Equity in investees' net income—net	(3,569,111)	(945,291)
Gain on market price recovery of short-term investments	(207,052)	-
Provision for losses on properties	-	170,000
Cash dividends received from equity-method investments	856,079	41,141
Deferred income taxes	736,416	5,269
Others	(37,846)	(55,409)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	568,580	(302,686)
Receivables from related parties	284,692	(552,290)
Shipping fuel	(179,821)	(85,146)
Prepaid expenses	43,488	237,719
Advances to shipping agents	910,660	(499,828)
Pledged time deposits	18,645	416,264
Other current assets	151,663	77,196
Prepaid expenses on long-term rent agreements	17,021	(137,315)
Increase (decrease) in:		
Payables to related parties	(496,205)	50,608
Income tax payable	841,388	-
Accrued expenses	495,851	771,157
Advances from customers	364,081	35,111
Payables to shipping agents	163,171	(1,295,966)
Other current liabilities	69,076	20,927
Net cash provided by operating activities	10,003,772	1,637,337
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(7,437,640)	(4,407,989)
Acquisition of investments in shares of stock	(73,391)	(151,959)
Proceeds from disposal of investments in shares of stock	36,450	389,077
Acquisition of properties	(4,168,523)	(557,952)
Proceeds from sale of properties and nonoperating assets	962,028	332,344
Increase in deferred charges	(4,307)	(170,718)
Decrease (increase) in other assets	38,609	(60,566)
Net cash used in investing activities	(10,646,774)	(4,627,763)

(Continued)

	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of principal on short-term debts	($ 87,517)	($ 99,686)
Proceeds from interest-bearing long-term debts	8,611,403	3,198,749
Repayment of principal of interest-bearing long-term debts	(1,619,250)	(2,300,000)
Payment of capital lease obligations	(281,343)	(299,141)
Decrease in other liabilities	(1,760)	(2,554)
Payment of dividend and employees' bonus	(1,122,705)	-
Net cash provided by financing activities	5,498,828	497,368
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,855,826	(2,493,058)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,758,190	4,251,248
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,614,016	$ 1,758,190
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 666,033	$ 727,923
Income tax paid	$ 7,952	$ 4,199
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 as properties	$ 5,164	$ 187,934
Reclassification of assets leased to others as properties	$ 38,979	$ -
Current portion of interest-bearing long-term debts	$ 1,712,660	$ 609,664
Domestic unsecured convertible bonds converted into capital stock, certificates of bonds convertible to stocks and capital surplus	$ 2,911,350	$ -
Cash paid for acquisition of properties:		
Costs of properties acquired	$ 4,142,658	$ 709,658
Decrease (increase) in payable for equipment	51,408	(16,256)
Increase in payables to related parties	(25,543)	-
Increase in obligations under capital leases	-	(135,450)
	$ 4,168,523	$ 557,952
Proceeds from sale of properties and nonoperating assets		
Total contracted selling prices	$ 1,428,589	$ 5,363,560
Increase in other receivables	(4,395,514)	(487,422)
Increase in long-term receivables	3,928,953	(4,543,794)
	$ 962,028	$ 332,344

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche auditors' report dated March 1, 2004) (Concluded)

3.6 NOTES TO FINANCIAL STATEMENTS
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. ORGANIZATION AND OPERATIONS

Yang Ming Marine Transport Corporation (the "Corporation") primarily provides marine cargo transportation services. It also provides services related to the maintenance of old vessels, lease and sale of old vessels, containers and chassis of vessels. Furthermore, it also acts as 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 simultaneous to the listing of its shares of stock on the ROC Taiwan Stock Exchange. MOTC owned 40.16% of the outstanding capital stock of the Corporation as of December 31, 2003.

The Corporation's shares have been listed on the ROC Taiwan Stock Exchange since April 1992.

As of December 31, 2003 and 2002, the Corporation had 1,282 and 1,320 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The Corporation's financial statements conform to the Guidelines for Securities Issuers' Financial Reporting for Public Company and accounting principles generally accepted in the ROC.

The Corporation estimates the allowance for doubtful accounts, provisions for losses on shipping fuel and on investments in shares of stock, depreciation of properties, income tax, pension cost, unsettled litigation cost, and payables to shipping agents. Because of the uncertainty of circumstances, estimates may differ from the actual outcome.

The Corporation's significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Assets to be converted into cash or used within one year are classified as current. Obligations to be settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

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

Short-term Investments

These are mainly stocks listed on the ROC Taiwan Stock Exchange or stocks traded over the over-the-counter securities exchange, bonds, certificates of conversion of bonds to stocks and mutual funds. The investments are carried at the lower of aggregate cost or market value. If the aggregate carrying value of the investments exceeds their total market value, an allowance for losses is recognized and charged to current year's income. Any annual recovery of the market value to the extent of the original carrying value is recognized as income. Any stock dividends received are recorded as an increase in the number of shares held but are not recognized as investment income. Any cash dividends received are recognized as investment income of the current year. Costs of investment sold are determined using the first-in, first-out method.
Market values are based on the average closing prices of the listed stocks, bonds and certificates of conversion of bonds to stocks in the last month of the reporting period or the net asset values of the

funds on the last trading day in the last month of the reporting period.

Allowance for Doubtful

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of individual receivables.

Shipping Fuel

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

Investments in Shares of Stock and Deferred Income

Investments in shares of stock of companies in which the Corporation owns at least 20% of their outstanding common stock and exercises significant influence over their operating and financial decisions are accounted for by the equity method. Under this method, the investment is carried at cost on the acquisition date, and this cost is subsequently adjusted for the Corporation's equity in net income or net loss. The difference between the cost of the investment and the Corporation's equity in the investee's net assets on the acquisition date is amortized over five years. If an investee issues additional shares and the Corporation subscribes for these shares at a percentage different from its current equity in the investee, the resulting increase in the Corporation's equity in its investee's net assets is credited to capital surplus. Any decrease in the Corporation's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings. Any cash dividends received are recognized as a reduction of the carrying value of the investments. Any cumulative equity of the Corporation in the net loss of the investees in excess of the related investment costs is presented as other liabilities. The Corporation's equity in the net income or net loss of an investee whose financial statements for the current year are not timely available is recognized in the subsequent year using the equity interest of the Corporation as of the latest balance sheet date presented. The equity in the net income or net loss of investees that also have investments in the Corporation (reciprocal holdings) is computed using the treasury stock method.

Gain on sale of stocks to equity-method investees based on the Corporation's equity is realized as income through a subsequent sale to third parties.

Other investments in shares of stock are carried at cost. An allowance is recognized for any temporary decline in the aggregate market value below carrying value of listed stocks and stocks traded over the counter and is debited to stockholders' equity. But if the decline in market value is not temporary and there is no strong evidence that the market value will go up, the allowance is recognized as losses. Also, the carrying amounts of the investments in emerging stocks and unlisted stock are reduced to recognize other-than-temporary decline in the value, and this decline is charged to current losses. Cash dividends received in the year the investment is made are accounted for as reduction in the carrying value of investment, while cash dividends received in subsequent years are recognized as investment 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 at the date of the reclassification. Any carrying amounts in excess of market value are accounted for as realized loss.

For both equity-method and cost-method investments, stock dividends received are recorded only as an increase in the number of shares held but are not recognized as investment income. 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. During construction, the interest on the payment for the construction is capitalized as cost of assets. Major renewals and betterments are capitalized, while maintenance and repairs are expensed currently.

Containers and chassis under capital lease and the corresponding obligation are recorded at the lower of the (a) fair market value of leased equipment, or (b) present value of the sum of the future minimum lease payables and the bargain purchase option price. The imputed interest on lease payment is recognized as current interest expense.

Depreciation is computed using the straight-line method over the service lives of properties as follows (plus one year to represent the estimated salvage value): buildings, 52 to 55 years; containers and chassis, 6 to 8 years; ships, 13 to 20 years; leased containers and chassis, 5 to 9 years; leasehold improvements, 5 years; and miscellaneous equipment, 3 to 10 years. Properties being used by the Corporation beyond their initially estimated service lives are depreciated over the estimated remaining 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 sale of properties generated before January 1, 2001 is reclassified as capital surplus at year-end.

Nonoperating Assets

Nonoperating assets are stated at the lower of net carrying value or net realizable value.

Deferred Charges

Deferred charges refer to 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.

Convertible Bonds

The convertible bonds are issued at face value and the interest expense is recognized on the basis of their face value and interest rate. The effective interest rate is calculated using the repayment price, and the interest compensation expense should be recognized over the term of the convertible bonds. Direct and necessary costs of issuing convertible bonds are recorded as deferred charges and amortized over the term of the convertible bonds in straight-line method.

To convert bonds to common shares, the Corporation uses the book value approach, which involves writing off the unamortized issued costs, recognized interest-premium, unpaid accrued interests and par value of the convertible bonds. The common stock exchange certificate (capital stock) should be valued at the net written-off carrying amount, and the difference of this amount from the par value of the common stock exchange certificate (capital stock) should be recognized as additional paid-in capital.

Pension

The Corporation has a defined benefit pension for all regular employees. Benefits are based on the number of service years and average basic pay of the last six months before retirement.

Pension cost is based on actuarial calculations. Unrecognized net transition assets, prior service cost and pension plan 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 lives, whichever is shorter.

Treasury Stocks

Effective January 1, 2002, the Corporation adopted Statement of Financial Accounting Standard (SFAS) No. 30, "Accounting for Treasury Stocks." SFAS No. 30 requires that the shares of the Corporation held by subsidiaries be reclassified from investments in those subsidiaries to treasury stocks. The reclassification was based on carrying value as of January 1, 2002 of the subsidiaries' investments in the Corporation as shown in their books.

Revenues Recognition

Revenue is recognized when the earnings process is completed and the revenue is 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.

Revenue is measured by the transaction price (after consideration of discount) agreed upon by the Corporation and its clients. The pro forma interest rate method cannot be used to measure fair value of revenue because the collectibility of accounts receivable on operating revenue is not longer than one year, transaction volumes are huge, and the present value and fair value of receivables approximate each other.

Income Tax

Deferred income taxes are recognized for the tax effects of temporary differences, unused tax credits, and operating loss carryforwards. Valuation allowance is recognized on deferred income tax assets that are not expected to be realized. Deferred tax liabilities and assets are classified as current or noncurrent on the basis of the classification of the related assets or liabilities for financial reporting. A deferred tax liability or asset that cannot be related to an asset or liability or financial reporting is classified as current or noncurrent according to the expected 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. On balance sheet date, the balances of foreign-currency assets and liabilities are restated at prevailing exchange rates, and the resulting differences are recorded as follows:

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

b. Cost-method investments in shares of stock—same 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.

Derivative Transactions

The Corporation accounts for derivative transactions as follows:

a. 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 as current income. The carrying amounts (either assets or liabilities) of the options are credited or charged to income once the options are exercised.

b. Cross-currency swap contracts

   The contract (notional) amounts of cross-currency swap agreements are not recognized in the financial statements because the agreements do not require the settlement of such amounts. However, a memorandum entry is made to note the transaction. The forward components 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 as current income. The carrying amounts (either assets or liabilities) of the contracts are credited or charged to income once the swap contracts are settled.

c. Forward exchange contracts

   The foreign currency amounts of forward exchange contracts (the "contracts") used for hedging purposes are recorded in New Taiwan dollars at spot rates (forward rates if the contracts are used for trading purposes) on the starting dates of the contracts. The premium or discount, computed using the foreign currency amount of the contract multiplied by the difference between the contracted forward rate and the spot rates on the starting date of the contract, 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 foreign currency amounts of the contracts by the difference between the spot rates on the contract starting dates and the balance sheet dates (or the spot rates last used to measure a gain or loss on that contract for an earlier period), are charged to income. The balances of the receivables and payables under the forward contracts are netted out, and the resulting net amount is classified as either an asset or a liability.

   On the balance sheet date, if exchange loss is incurred on an open contract that is used for hedging and this contract clearly refers to a specific commitment, the recording of the loss may be deferred. In addition, when these contracts are settled, the costs of related commitments may be adjusted, but the adjusted costs of these commitments should not exceed the market value of the commitments on the settlement date.

Reclassifications

Certain accounts for 2002 have been reclassified to conform to the 2003 financial statement presentation.

3. CHANGE IN ACCOUNTING PRINCIPLE

The Corporation adopted Statement of Financial Accounting Standard (SFAS) No. 30, "Accounting for Treasury Stocks," on January 1, 2002. SFAS No. 30 requires that a portion ($535,973) of the carrying value of the shares of the Corporation held by subsidiaries (shown as part of short-term investments in separate balance sheets of the subsidiaries) be reclassified in the Corporation's balance sheet from investment in those subsidiaries to treasury stocks. The adoption of SFAS No. 30 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 a decrease of $166,346 in the 2002 net income.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2003	2002
Cash		
Petty cash and cash on hand	$ 2,927	$ 3,815
Checking deposits	472,071	103,906
Demand deposits	2,450,488	437,498
Time deposits: Interest—1.00% to 4.25% in 2003 and 1.20% to 4.40% in 2002	2,251,176	1,212,971
	5,176,662	1,758,190
Cash equivalents		
Bonds purchased under agreements to resell—1.80%-2.15% yield	1,437,354	-
	$ 6,614,016	$ 1,758,190

5. SHORT-TERM INVESTMENTS

	December 31	
	2003	2002
Mutual funds	$13,035,144	$ 5,439,649
Marketable equity securities	1,742,641	1,775,837
Certificates of conversion of bonds to stock	16,000	-
Convertible bonds: Interest—0% to 5%	-	16,115
	14,793,785	7,231,601
Less: Allowance for decline in value	893,772	1,100,825
	$13,900,013	$ 6,130,776

6. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2003		2002	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Equity method (unlisted stocks)				
Yang Ming Line (B.V.I.) Holding Co., Ltd.	$ 3,206,423	100.00	$ 2,789,686	100.00
All Oceans Transportation, Inc.	2,340,821	100.00	228,780	100.00
Yang Ming Line (Singapore) Pte. Ltd.	1,268,228	100.00	1,359,232	100.00
Chunghwa Investment Co., Ltd.	806,139	40.00	801,541	40.00
YES Logistics Corp.	432,641	90.50	427,186	90.50
Honming Terminal & Stevedoring Co., Ltd.	358,854	79.00	352,051	79.00

(Continued)

Yang Ming Line Holding Co.	$ 182,745	100.00	$ 106,181	100.00
Kuang Ming Shipping Corp.	169,208	100.00	283,897	100.00
Ching Ming Investment Co., Ltd.	131,983	99.96	-	99.96
Transyang Shipping Pte. Ltd.	81,962	24.99	76,468	24.99
Jing Ming Transportation Co., Ltd.	69,880	50.80	61,018	50.80
	9,048,884		6,486,040	
Cost method				
Listed common stock				
Waterland Financial Holdings Co., Ltd.	70,000	0.43	70,000	0.43
Hotung Investment Holdings Ltd.	40,268	0.70	40,268	0.70
	110,268		110,268	
Less—allowance for decline in value	-		(21,293)	
	110,268		88,975	
Emerging common stock				
Taiwan Nano Electro-optical Technology Co., Ltd.	24,478	3.89	37,590	4.53
Common stock with no quoted market prices				
United Venture Capital Corp.	80,000	9.04	80,000	9.04
Taipei Port Container Terminal Co., Ltd.	80,000	10.00	-	-
SF Technology Venture Capital Investment Corp.	40,000	7.24	40,000	7.24
China Technology Venture Capital Corp.	30,000	8.96	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.	-	2.14	3,500	2.14
Ritekom Photonics Corp.	-	2.00	45,000	2.00
	294,080		262,580	
Preferred stock with no quoted market prices				
New Century Infocomm Co., Ltd.	864,000	1.68	864,000	1.68
Penguin Computing Inc.	7,698	0.93	7,698	0.93
Arescom Inc.	7,698	0.24	7,698	0.24
	879,396		879,396	
	1,308,222		1,268,541	
Deposit on subscriptions				
Taipei Port Container Terminal Co., Ltd.	-		6,614	
	$10,357,106		$ 7,761,195	

The calculation of the Corporation’s equity in the net income or net loss of Transyang Shipping Pte Ltd. was based on the investee’s financial statements of the immediately preceding year since the financial statements covering the same year as that of the Corporation were not timely available.

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

The Corporation continued to recognize the losses of Ching Ming Investment Co., Ltd. although the cumulative losses already exceeded investment cost by $244,213 as of December 31, 2002 because the Corporation intended to continue giving financial support to this investee. The excess was 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-method investments is as follows:

	December 31	
	2003	2002
Listed stocks (based on market value)	$ 125,263	$ 88,975
Equity in net assets pertaining to emerging stocks and unlisted stocks (mainly based on unaudited financial statements)	1,002,183	1,004,742
	$1,127,446	$1,093,717

7. PROPERTIES

	December 31	
	2003	2002
Accumulated depreciation		
Buildings	$ 53,926	$ 45,965
Containers and chassis	6,645,498	5,586,642
Ships	6,031,693	10,367,940
Leased containers and chassis	1,044,399	787,200
Leasehold improvements	86,713	51,436
Miscellaneous equipment	690,342	511,504
	$14,552,571	$17,350,687

The Corporation leases containers and chassis under capital lease agreements. The terms of the leases were from five years to nine years for containers and from five years to eight years for chassis. The annual rent payable on leased containers under the agreements is US$5,471 thousand. The Corporation has the option to buy at the end of the lease terms, all leased containers at a bargain purchase price 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. Information of these leases as of December 31, 2003 and 2002 is as follows:

	December 31			
	2003		2002	
	U.S. Dollars (Thousands)	New Taiwan Dollars (Thousands)	U.S. Dollars (Thousands)	New Taiwan Dollars (Thousands)
Total capital lease obligations (undiscounted)	$ 37,831	$1,285,134	$ 47,111	$1,637,102
Less: Unamortized interest expense	(5,877)	(199,633)	(7,777)	(270,258)
	$ 31,954	$1,085,501	$ 39,334	$1,366,844

Depreciation expenses for the years ended December 31, 2003 and 2002 aggregated $2,009,124 and $2,261,263, respectively.

The insurance for properties, assets leased to others and nonoperating assets as of December 31, 2003 amounted to $13,804,099.

8. ASSETS LEASED TO OTHERS—NET

	December 31	
	2003	2002
Cost		
Land	$ 798,896	$ 803,218
Buildings	309,985	344,642
	1,108,881	1,147,860
Accumulated depreciation	(43,646)	(41,291)
	$1,065,235	$1,106,569

Depreciation expenses for the years ended December 31, 2003 and 2002 were $6,075 and $7,300, respectively.

9. NONOPERATING ASSETS—NET

	December 31	
	2003	2002
Cost		
Land	$ 492,662	$ 497,827
Buildings	12,389	6,044
	505,051	503,871
Accumulated depreciation	11,486	5,624
	$ 493,565	$ 498,247

10. SHORT-TERM DEBTS

	December 31	
	2003	2002
Bank overdraft: Interest—3.524% in 2003 and 6.94% in 2002	$ 15,080	$ 2,597
Bank debts: Due in January 2003, 1.6% to 1.8% interest	-	100,000
	$ 15,080	$ 102,597

As of December 31, 2003, the Corporation had unused credit lines aggregating $4,074,498, which were available for short-term financing.

11. INTEREST-BEARING LONG-TERM DEBTS

	Current Portion	Long-term	Total
December 31, 2003			
Unsecured bank loans	$ 317,800	$ 238,103	$ 555,903
Domestic unsecured bonds	-	6,500,000	6,500,000
Domestic secured bonds	700,000	3,000,000	3,700,000
Domestic unsecured convertible bonds	458,900	5,560,800	6,019,700
Capital leases (Note 7)	235,960	849,541	1,085,501
	$ 1,712,660	$16,148,444	$17,861,104
December 31, 2002			
Unsecured bank loans	$ 382,250	$ 1,181,500	$ 1,563,750
Domestic unsecured bonds	-	6,500,000	6,500,000
Domestic secured bonds	-	3,700,000	3,700,000
Domestic unsecured convertible bonds	-	917,200	917,200
Capital leases (Note 7)	227,414	1,139,430	1,366,844
	$ 609,664	$13,438,130	$14,047,794

Unsecured Bank Loans

Unsecured bank loans in Japanese Yen (the "Yen Loan") are repayable in eight quarterly installments from October 2003 to July 2005. Interest on the YEN Loan is 0.4112% annually, compounded monthly. Unsecured bank loans in U.S. dollars (the "US Loan") are repayable in eight semiannual installments from February 2003 to April 2007. The annual rate of the interest on the US Loan is between 2.2643% and 2.4259%. As of December 31, 2003, the Corporation made full advance repayments of the US Loan. Other information on the Corporation's unsecured bank loans in as follows:

	December 31	
	2003	2002
Unsecured bank loan of YEN $2,000,000 thousand	$ 555,903	$ -
Unsecured bank loan of US$45,000 thousand	-	1,563,750
	$ 555,903	$1,563,750

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; repayments 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; repayments as follows: 33%—June 1, 2008, 33%—June 1, 2009, and 34%, and June 1, 2010; 6.09% annual interest;

November 2000 Bonds Repayments as follows: 20%—November 20, 2010; 40%—November 20, 2011; and 40%—November 20, 2012; 6.02% annual interest;

July 2001 Bonds Repayments as follows: 20%—July 2006; 40%—July 2007, and 40%—July 2008; 4.49% annual interest.

Domestic Secured Bonds

On November 25, 1999, the Corporation issued domestic secured bonds with aggregate face value of $700,000 and maturity on November 25, 2004 at 5.75% annual interest.

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

Domestic Unsecured Convertible Bonds

On August 2, 1997, the Corporation issued seven-year domestic secured bonds (the "1997 convertible bonds") with an aggregate face value of $2,500,000. Annual interest on the bonds is 4.5%, payable every June 27 from 1998 to 2004. Bond settlement is as follows:

a. Lump-sum payment to the holders upon maturity (in 2004) at face value plus accrued interest;

b. Conversion by the holders, starting September 2, 1997, into common shares of the Corporation at the prevailing conversion price (NT$15.66 per share as of December 31, 2003); and

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

As of December 31, 2003, the 1997 Convertible Bonds with an aggregate face value of $2,041,100 had been converted into 92,318 thousand common shares and 10,224 thousand certificates of conversion of bonds to stocks of the Corporation.

On August 7, 2003, the Corporation issued five-year domestic secured bonds (the "2003 Convertible Bonds") with an aggregate face value of $8,000,000 and 0% interest. The bonds are classified as "Type A" (with face value of $3,000,000) and "Type B" (with face value of $5,000,000). Bond settlement is as follows:

a. Lump-sum payment to the holders upon maturity (in 2008) at 101.256% of the face value;

b. Conversion by the holders, from November 2003 to 10 days before due date, into common shares of the Corporation at the prevailing conversion price (NT$26.13 per share as of December 31, 2003);

c. Reselling to the Corporation by the holders before maturity. The reselling of Type A bonds starts from August 7, 2005 at face value while that of Type B bonds starts from August 7, 2006 at 100.451% of the face value; and

d. Redemption by the Corporation, under certain conditions, at face value before bond maturity.

As of December 31, 2003, the 2003 Convertible Bonds with aggregate face value of $2,439,200 had been converted into 93,348 thousand common shares of the Corporation.

As of December 31, 2003, the Corporation had no unused credit lines available for long-term bank loans.

12. RESERVE FOR LAND VALUE INCREMENT TAX

The reserve for land value increment tax resulted from the Corporation's merger with China Merchants Steam Navigation Company.

13. UNREALIZED GAIN ON SALE AND LEASEBACK

	December 31	
	2003	2002
Chassis	$ 38,996	$ 46,776
Vessel Ming North	9,769	10,918
Vessel Med Keelung	112	627
Containers	-	9,316
	$ 48,877	$ 67,637

The above properties had been sold and then leased back by the Corporation. The resulting gains on the sale were deferred (included in "other liabilities" in the balance sheets) and amortized over the term of the lease or estimated service lives, whichever is shorter.

14. STOCKHOLDERS' EQUITY

On November 14, 1996, the Corporation issued 10 million units of global depositary receipts (GDRs), representing 100 million shares, at an issue price of US$11.64 per unit. The holders of the GDRs may not exchange them for the stocks of the Corporation. However, starting February 14, 1997, the holders of the GDR may request the depository bank to sell the stocks represented by the GDRs. As of December 31 2003, there were 7,497,641 units outstanding, representing 74,976,458 shares.

Under the Company Law and related regulations, capital surplus from equity-method investments should not be used for any purpose. All other components of capital surplus may only be used to offset a deficit. In addition, only the capital surplus from the issue of stock in excess of par value and treasury stock transactions may be transferred to capital. For this capitalization, new shares should be issued to stockholders in proportion to their holdings, and capitalized amounts should be within certain limits.

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

a. 10% as legal reserve;

b. 10% as special reserve, as needed;

c. Dividends, and at least 1% as bonus to employees and up to 2% as 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 provides that the Corporation declare at least 50% of the distributable earnings as dividends. Further, at least 20% of the amount declared as dividends should be in the form of cash to enable the Corporation to finance its capital expenditure and working capital requirements.

Under the Securities and Exchange Law, the Corporation should appropriate a special reserve equal to the debit balance of any stockholders' equity item (other than deficit). The balance of the reserve is adjusted according to the debit balance of such items as of 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 Corporation's paid-in capital. This reserve may only be used to offset a deficit. When the reserve reaches 50% of the Corporation's paid-in capital, 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 on income tax paid by the Corporation on earnings generated also starting 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 balance shown in the ICA on the date of distribution of dividends.

On June 21, 2002, the stockholders resolved not to appropriate 2001 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 as retained earnings after appropriating a legal reserve of $143,139.

On June 20, 2003, the stockholders resolved to appropriate the 2002 earnings as following:

	Appropriation of 2002 Earnings	**Dividends Per Share (Dollars)**
Legal reserve	$ 113,672	$ -
Bonus to employees	23,113	-
Dividends	1,100,590	0.60

Had the Corporation recognized bonus to employees as expenses in 2002, the primary and diluted earnings per share for 2002 would have declined from NT$0.65 to NT$0.63.

As of March 1, 2004, the Corporation's board of directors had not decided the appropriation of the 2003 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.

15. TREASURY STOCKS

Reason for Repurchase	Outstanding Shares (Thousands)			
	Beginning of the Year	Increase	Decrease	End of the Year
For the year ended December 31, 2003				
Stocks of the Corporation held by subsidiaries	67,619	-	13,235	54,384
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 shares of the Corporation held by subsidiaries from investments into treasury stocks. The proceeds from the subsidiaries' disposal of these shares were $300,791 in 2003 and $16,229 in 2002. As of December 31, 2003 and 2002, the carrying values of the Corporation's shares held by subsidiaries were $422,620 and $525,441, respectively, and the market values were $1,786,141 and $687,545, respectively.

Although the Corporation's shares held by subsidiaries are treated as treasury stocks instead of investments, the subsidiaries retain stockholders' rights on those shares.

16. INCOME TAX

a. Computation of current income tax payable:

	Year Ended December 31 2003	2002
Tax on pretax income at 25% statutory rate	$2,059,632	$ 286,098
Add (deduct) tax effects of:		
Permanent differences	(363,122)	(120,937)
Deferred income tax	(630,954)	(73,835)
Loss carryforward and investment tax credit	(209,064)	(91,326)
Current tax payable	$ 856,492	$ -

b. Income tax expense consisted of:

	2003	2002
Income tax expense—current	$ 856,492	$ -
Income tax expense—deferred	736,416	5,269
Income tax (10%) on undistributed earnings	-	9,300
Adjustments of prior years' taxes	(3,479)	(5,630)
	$1,589,429	$ 8,939

c. Deferred income tax assets (liabilities) as of December 31, 2003 and 2002 were as follows:

	December 31	
	2003	2002
Current (included in other current assets (liabilities))		
Unrealized foreign exchange gain	($ 11,905)	($ 22,665)
Loss carryforwards	-	189,292
Investment tax credits	-	10,169
Others	9,155	6,819
Valuation allowance on deferred income tax assets	-	(100,741)
	($ 2,750)	$ 82,874
Noncurrent (included in other liabilities):		
Cumulative equity in investees' net income	($1,007,002)	($ 412,575)
Differences between financial and tax estimates of service lives of containers	(273,750)	(253,943)
Deferred pension cost	89,573	75,644
Provision for loss on properties	-	42,500
Investment tax credits	-	7,987
	($1,191,179)	($ 540,387)

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

d. Integrated income tax system information:

	December 31	
	2003	2002
Balance of the imputation credit account (ICA)	$ 7,682	$ 27,982

The creditable tax ratio for the 2002 earnings was 2.80%. The estimated creditable tax ratio for the 2003 earnings was 12.50%.

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, 2003 and 2002, the balances of the special reserve and unappropriated retained earnings generated before June 30, 1998 aggregated $2,064,438.

f. As of December 31, 2003, the investment tax credits were as follows:

Regulation	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of equipment	$ 21,462	$ -	2003
	Investments in shares of stock	1,137	-	2003
	Investments in shares of stock	2,590	-	2004
	Personnel training	1,041	-	2003
	Personnel training	2,028	-	2005
		$ 28,258	$ -	

g. Income tax returns through 2000 had been examined and cleared by the tax authorities.

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2003		
	Operating Costs	Operating Expenses	Total
Personnel expenses			
Salary	$ 565,774	$1,094,459	$1,660,233
Insurance	20,550	46,279	66,829
Pension	40,487	79,268	119,755
Others	50,761	79,233	129,994
Depreciation	1,905,555	110,370	2,015,925
Amortization	195,371	21,603	216,974
	$2,778,498	$1,431,212	$4,209,710

18. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

	Amount (Numerator)			Net Income 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, 2003					
Primary EPS	$8,238,526	$6,649,097	1,796,716	$ 4.59	$ 3.70
Impact of dilutive potential common shares					
Domestic unsecured convertible bonds	41,001	30,751	264,707		
Diluted EPS	$8,279,527	$6,679,848	2,061,423	$ 4.02	$ 3.24
For the year ended December 31, 2002					
Primary EPS	$1,144,390	$1,135,451	1,765,928	$ 0.65	$ 0.64
Impact of dilutive potential common shares					
Domestic unsecured convertible bonds	41,274	30,956	58,570		
Diluted EPS	$1,185,664	$1,166,407	1,824,498	$ 0.65	$ 0.64

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, 2003					
Pro forma primary EPS	$8,936,375	$7,346,946	1,856,550	$ 4.81	$ 3.96
Impact of dilutive potential common shares					
Domestic unsecured convertible bonds	41,001	30,751	264,707		
Pro forma diluted EPS	$8,977,376	$7,377,697	2,121,257	$ 4.23	$ 3.48
For the year ended December 31, 2002					
Pro forma primary EPS	$1,310,736	$1,301,797	1,834,316	$ 0.71	$ 0.71
Impact of dilutive potential common shares					
Domestic unsecured convertible bonds	41,274	30,956	58,570		
Pro forma diluted EPS	$1,352,010	$1,332,753	1,892,886	$ 0.71	$ 0.70

The EPS 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. These plans are as follows:

a. Pension plan for onshore employees. Benefits are based on service years and average basic salary of the six months before retirement. The pension fund, to which the Corporation contributes amounts equal to 9% and 3% of salaries every month for the years ended December 31, 2003 and 2002, respectively, 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 shipping crews. Before the adoption of the ROC Maritime Labor Act, benefits were based on the amounts stated in the crews' hiring contracts. Under the Maritime Labor Act, benefits are based on service years and average basic salary of the six months before retirement.

c. Pension plan for retired employees of China Merchants Steam Navigation Company (CMSNC). Benefits are based on service years and level of monthly basic salary at the time of retirement.

Before the Corporation's privatization, qualified employees received pension payments for service years ended before the start of the privatization. The service years of the employees who received pre-privatization pension payments and continued to work in the Corporation after privatization will be excluded from the calculation of pension payments after privatization.

Certain information on pension is as follows:

	Year Ended December 31 2003	Year Ended December 31 2002
a. Components of net pension costs:		
Service cost	$ 112,782	$ 99,905
Interest cost	23,814	23,691
Expected return on plan assets	(4,529)	(4,799)
Amortization of net transition assets	(14,171)	(14,171)
Amortization of prior service cost	436	436
Amortization of net loss	1,423	968
	$ 119,755	$ 106,030

	December 31 2003	December 31 2002
b. Reconciliation of funded status of the pension plan to accrued pension cost at end of year		
Benefit obligation:		
Vested benefit obligation	$ 213,384	$ 106,319
Non-vested benefit obligation	400,505	360,039
Accumulated benefit obligation	613,889	466,358
Additional benefits based on future salaries	235,075	129,019
Projected benefit obligation	848,964	595,377
Fair value of plan assets	(148,312)	(105,321)
Funded status	700,652	490,056
Unrecognized net transition assets	9,907	24,078
Unrecognized prior service cost	(5,235)	(5,671)
Unrecognized net (loss) gain	(119,331)	19,932
Additional liability	18,457	7,687
Accrued pension cost (included in other liabilities)	$ 604,450	$ 536,082
c. Vested benefits	$ 281,285	$ 204,448

	Year Ended December 31 2003	Year Ended December 31 2002
d. Assumptions used		
Discount rate	3.50%	4.00%
Rate of increase in compensation	2.75%	2.25%
Expected rate of return on plan assets	3.50%	4.00%
e. Changes in pension fund		
Contributions	$ 47,380	$ 15,196
Payment of benefits	$ 14,778	$ 14,074

20. RELATED-PARTY TRANSACTIONS

The Corporation's related parties are shown in Schedules A, B and H. The related-party transactions for the years ended December 31, 2003 and 2002 and the balances, except those mentioned in Notes 22 and 23 and Schedule C, are summarized in the accompanying 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	
	2003	**2002**
Properties—net	$1,033,432	$1,114,919
Nonoperating assets—net	89,230	89,230
Pledged time deposits	-	18,645
	$1,122,662	$1,222,794

22. COMMITMENTS AND CONTINGENT LIABILITY

Commitments and contingent liability as of December 31, 2003 were as follows:

a. Obligations to provide crews to four ships of Chinese Petroleum Corporation under contracts expiring on various dates by October 2008. The daily compensation under the contracts is $578.

b. Leases of office premises, ships and container yard under operating lease agreements that will expire on various dates until September 2013. The total rents were $5,910,761 for the year ended December 31, 2003, and future minimum rentals are as follows:

Fiscal Year	Amount
2004	$8,301,352
2005	1,241,376
2006	705,989
2007	546,244
2008	546,244

Rentals after 2008 amount to $1,638,732. The present value of those rentals, computed at an annual interest rate of 1.40%, is $1,486,860.

c. Leases of containers and chassis under capital lease agreements expiring on various dates until May 2011. Rentals for the year ended December 31, 2003 was about $240,108 (deducted from leases payable), and future minimum rentals are as follows:

Fiscal Year	Amount
2004	$ 282,649
2005	285,176
2006	589,760
2007	73,865
2008	23,007

Rentals after 2008 amount to $123,768, with present value of about $113,717, based on 1.40% annual interest rate.

d. Guarantee of loans obtained by two equity-method investees, Yang Ming Line (B.V.I.) Holding Co., Ltd. (US$86,446,000) and All Oceans Transportation Inc. (US$53,356,000); Yang Ming (America) Corp., an investee of an equity- method investee (US$1,500,000); and United Terminal Leasing LLC, an investee of an equity- method investee (US$1,095,000);

e. Guarantee by the Corporation and Yang Ming Line Holding Co. (an equity-method investee of the Corporation) of a loan of US$3,445,000 obtained by West Basin Container Terminal LLC (investee of an equity-method investee);

f. As of December 31, 2003, 21 former shipping crew members, who retired after the Corporation's privatization, sued the Corporation and claimed $43,270 as additional severance benefit based on the Labor Standards Law instead of the Rules of Privatization for Government-Owned Corporations. The Taipei District Court and Taiwan High Court decided this case in favor of the Corporation. The plaintiffs appealed this decision to a higher court. No liability was accrued since management believed the appeal would not prosper.

g. The Corporation and China Shipbuilding Corp. (CSC) reached an agreement to construct seven vessels for US$232,180,000, for delivery by 2007. As of December 31, 2003, the Corporation had paid US$43,518,000.

h. The Corporation and Hyundai Heavy Industries Co., Ltd. (HHICL) reached an agreement to construct four vessels for US$316,800,000 for delivery by February 2007. As of December 31, 2003, the Corporation had paid US$31,680,000 to HHICL).

i. The Corporation and Hyundai Translead (HT) reached an agreement to construct containers and chassis for US$16,284,000 for delivery in 2004. As of December 31, 2003, the Corporation had made no payments on this agreement.

23. SUBSEQUENT EVENTS

a. In January 2004, the Corporation and Singamas Container Holding Limited reached an agreement to construct containers for US$23,673,000 for delivery in 2004.

b. In January 2004, the board of directors resolved to sell two vessels at carrying value of $1,989,482 to All Oceans Transportation Inc., an equity-method investee. The vessels were delivered in February 2004.

c. In February 2004, the board of directors resolved to buy two vessels with carrying value of $3,322,526 from All Oceans Transportation Inc., an equity-method investee. The vessels will be delivered after April 2004.

24. FINANCIAL INSTRUMENTS

Under Statement of Financial Accounting Standards No. 27, "Disclosure of Financial Instruments," the information on ~~of~~ the Corporation's financial instruments is shown as follows:

a. The Corporation used derivative instruments for trading and nontrading purposes for the years ended December 31, 2003 and 2002. Nontrading purposes refer to the Corporation's hedging of exchange rate fluctuations on net assets or liabilities denominated in foreign currency; trading purposes refer to the Corporation's intent to profit from derivative transactions. As of December 31, 2003 and 2002, the Corporation had no open derivative contracts.

1) The realized gains on derivative instruments, shown as a component in the accompanying income statements, are as follows:

a) For trading purposes

	Years Ended December 31	
	2003	2002
Forward exchange contracts	$ 1,469	$ -
Foreign-currency option	4,318	378
	$ 5,787	$ 378

b) For nontrading purposes

	2003	2002
Cross-currency swap contracts	$ 12,025	$ 5,783
Forward exchange contracts	1,607	319
Foreign-currency option	(11,284)	-
	$ 2,348	$ 6,102

2) Market risk

The Corporation is exposed to market risk arising from adverse exchange rate fluctuations on the cross-currency swap contract, forward exchange contracts and foreign-currency option contracts. The Corporation entered into nontrading purpose contracts to hedge the effects of adverse exchange rate fluctuations on foreign-currency net assets or liabilities. Since the contracts will be settled at net or nominal amounts, the market risk is not material. Further, the Corporation's observance of proper procedures when buying contracts for trading purposes as well as setting break-even points help the Corporation avoid losses that significantly impact its operations.

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

The cross-currency swap contracts and forward exchange contracts are settled at net or nominal amounts based on the Corporation's preference, and the exchange rate is fixed for foreign-currency options. As a result, 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

There were no open contracts as of December 31, 2003 and 2002. The Corporation uses cross-currency swap contracts, forward contracts and foreign-currency option with gains or losses that offset the gains or losses on foreign-currency net assets and liabilities. Through these contracts, the Corporation hedges most of the risks in the market. The exchange rates on the contracts are fixed. In addition, the Corporation evaluates the hedging effectiveness of the contracts periodically.

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

	December 31			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative instruments				
Assets				
Short-term financial instruments				
Cash and cash equivalents	$ 6,614,016	$ 6,614,016	$ 1,758,190	$ 1,758,190
Short-term investments	13,900,013	13,900,013	6,130,776	6,130,776
Accounts receivable	722,115	722,115	1,290,695	1,290,695
Receivables from related parties	7,067,296	7,067,296	2,228,974	2,228,974
Advances to shipping agents	558,745	558,745	1,469,405	1,469,405
Pledged time deposits	-	-	18,645	18,645
Investments in shares of stock	10,357,106	10,372,101	7,761,195	7,761,195
Long-term receivables from related parties	5,381,850	5,381,850	9,720,111	9,720,111
Liabilities				
Short-term financial instruments				
Short-term debts	15,080	15,080	102,597	102,597
Payables to related parties	1,322,462	1,322,462	1,793,123	1,793,123
Income tax payable	850,688	850,688	9,300	9,300
Accrued expenses	2,124,035	2,124,035	1,644,628	1,644,628
Payable to shipping agents	1,438,397	1,438,397	1,275,226	1,275,226
Bank loans	555,903	555,903	1,563,750	1,563,750
Bonds	16,219,700	18,724,184	11,117,200	12,202,237
Capital lease obligations	1,085,501	1,085,501	1,366,844	1,366,844

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

1) The carrying values of short-term financial instruments, except for short-term investments, approximate fair values because of the short maturities 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, on the Corporation's equity in the equity-method investee's net assets or on investment costs of stocks with no quoted market prices.

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

25. ADDITIONAL DISCLOSURES

Except those mentioned in Note 24 and Schedules C to H, no additional disclosures are required by the Securities and Futures Commission for the Corporation and its investees and investments 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			
	2003		2002	
Line Service	Amount	%	Amount	%
U.S. Western coast line	$20,859,815	33	$12,309,561	27
Asia line	10,608,663	17	8,038,722	18
U.S. Eastern coast line	9,575,710	15	8,001,130	18
European line	8,132,715	13	5,609,478	12

d. No single customer accounted for at least 10% of the Corporation’s total operating revenues.

4. Parents and Subsidiaries Financial Reports as of Dec. 31, 2003

4.1 INDEPENDENT AUDITORS' REPORT

March 1, 2004

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 its subsidiaries as of December 31, 2003 and 2002 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 as of and for the years ended December 31, 2003 and 2002 of Yang Ming Shipping Europe GmbH, of which investment—related amounts of the Corporation are included in the accompanying consolidated financial statements. The assets of this subsidiary were 0.4% (NT$274,533 thousand) and 0.4% (NT$209,175 thousand) of the total consolidated assets as of December 31, 2003 and 2002, respectively. The sales of the subsidiary were 0.1% (NT$79,232 thousand) and 0% (NT$996 thousand) of the consolidated sales for the years ended December 31, 2003 and 2002, respectively. Also, we did not audit the financial statements of Transyang Shipping Pte. Ltd., Yang Ming Line (Singapore) Pte. Ltd., Yes Logistic (UK), Corstor Ltd. and Yang Ming—Italy as of and for the year ended December 31, 2003, and those of Kuang Ming Shipping Corp., Transyang Shipping Pte. Ltd., and Yang Ming Line (Singapore) Pte. Ltd. as of and for the year ended December 31, 2002, in which the Corporation and subsidiaries have equity-method investments. As shown in the accompanying balance sheets, the carrying values of these five investments were 1.9% (NT$1,369,248 thousand presented as investment and NT$1,058 thousand presented as liabilities) and 2.9% (NT$1,719,597 thousand) of the total consolidated assets as of December 31, 2003 and 2002, respectively. The equity in these investees' net income was 3.8% (NT$316,752 thousand) and 53.7% (NT$614,370 thousand) of the consolidated income before income tax for the years ended December 31, 2003 and 2002, respectively. The financial statements of these investees were audited by other auditors whose reports have been furnished to us and our opinion, insofar as they relate to the amounts included for the investee companies mentioned above, is based solely on the reports of other auditors.

We conducted our audits in accordance with the Rules Governing Auditing and Certification 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 its subsidiaries as of December 31, 2003 and 2002 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 consolidated 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.

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.

4.2 YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2003 Amount	2003 %	2002 Amount	2002 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	$ 7,339,205	10	$ 2,098,984	4
Short-term investments—net (Notes 2 and 6)	13,900,013	19	6,130,776	10
Accounts receivable—net of allowance for doubtful accounts of $13,657 in 2003 and $9,313 in 2002 (Note 2)	1,366,545	2	1,816,983	3
Receivables from related parties (Note 21)	1,397,045	2	557,393	1
Shipping fuel—net (Note 2)	924,233	1	753,150	1
Prepaid expenses (Note 21)	255,137	-	263,409	1
Advances to shipping agents (Note 21)	558,745	1	1,469,405	2
Pledged time deposits (Note 22)	-	-	18,645	-
Other current assets (Notes 2 and 17)	251,300	-	412,879	1
Total current assets	25,992,223	35	13,521,624	23
INVESTMENTS IN SHARES OF STOCK (Notes 2 and 7)				
Equity method	3,521,760	5	3,472,832	6
Cost method	1,308,222	2	1,268,541	2
Deposit on subscriptions	-	-	6,614	-
Total investments in shares of stocks	4,829,982	7	4,747,987	8
PROPERTIES (Notes 2, 8, 21 and 22)				
Cost				
Land	48,388	-	38,901	-
Buildings	549,723	1	521,410	1
Containers and chassis	11,822,031	16	10,789,225	18
Ships	25,499,801	35	29,882,770	50
Leased containers and chassis	8,203,168	11	8,344,644	14
Leasehold improvements	214,067	-	190,741	-
Miscellaneous equipment	1,752,104	3	1,667,453	3
Total cost	48,089,282	66	51,435,144	86
Accumulated depreciation	(18,180,117)	(25)	(19,895,307)	(33)
	29,909,165	41	31,539,837	53
Construction in progress	2,685,756	3	602,643	1
Net properties	32,594,921	44	32,142,480	54
OTHER ASSETS				
Assets leased to others—net (Notes 2, 8 and 9)	1,065,235	1	1,106,569	2
Nonoperating assets—net (Notes 2, 8, 10 and 22)	493,565	1	498,247	1
Pledged deposits (Notes 22 and 23)	7,363,924	10	6,781,669	11
Deferred charges—net (Note 2)	107,318	-	393,179	1
Prepaid expenses for long-term rent agreements	331,909	1	348,930	-
Receivables from related parties (Note 21)	596,843	1	-	-
Miscellaneous	84,107	-	90,820	-
Total other assets	10,042,901	14	9,219,414	15
TOTAL ASSETS	$73,460,027	100	$59,631,505	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2003 Amount	2003 %	2002 Amount	2002 %
CURRENT LIABILITIES				
Short-term debts (Notes 11 and 22)	$ 16,514	-	$ 110,203	-
Accounts payable	22,935	-	76,835	-
Payables to related parties (Note 21)	766,727	1	501,570	1
Income tax payable (Notes 2 and 17)	850,688	1	9,300	-
Accrued expenses	2,250,233	3	1,727,834	3
Advances from customers (Note 21)	1,283,858	2	830,935	1
Current portion of interest-bearing long-term debts (Notes 2, 8, 12 and 22)	2,703,263	4	1,318,952	2
Payables to shipping agents	2,201,711	3	2,681,956	5
Other current liabilities (Notes 2 and 17)	858,710	1	736,908	1
Total interest-bearing current liabilities	10,954,639	15	7,994,493	13
INTEREST-BEARING LONG-TERM DEBTS—Net of current portion				
Bonds (Notes 2, 12 and 22)	15,060,800	21	11,117,200	19
Bank loans (Notes 12 and 22)	3,985,738	5	6,605,245	11
Capital lease obligations (Notes 2, 8, 12 and 22)	7,688,659	10	7,470,014	12
Total interest-bearing long-term debts	26,735,197	36	25,192,459	42
RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	479,639	1	479,639	1
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 20)	604,450	1	536,082	1
Cumulative losses in excess of cost of investment (Notes 2 and 7)	1,058	-	244,213	-
Deferred income tax liabilities—noncurrent (Notes 2 and 17)	1,191,179	2	540,387	1
Others (Notes 2, 7 and 14)	203,921	-	287,248	1
Total other liabilities	2,000,608	3	1,607,930	3
Total liabilities	40,170,083	55	35,274,521	59
STOCKHOLDERS' EQUITY				
Capital stock—$10 par value				
Authorized—2,400,000 thousand shares				
Issued—1,946,707 and 1,834,316 thousand shares in 2003 and 2002	19,467,065	27	18,343,160	31
Certificates of conversion of bonds to stock—10,224 thousand shares	102,234	-	-	-
Total capital stock	19,569,299	27	18,343,160	31
Capital surplus:				
Issue of stock in excess of par value	4,075,397	6	2,390,186	4
Treasury stock transactions	234,855	-	4,242	-
Equity ~~on~~ in capital surplus reported by equity-method investees	5,816	-	5,816	-
Total capital surplus	4,316,068	6	2,400,244	4
Retained earnings:				
Legal reserve	528,295	1	414,623	1
Special reserve	1,141,939	1	1,141,939	2
Unappropriated earnings	7,836,692	11	2,424,970	4
Total retained earnings	9,506,926	13	3,981,532	7
Other items of stockholders' equity				
Unrealized loss on investments in shares of stock	(1)	-	(21,293)	-
Cumulative translation adjustments	338,729	-	186,469	-
Net loss not recognized as pension costs	(18,457)	-	(7,687)	-
Total other items of stockholders' equity	320,271	-	157,489	-
Treasury stocks—54,384 and 67,619 thousand shares in 2003 and 2002	(422,620)	(1)	(525,441)	(1)
Total stockholders' equity	33,289,944	45	24,356,984	41
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$73,460,027	100	$59,631,505	100

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

(With Deloitte & Touche auditors' report dated March 1, 2004)

4.3 YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	2003		2002	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 21)	$72,631,630	100	$53,584,426	100
OPERATING COSTS (Notes 2, 18 and 21)	62,966,373	87	51,589,043	96
GROSS INCOME	9,665,257	13	1,995,383	4
OPERATING EXPENSES (Notes 18 and 21)				
Selling	1,479,333	2	793,503	2
General and administrative	307,221	-	194,370	-
Total operating expenses	1,786,554	2	987,873	2
OPERATING INCOME	7,878,703	11	1,007,510	2
NONOPERATING INCOME AND GAINS				
Equity in investees' net income—net (Notes 2 and 7)	375,346	1	537,812	1
Interest (Note 21)	348,148	1	266,903	-
Foreign exchange gain—net	290,131	-	393,277	1
Gain on market price recovery of short-term investment (Note 2)	207,052	-	-	-
Gain on sale of investments	164,973	-	260,861	-
Gain on sale of properties and nonoperating assets	2,407	-	89,403	-
Others	223,117	-	287,869	1
Total nonoperating income	1,611,174	2	1,836,125	3
NONOPERATING EXPENSES AND LOSSES				
Interest (Note 8)	957,346	2	1,068,116	2
Loss on disposal of properties	134,638	-	-	-
Provision for losses on investments (Note 2)	61,612	-	363,610	1
Others	97,755	-	268,021	-
Total nonoperating expenses and losses	1,251,351	2	1,699,747	3
INCOME BEFORE INCOME TAX	8,238,526	11	1,143,888	2
INCOME TAX EXPENSE (Notes 2 and 17)	1,589,429	2	8,437	-
CONSOLIDATED NET INCOME	$ 6,649,097	9	$ 1,135,451	2

(Continued)

	2003		2002	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
CONSOLIDATED PRIMARY EARNINGS PER SHARE (Note 19)	$ 4.59	$ 3.70	$ 0.65	$ 0.64
CONSOLIDATED DILUTED EARNINGS PER SHARE (Note 19)	$ 4.02	$ 3.24	$ 0.65	$ 0.64

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 19), is as follows:

	2003		2002	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
CONSOLIDATED NET INCOME	$8,936,375	$7,346,946	$1,310,234	$1,301,797
CONSOLIDATED PRIMARY EARNINGS PER SHARE	$ 4.81	$ 3.96	$ 0.71	$ 0.71
CONSOLIDATED DILUTED EARNINGS PER SHARE	$ 4.23	$ 3.48	$ 0.71	$ 0.70

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

(With Deloitte & Touche auditors’ report dated March 1, 2004) (Concluded)

4.4 YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock ($10 Par Value)				Capital Surplus (Notes 2 and 15)					Retained Earnings (Notes 2 and 15)				Other Items of Stockholder's Equity (Note 2)					
	Shares (thousands)	Amount	Certificates of conversion of bonds to stocks	Total	Paid-in capital in excess of par value	Treasury stock transactions	Gain on sale of properties	Equity on capital surplus reported by equity-accounted investees	Total	Legal reserve	Special reserve	Unappropriated earnings (accumulated deficit)	Total	Unrealized loss on investments in shares of stock	Cumulative translation adjustments	Net loss not recognized as pension costs	Total	Treasury Stocks (Notes 2, 3 and 16)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2002	1,834,316	$18,343,160	$ -	$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	$ -	$467,788	$ -	$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
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)	-	(284,728)
Reversal of recognized equity in the capital surplus reported by equity-method investee as a result of the disposal of the investment	-	-	-	-	-	-	-	(9)	(9)	-	-	9	9	3,027	237	-	3,264	-	3,264
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,687)	(7,687)	-	(7,687)
Recognition of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	(21,292)	-	-	(21,292)	-	(21,292)
Equity in changes in capital surplus reported by equity-method investees	-	-	-	-	-	-	-	(1,262)	(1,262)	-	-	1,262	1,262	144	-	-	144	-	144
BALANCE, DECEMBER 31, 2002	1,834,316	18,343,160	-	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)	157,489	(525,441)	24,356,984
Appropriation of 2002 earnings																			
Legal reserve	-	-	-	-	-	-	-	-	-	113,672	-	(113,672)	-	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	-	-	-	(23,113)	(23,113)	-	-	-	-	-	(23,113)
Cash dividends—$0.6 per share	-	-	-	-	-	-	-	-	-	-	-	(1,100,590)	(1,100,590)	-	-	-	-	-	(1,100,590)
Cash dividends acquired by subsidiaries	-	-	-	-	-	32,643	-	-	32,643	-	-	-	-	-	-	-	-	-	32,643
Disposal of the Corporation's stocks held by subsidiaries	-	-	-	-	-	197,970	-	-	197,970	-	-	-	-	-	-	-	-	102,821	300,791
Consolidated net income in 2003	-	-	-	-	-	-	-	-	-	-	-	6,649,097	6,649,097	-	-	-	-	-	6,649,097
Reversal of unrealized loss on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	-	-	-	21,292	-	-	21,292	-	21,292
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	152,260	-	152,260	-	152,260
Domestic convertible bonds converted into certificates of conversion of bonds to stock and capital stocks	112,391	1,123,905	102,234	1,226,139	1,685,211	-	-	-	1,685,211	-	-	-	-	-	-	-	-	-	2,911,350
Recognition of minimum accrued pension liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,770)	(10,770)	-	(10,770)
BALANCE, DECEMBER 31, 2003	1,946,707	$19,467,065	$102,234	$19,569,299	$ 4,075,397	$234,855	$ -	$5,816	$ 4,316,068	$528,295	$ 1,141,939	$ 7,836,692	$ 9,506,926	($ 1)	$338,729	($ 18,457)	$320,271	($422,620)	$33,289,944

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

(With Deloitte & Touche auditors' report dated March 1, 2004)

4.5 YANG MING MARINE TRANSPORT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In Thousands of New Taiwan Dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 6,649,097	$ 1,135,451
Adjustments to reconcile consolidated net income with net cash provided by operating activities:		
Depreciation	3,541,984	3,586,651
Amortization	269,070	221,851
Gain on sale of investments	(164,973)	(260,861)
Net loss (gain) on sale of properties and nonoperating assets	132,231	(89,403)
Provision for pension cost	57,597	76,760
Provision for losses on investments	61,612	363,610
Equity in investees' net income—net	(375,346)	(537,812)
Gain on market price recovery of short-term investments	(207,052)	-
Provision for losses on properties	-	170,000
Cash dividends received from equity-method investments	119,579	41,141
Deferred income taxes	736,416	5,269
Others	(32,991)	(52,987)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	446,095	(407,726)
Receivables from related parties	(311,412)	(124,877)
Shipping fuel	(180,569)	(187,115)
Prepaid expenses	8,272	94,907
Advances to shipping agents	910,660	(499,828)
Pledged time deposits- current	18,645	416,264
Other current assets	122,881	100,455
Prepaid expenses for long-term rent agreements	17,021	(137,315)
Increase (decrease) in:		
Accounts payable	(53,900)	32,071
Payables to related parties	239,613	(410,861)
Income tax payable	841,388	-
Accrued expenses	538,843	744,159
Payables to shipping agents	(480,245)	(812,742)
Advances from customers	452,923	(71,003)
Other current liabilities	169,461	(285,111)
Net cash provided by operating activities	13,526,900	3,110,948
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(7,433,661)	(4,407,989)
Acquisition of investments in shares of stock	(73,402)	(187,453)
Proceeds from disposal of investments in shares of stock	36,450	389,077
Acquisition of properties	(5,240,158)	(1,112,799)
Proceeds from sale of properties and nonoperating assets	393,314	182,480
Increase in pledged deposits	(582,255)	(327,210)

(Continued)

	2003	2002
Increase in deferred charges	($ 37,608)	($ 270,849)
Decrease (increase) in other assets	36,019	(62,650)
Net cash used in investing activities	(12,901,301)	(5,797,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of principal on short-term debts	(93,689)	(92,080)
Proceeds from interest-bearing long-term debts	10,485,400	3,198,749
Repayment of principal of interest-bearing long-term debts	(4,748,950)	(3,176,440)
Payment of capital lease obligations	216,005	207,308
Decrease in other liabilities	(36,509)	(3,897)
Payment of dividends and employees' bonus	(1,122,705)	-
Net cash provided by financing activities	4,699,552	133,640
EFFECT OF EXCHANGE RATE CHANGES	(84,930)	39,323
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,240,221	(2,513,482)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,098,984	4,612,466
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,339,205	$ 2,098,984
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 1,252,296	$ 1,056,431
Income tax paid	$ 7,952	$ 4,199
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 properties	$ 5,164	$ 187,934
Reclassification of assets leased to others to properties	$ 38,979	$ -
Current portion of interest-bearing long-term debts	$ 2,703,263	$ 1,318,952
Domestic unsecured convertible bonds converted into capital stock and certificates of bonds convertible to stocks and capital surplus	$ 2,911,350	$ -
Cash paid for acquisition of properties:		
Costs of properties acquired	$ 5,214,294	$ 1,264,505
Increase in capital lease obligations	-	(135,450)
Increase in payables to related parties	(25,544)	-
Decrease (increase) in payable for equipment	51,408	(16,256)
	$ 5,240,158	$ 1,112,799
Proceeds from sale of properties and nonoperating assets		
Total contracted selling prices	$ 1,063,639	$ 182,480
Increase in long-term receivables from related parties	(596,843)	-
Increase in other receivables	(44,174)	-
Increase in long-term receivables	(29,308)	-
	$ 393,314	$ 182,480

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche auditors' report dated March 1, 2004)

(Concluded)