

**SINCERE NAVIGATION CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS  
DECEMBER 31, 2012 AND 2011**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Sincere Navigation Corporation

We have audited the accompanying consolidated balance sheets of Sincere Navigation Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. These rules and 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 and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sincere Navigation Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with the "Rules Governing Preparation of the Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China.



資誠

Sincere Navigation Corporation expects to adopt International Financial Reporting Standards, International Accounting Standards, and Interpretations/bulletins (collectively referred herein as the IFRSs) as recognized by the Financial Supervisory Commission, Executive Yuan, R.O.C (FSC) and the “Rules Governing the Preparation of Financial Statements by Securities Issuers” that are to be applied in 2013 in the preparation of consolidated financial statements of Sincere Navigation Corporation and subsidiaries starting from January 1, 2013. Information relating to the adoption of IFRSs by Sincere Navigation Corporation is disclosed in Note 13 in accordance with Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the FSC, dated February 2, 2010. The IFRSs may be subject to changes during the time of transition; therefore, the actual impact of IFRSs adoption on Sincere Navigation Corporation and its subsidiaries may also change.

*PricewaterhouseCoopers, Taiwan*

March 28, 2013

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

**SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31,**

**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

| ASSETS                              | Notes            | 2012                 | 2011                 |
|-------------------------------------|------------------|----------------------|----------------------|
| <b>Current Assets</b>               |                  |                      |                      |
| Cash and cash equivalents           | 4(1)             | \$ 5,527,841         | \$ 4,621,252         |
| Accounts receivable                 |                  | 419,497              | 456,528              |
| Other receivables                   |                  | 39,189               | 42,269               |
| Other receivables - related parties | 5                | 15,616               | 5,332                |
| Other financial assets - current    | 6                | 372,052              | 234,200              |
| Bunker inventories                  |                  | 57,302               | 104,821              |
| Prepayments                         |                  | 83,673               | 47,859               |
|                                     |                  | <u>6,515,170</u>     | <u>5,512,261</u>     |
| <b>Fixed Assets</b>                 |                  |                      |                      |
|                                     | 3, 4(2)(4) and 6 |                      |                      |
| <b>Cost</b>                         |                  |                      |                      |
| Land                                |                  | 90,215               | 90,215               |
| Buildings                           |                  | 28,191               | 29,154               |
| Vessels and equipment               |                  | 28,379,111           | 28,360,190           |
| Office equipment                    |                  | 2,863                | 3,572                |
|                                     |                  | 28,500,380           | 28,483,131           |
| Less: Accumulated depreciation      |                  | ( 7,509,019 )        | ( 6,976,482 )        |
| Accumulated impairment              |                  | ( 234,252 )          | ( 244,254 )          |
| Prepayments for vessel construction |                  | 1,540,165            | 1,987,033            |
|                                     |                  | <u>22,297,274</u>    | <u>23,249,428</u>    |
| <b>Other Assets</b>                 |                  |                      |                      |
| Refundable deposits                 |                  | 7,358                | 7,665                |
| Deferred expenses                   |                  | 211,519              | 158,249              |
|                                     |                  | <u>218,877</u>       | <u>165,914</u>       |
| <b>TOTAL ASSETS</b>                 |                  | <u>\$ 29,031,321</u> | <u>\$ 28,927,603</u> |

(Continued)

**SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31,**

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| LIABILITIES AND STOCKHOLDERS' EQUITY              | Notes      | 2012                 | 2011                 |
|---|------------|----------------------|----------------------|
| <b>Current Liabilities</b>                        |            |                      |                      |
| Short-term loans                                  | 4(3) and 6 | \$ 794,000           | \$ 774,000           |
| Income tax payable                                | 4(6)       | 307,491              | 306,347              |
| Accrued expenses                                  |            | 199,947              | 211,225              |
| Other payables - related parties                  | 5          | 4,035                | 2,669                |
| Other payables                                    |            | 44,841               | 47,709               |
| Advance collections                               | 5          | 139,988              | 163,446              |
| Current portion of long-term liabilities          | 4(4) and 6 | 2,112,571            | 1,680,902            |
| Deferred income tax liabilities - current         | 4(6)       | 175,441              | 231,602              |
|   |            | <u>3,778,314</u>     | <u>3,417,900</u>     |
| <b>Long-term Liabilities</b>                      |            |                      |                      |
| Long-term loans                                   | 4(4) and 6 | 9,154,130            | 9,613,349            |
| <b>Total long-term liabilities</b>                |            | <u>9,154,130</u>     | <u>9,613,349</u>     |
| <b>Other Liabilities</b>                          |            |                      |                      |
| Accrued pension liabilities                       | 4(5)       | 7,968                | 6,694                |
| Deferred income tax liabilities - non current     | 4(6)       | 962                  | 971                  |
| <b>Total other liabilities</b>                    |            | <u>8,930</u>         | <u>7,665</u>         |
| <b>Total liabilities</b>                          |            | <u>12,941,374</u>    | <u>13,038,914</u>    |
| <b>Stockholders' Equity</b>                       |            |                      |                      |
| <b>Common stock</b>                               | 4(7)       |                      |                      |
| Common stock subscribed                           |            | 5,683,042            | 5,683,042            |
| <b>Capital reserve</b>                            | 4(8)       |                      |                      |
| Treasury stock transactions                       |            | 39,243               | 39,243               |
| Long-term investments                             |            | 90,236               | 90,236               |
| Others  |            | 899                  | 899                  |
| <b>Retained Earnings</b>                          | 4(9)       |                      |                      |
| Legal reserve                                     |            | 2,592,950            | 2,417,018            |
| Special reserve                                   |            | 1,193,150            | 1,741,586            |
| Undistributed earnings                            |            | 6,237,928            | 5,092,628            |
| <b>Other Stockholders' Equity Adjustments</b>     |            |                      |                      |
| Cumulative translation adjustments                |            | ( 1,793,989 )        | ( 1,180,509 )        |
| Unrecognized pension cost                         | 4(5)       | ( 13,394 )           | ( 12,640 )           |
|   |            | <u>14,030,065</u>    | <u>13,871,503</u>    |
| Minority interest                                 |            | <u>2,059,882</u>     | <u>2,017,186</u>     |
| <b>Total stockholders' equity</b>                 |            | <u>16,089,947</u>    | <u>15,888,689</u>    |
| <b>Commitments and Contingent Liabilities</b>     | 7          |                      |                      |
| <b>Subsequent Events</b>                          | 9          |                      |                      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> |            | <u>\$ 29,031,321</u> | <u>\$ 28,927,603</u> |

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 28, 2013.

**SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)**

|  | Notes          | 2012          | 2011          |
|--|----------------|---------------|---------------|
| <b>Operating Revenue</b>   | 5              |               |               |
| Operating revenue  |                | \$ 6,041,567  | \$ 5,776,949  |
| <b>Operating Costs</b>   | 3, 4(12) and 5 |               |               |
| Operating costs  |                | ( 3,126,410 ) | ( 2,711,304 ) |
| <b>Gross profit</b>  |                | 2,915,157     | 3,065,645     |
| <b>Operating Expenses</b>  | 4(12) and 5    |               |               |
| Operating expenses   |                | ( 204,204 )   | ( 226,120 )   |
| <b>Income from operations</b>  |                | 2,710,953     | 2,839,525     |
| <b>Non-operating Income</b>  |                |               |               |
| Interest income  |                | 17,414        | 8,732         |
| Gain on disposal of fixed assets   |                | 323           | -             |
| Foreign exchange gain, net   |                | 23,863        | -             |
| Other income   |                | 13,058        | 21,084        |
|  |                | 54,658        | 29,816        |
| <b>Non-operating Expenses</b>  |                |               |               |
| Interest expense   |                | ( 214,629 )   | ( 156,465 )   |
| Loss on disposal of fixed assets   |                | -             | ( 33 )        |
| Foreign exchange losses, net   |                | -             | ( 47,417 )    |
| Other losses   |                | ( 1,868 )     | ( 5,398 )     |
|  |                | ( 216,497 )   | ( 209,313 )   |
| <b>Income before income tax and minority interest</b>  |                | 2,549,114     | 2,660,028     |
| Income tax expense   | 4(6)           | ( 239,137 )   | ( 174,431 )   |
| <b>Net income from continuing operations</b>   |                | 2,309,977     | 2,485,597     |
| Post tax loss from discontinued operation<br>(tax benefit of \$1,549 and \$3,372 were added, respectively)           | 4(2)           | ( 7,561 )     | ( 16,464 )    |
| Post tax gain on disposal of discontinued operation<br>(tax expense of \$13,715 and \$0 were deducted, respectively) | 4(2)           | 66,959        | -             |
| <b>Consolidated net income</b>   |                | \$ 2,369,375  | \$ 2,469,133  |
| <b>Attributable to :</b>   |                |               |               |
| Equity holders of the Company  |                | \$ 1,625,252  | \$ 1,759,319  |
| Minority interest  |                | 744,123       | 709,814       |
|  |                | \$ 2,369,375  | \$ 2,469,133  |
| <b>Basic earnings per share</b>  | 4(11)          |               |               |
| Net income from continuing operations  |                | \$ 4.49       | \$ 4.07       |
| Net income (loss) from discontinued operation  |                | 0.12          | ( 0.03 )      |
| Net income from minority interest income   |                | ( 1.31 )      | ( 1.25 )      |
| <b>Net income</b>  |                | \$ 3.30       | \$ 3.10       |
| <b>Diluted earnings per share</b>  |                |               |               |
| Net income from continuing operations  |                | \$ 4.48       | \$ 4.06       |
| Net income (loss) from discontinued operation  |                | 0.13          | ( 0.04 )      |
| Net income from minority interest income   |                | ( 1.31 )      | ( 1.25 )      |
| <b>Net income</b>  |                | \$ 3.30       | \$ 3.09       |

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 28, 2013.

SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|  | Retained earnings   |                   |                     |                     |                           | Cumulative<br>translation<br>adjustments | Unrecognized<br>pension cost | Minority interest   | Total                |
|--|---------------------|-------------------|---------------------|---------------------|---------------------------|--|------------------------------|---------------------|----------------------|
|  | Common stock        | Capital reserve   | Legal reserve       | Special reserve     | Undistributed<br>earnings |  |                              |                     |                      |
| <u>2011</u>  |                     |                   |                     |                     |                           |  |                              |                     |                      |
| Balance as at January 1, 2011  | \$ 5,683,042        | \$ 130,378        | \$ 2,206,671        | \$ 367,411          | \$ 6,338,591              | (\$ 1,728,622 )                          | (\$ 12,964 )                 | \$ 1,661,562        | \$ 14,646,069        |
| Distribution of 2010 earnings: (Note)  |                     |                   |                     |                     |                           |  |                              |                     |                      |
| Legal reserve  | -                   | -                 | 210,347             | -                   | ( 210,347 )               | -  | -                            | -                   | -                    |
| Special reserve  | -                   | -                 | -                   | 1,374,175           | ( 1,374,175 )             | -  | -                            | -                   | -                    |
| Cash dividends   | -                   | -                 | -                   | -                   | ( 1,420,760 )             | -  | -                            | -                   | ( 1,420,760 )        |
| Consolidated net income for 2011   | -                   | -                 | -                   | -                   | 1,759,319                 | -  | -                            | 709,814             | 2,469,133            |
| Cumulative translation adjustment on<br>long-term investments in foreign<br>subsidiaries | -                   | -                 | -                   | -                   | -                         | 548,113                                  | -                            | 66,213              | 614,326              |
| Unrecognized pension cost  | -                   | -                 | -                   | -                   | -                         | -  | 324                          | -                   | 324                  |
| Change in minority interests   | -                   | -                 | -                   | -                   | -                         | -  | -                            | ( 420,403 )         | ( 420,403 )          |
| Balance as at December 31, 2011  | <u>\$ 5,683,042</u> | <u>\$ 130,378</u> | <u>\$ 2,417,018</u> | <u>\$ 1,741,586</u> | <u>\$ 5,092,628</u>       | <u>(\$ 1,180,509 )</u>                   | <u>(\$ 12,640 )</u>          | <u>\$ 2,017,186</u> | <u>\$ 15,888,689</u> |
| <u>2012</u>  |                     |                   |                     |                     |                           |  |                              |                     |                      |
| Balance as at January 1, 2012  | \$ 5,683,042        | \$ 130,378        | \$ 2,417,018        | \$ 1,741,586        | \$ 5,092,628              | (\$ 1,180,509 )                          | (\$ 12,640 )                 | \$ 2,017,186        | \$ 15,888,689        |
| Reversal of special reserve  | -                   | -                 | -                   | ( 548,436 )         | 548,436                   | -  | -                            | -                   | -                    |
| Distribution of 2011 earnings: (Note)  |                     |                   |                     |                     |                           |  |                              |                     |                      |
| Legal reserve  | -                   | -                 | 175,932             | -                   | ( 175,932 )               | -  | -                            | -                   | -                    |
| Cash dividends   | -                   | -                 | -                   | -                   | ( 852,456 )               | -  | -                            | -                   | ( 852,456 )          |
| Consolidated net income for 2012   | -                   | -                 | -                   | -                   | 1,625,252                 | -  | -                            | 744,123             | 2,369,375            |
| Cumulative translation adjustment on<br>long-term investments in foreign<br>subsidiaries | -                   | -                 | -                   | -                   | -                         | ( 613,480 )                              | -                            | ( 84,362 )          | ( 697,842 )          |
| Unrecognized pension cost  | -                   | -                 | -                   | -                   | -                         | -  | ( 754 )                      | -                   | ( 754 )              |
| Change in minority interests   | -                   | -                 | -                   | -                   | -                         | -  | -                            | ( 617,065 )         | ( 617,065 )          |
| Balance at December 31, 2012   | <u>\$ 5,683,042</u> | <u>\$ 130,378</u> | <u>\$ 2,592,950</u> | <u>\$ 1,193,150</u> | <u>\$ 6,237,928</u>       | <u>(\$ 1,793,989 )</u>                   | <u>(\$ 13,394 )</u>          | <u>\$ 2,059,882</u> | <u>\$ 16,089,947</u> |

Note: Directors' and supervisors' remunerations of \$13,199 and \$17,536 ; employees' bonus of \$13,199 and \$17,536 have been deducted from the consolidated statement of income for the years ended December 31, 2011 and 2010, respectively.

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 28, 2013.

SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|  | <u>2012</u>      | <u>2011</u>      |
|--|------------------|------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u>  |                  |                  |
| Consolidated net income  | \$ 2,369,375     | \$ 2,469,133     |
| Adjustments to reconcile consolidated net income to net cash<br>provided by operating activities |                  |                  |
| Depreciation   | 1,229,718        | 1,147,963        |
| Amortization   | 142,559          | 114,418          |
| Gain on disposal of non-current assets held for sale   | ( 80,674 )       | -                |
| (Gain) loss on disposal of fixed assets  | ( 323 )          | 33               |
| Changes in assets and liabilities  |                  |                  |
| Accounts receivable  | 37,031           | ( 248,815 )      |
| Accounts receivable - related parties  | -                | 3,595            |
| Other receivables  | 2,999            | ( 19,844 )       |
| Other receivables - related parties  | ( 10,284 )       | 1,554            |
| Bunker inventories   | 41,943           | ( 88,224 )       |
| Prepayments  | ( 36,179 )       | 13,036           |
| Income tax payable   | 1,144            | ( 272,056 )      |
| Accrued expense  | ( 19,839 )       | 11,257           |
| Other payables - related parties   | 1,366            | 1,809            |
| Other payables   | ( 2,868 )        | 43,902           |
| Advance collections  | ( 23,458 )       | 14,471           |
| Accrued pension liabilities  | 520              | 487              |
| Deferred income tax liabilities  | ( 56,170 )       | ( 133,090 )      |
| Net cash provided by operating activities  | <u>3,596,860</u> | <u>3,059,629</u> |

(Continued)



SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

|  | <u>2012</u>          | <u>2011</u>          |
|--|----------------------|----------------------|
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>                |                      |                      |
| Increase in other financial assets                         | (\$ 137,852 )        | (\$ 41,775 )         |
| Acquisition of fixed assets                                | ( 1,464,784 )        | ( 3,916,811 )        |
| Decrease (increase) in refundable deposits                 | 307                  | ( 56 )               |
| Increase in deferred charges                               | ( 205,222 )          | ( 91,085 )           |
| Proceeds from disposal of non-current assets held for sale | 377,798              | -                    |
| Proceeds from disposal of fixed assets                     | 469                  | -                    |
| Net cash used in investing activities                      | ( <u>1,429,284</u> ) | ( <u>4,049,727</u> ) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>                |                      |                      |
| Increase (decrease) in short - term loans                  | 20,000               | ( 500,000 )          |
| Decrease in other payables - related parties               | -                    | ( 228,281 )          |
| Proceeds from long-term loans                              | 2,194,094            | 3,720,076            |
| Payments of long-term loans                                | ( 1,752,480 )        | ( 1,266,414 )        |
| Cash dividends paid  | ( 852,456 )          | ( 1,420,760 )        |
| Decrease in minority interest                              | ( <u>617,065</u> )   | ( <u>420,403</u> )   |
| Net cash used in financing activities                      | ( <u>1,007,907</u> ) | ( <u>115,782</u> )   |
| Foreign exchange difference                                | ( <u>253,080</u> )   | 201,564              |
| Increase (decrease) in cash and cash equivalents           | 906,589              | ( 904,316 )          |
| Cash and cash equivalents at beginning of year             | <u>4,621,252</u>     | <u>5,525,568</u>     |
| Cash and cash equivalents at end of year                   | <u>\$ 5,527,841</u>  | <u>\$ 4,621,252</u>  |
| <u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW</u>               |                      |                      |
| <u>INFORMATION</u>   |                      |                      |
| Cash paid during the year for:                             |                      |                      |
| Interest   | <u>\$ 220,663</u>    | <u>\$ 155,122</u>    |
| Income tax   | <u>\$ 306,329</u>    | <u>\$ 576,205</u>    |

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated March 28, 2013.

SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE  
INDICATED)

1. HISTORY AND ORGANIZATION

Sincere Navigation Corporation (the “Company”) was incorporated in 1968 with an original capital of \$1,000, is engaged in bulk shipping, tug and barge services, and operating a shipping agency. On December 31, 1988, the Company was the surviving company in the merger with Karson and Tai Hsing Navigation Corporation to meet operating demands and further improve capital structure. The Company’s shares have been listed on the Taiwan Stock Exchange since December 8, 1989.

As of December 31, 2012, the Company and its subsidiaries had 510 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and accounting principles generally accepted in the Republic of China. The Group’s significant accounting policies are summarized below:

(1) Basis for preparation of consolidated financial statements

A) The Company prepares consolidated financial statements to include investee companies in which the Company directly or indirectly owns at least 50% of voting rights, in which case, the whole entity was included in the consolidated financial statements. Effective January 1, 2008, the Company prepares consolidated financial statements on a quarterly basis. In addition, unrealized profits and losses on transactions with affiliates and related assets and liabilities were eliminated upon consolidation.

B) Subsidiaries included in the consolidated financial statements and their changes

(a) Norley Corporation Inc. (Norley)

Norley, a wholly-owned subsidiary of Sincere Navigation Corporation, is engaged in investment holdings. The following are the subsidiaries of Norley:

| Investor   | Subsidiary                          | Main activities     | Ownership(%) |      |
|------------|-------------------------------------|---------------------|--------------|------|
|            |                                     |                     | December 31, |      |
|            |                                     |                     | 2012         | 2011 |
| Norley     | Poseidon Marine Ltd.                | Shipping            | 100%         | 100% |
| "          | Kenmore Shipping Inc.               | Oil tanker          | 100%         | 100% |
| "          | Maxson Shipping Inc.                | Shipping            | 100%         | 100% |
| "          | Zenith Marine Company Limited       | "                   | -            | 100% |
| "          | Ocean Wise Limited                  | "                   | 51%          | 51%  |
| "          | Confidence Navigation Ltd.          | Oil tanker          | 100%         | 100% |
| "          | Valentine Holdings Ltd. (Valentine) | Investment holdings | 60%          | 60%  |
| "          | Kingswood Co., Ltd. (Kingswood)     | "                   | 50%          | 50%  |
| "          | Welluck Co., Ltd. (Welluck)         | "                   | 50%          | 50%  |
| "          | Winnington Limited (Winnington)     | "                   | 50%          | 50%  |
| "          | Jetwall Co., Ltd. (Jetwall)         | "                   | 80%          | 80%  |
| "          | Victory Navigation Inc. (Victory)   | "                   | 55%          | 55%  |
| Valentine  | Gemini Investment Company Ltd.      | Shipping            | 100%         | 100% |
| "          | Millennia Investment Co., Ltd.      | "                   | 100%         | 100% |
| Kingswood  | Seven Seas Shipping Ltd.            | Oil tanker          | 100%         | 100% |
| Welluck    | Meko Shipping Inc.                  | Shipping            | 100%         | 100% |
| Winnington | Peg Shipping Company Ltd.           | "                   | 100%         | 100% |
| Jetwall    | Everwin Maritime Limited            | Oil tanker          | 100%         | 100% |
| Victory    | Everprime Shipping Limited          | Shipping            | 100%         | 100% |

Note: Zenith Marine Company Limited was dissolved on August 27, 2012.

(b) Heywood Limited (Heywood)

Heywood, a wholly-owned subsidiary of Sincere Navigation Corporation, is engaged in investment holdings. The following are the subsidiaries of Heywood:

| Investor | Subsidiary                                  | Main activities         | Ownership(%) |      |
|----------|---|-------------------------|--------------|------|
|          |   |                         | December 31, |      |
|          |   |                         | 2012         | 2011 |
| Heywood  | Great Wall Navigation Limited               | Shipping                | -            | 100% |
| "        | Newton Navigation Limited                   | "                       | 100%         | 100% |
| "        | Clifford Navigation Corporation             | "                       | 100%         | 100% |
| "        | Brighton Shipping Inc.                      | "                       | 100%         | 100% |
| "        | Rockwell Shipping Limited                   | "                       | 100%         | 100% |
| "        | Howells Shipping Inc.                       | "                       | 100%         | 100% |
| "        | Crimson Marine Company                      | "                       | 100%         | 100% |
| "        | Helmsman Navigation Co. Limited             | Holding in shipbuilding | 100%         | -    |
| "        | Keystone Shipping Co. Limited               | "                       | 100%         | -    |
| "        | Honco Shipping Limited                      | Investment holdings     | 100%         | 100% |
| "        | Century Shipping Limited (Century)          | "                       | 100%         | 100% |
| Century  | Haihu Maritime Service (Shanghai) Co., Ltd. | Maritime service        | 100%         | 100% |

Note: Great Wall Navigation Limited was dissolved on September 6, 2012.

C) Subsidiaries not included in the consolidated financial statements

None.

D) Adjustments for subsidiaries with different balance sheet dates

None.

E) Special operating risk of the foreign subsidiaries

None.

F) Nature and extent of restrictions on fund remittance from subsidiaries to the parent company

None.

G) Contents of subsidiaries' securities issued by the parent company

None.

H) Information from convertible bonds and common stock issued subsidiaries

None.

(2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates except for beginning retained earnings, which are carried forward from prior year's balance. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation differences are included in "cumulative translation adjustments" and shown under stockholders' equity.

(3) Foreign currency transactions

- A) Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year's profit or loss.
- B) All monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.
- C) When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the translation.

(4) Classification of current and non-current items

- A) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
  - a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
  - b) Assets held mainly for trading purposes;
  - c) Assets that are expected to be realized within twelve months from the balance sheet date;
  - d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
  - a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
  - b) Liabilities arising mainly from trading activities;
  - c) Liabilities that are to be paid off within twelve months from the balance sheet date;
  - d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

(5) Accounts and other receivables

- A) Accounts receivable are claims resulting from the sale of goods or services. Receivables arising from transactions other than the sale of goods or services are classified as other receivables. Accounts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.
- B) The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, a provision for impairment of financial asset is recognized. The amount of impairment loss is determined based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment

loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognized. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

(6) Bunker inventories

Bunker inventories are stated at cost. Cost is determined using the first-in, first-out (FIFO) method.

(7) Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(8) Fixed assets

A) Fixed assets are stated at cost. Interests incurred on the loans used to bring the assets to the condition and location necessary for their intended uses are capitalized.

B) Depreciation is provided under the straight-line method based on the estimated economic service lives. The estimated economic service lives of fixed assets are set forth below:

|                       |               |
|-----------------------|---------------|
| Vessels and equipment | 4 to 20 years |
| Building              | 42 years      |
| Office equipment      | 3 to 7 years  |

C) Maintenance and repairs are expensed as incurred. Renewals and betterments are capitalized and depreciated accordingly.

(9) Deferred charges

The costs of repairs and dry-dock inspection of the vessels are capitalized and amortized over 2.5 years.

(10) Impairment of non-financial assets

The Group recognized impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

(11) Pension plan

A) The Company has a non-contributory and funded defined benefit pension plan covering all regular employees, excluding seamen, and contributes the monthly pension costs to an independent retirement fund, with the Bank of Taiwan as the trustee. The independent retirement fund is not included in the consolidated financial statements. Under the defined contribution retirement plan, net periodic pension costs are recognized as incurred.

B) When accrued pension liabilities is lower than the total amount of prior service cost and unrecognized net transition asset or obligation, the amount is recognized in intangible assets account as "Deferred pension cost", otherwise, the excess amount is recognized under

- shareholders equity account as “Unrecognized pension cost”.
- C) The subsidiary’s retirement plan is not set, and there is no mandatory requirement in accordance with relevant laws and provisions.
- D) Haihu Maritime Service (Shanghai) Co., Ltd. has a defined contribution retirement plan, while net periodic pension costs are recognized as incurred.

(12) Income tax

- A) Provision for income tax includes deferred income tax resulting from temporary differences, investment tax credits and loss carryforward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior years’ income tax liabilities is included in current year’s income tax. When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be recognized as an adjustment to income tax expense (benefit) for income from continuing operations in the current period.
- B) An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

(13) Employees’ bonuses and directors’ and supervisors’ remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, “Accounting for Employees’ Bonuses and Directors’ and Supervisors’ Remuneration”, the costs of employees’ bonuses and directors’ and supervisors’ remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for employees’ bonuses and directors’ and supervisors’ remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders’ meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, “Criteria for Listed Companies in Calculating the Number of Shares of Employees’ Stock Bonus”, the Company calculates the number of shares of employees’ stock bonus based on the closing price of the Company’s common stock at the previous day of the stockholders’ meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(14) Revenues, costs and expenses

Revenues are recognized when the earning process is substantially completed and are realized or realizable. Costs and expenses are recognized as incurred.

(15) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

(16) Operating segments

The disclosure of operating segment information is reported in accordance with the Company's internal management reports. The chief operating decision-maker identifies a function to allocate resources to and assesses the performance of the operating segments. According to R.O.C. SFAS No. 41, "Operating Segments", segment information is required only in the consolidated financial statements.

3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Accounts and other receivables

Effective January 1, 2011, the Group adopted the amendments to R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". Based on the revised standard, the Group should recognize impairment loss on receivables when there is any objective evidence that an impairment loss has been incurred. This change in accounting principle had no significant effect on the consolidated net income and earnings per share for the year ended December 31, 2011.

(2) Operating segments

Effective January 1, 2011, the Group adopted R.O.C. SFAS No. 41, "Operating Segments" to replace the original R.O.C. SFAS No. 20, "Segment Reporting".

(3) Residual value of the vessels

Effective January 1, 2012, the Group changed its estimate of residual value to reflect the real value of the vessel. This changes in accounting estimate increased the consolidated net income from continuing operations by \$129,559 and increased earnings per share by \$0.23 for the year ended December 31, 2012.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

|                                       | December 31,        |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | 2012                | 2011                |
| Checking accounts and demand deposits | \$ 1,978,396        | \$ 2,582,143        |
| Time deposits                         | 3,549,445           | 2,039,109           |
|                                       | <u>\$ 5,527,841</u> | <u>\$ 4,621,252</u> |



(2) Fixed assets / profit from discontinued operation

A) Cost and accumulated depreciation

| December 31, 2012                    |                      |                          |                        |                      |
|--------------------------------------|----------------------|--------------------------|------------------------|----------------------|
|                                      | Cost                 | Accumulated depreciation | Accumulated impairment | Net book value       |
| Vessels and equipment                | \$ 28,379,111        | (\$ 7,495,129)           | (\$ 234,252)           | \$ 20,649,730        |
| Land                                 | 90,215               | -                        | -                      | 90,215               |
| Building                             | 28,191               | ( 12,019)                | -                      | 16,172               |
| Office equipment                     | 2,863                | ( 1,871)                 | -                      | 992                  |
| Prepayments for vessels construction | 1,540,165            | -                        | -                      | 1,540,165            |
| Total                                | <u>\$ 30,040,545</u> | <u>(\$ 7,509,019)</u>    | <u>(\$ 234,252)</u>    | <u>\$ 22,297,274</u> |

| December 31, 2011                    |                      |                          |                        |                      |
|--------------------------------------|----------------------|--------------------------|------------------------|----------------------|
|                                      | Cost                 | Accumulated depreciation | Accumulated impairment | Net book value       |
| Vessels and equipment                | \$ 28,360,190        | (\$ 6,961,372)           | (\$ 244,254)           | \$ 21,154,564        |
| Land                                 | 90,215               | -                        | -                      | 90,215               |
| Building                             | 29,154               | ( 12,134)                | -                      | 17,020               |
| Office equipment                     | 3,572                | ( 2,976)                 | -                      | 596                  |
| Prepayments for vessels construction | 1,987,033            | -                        | -                      | 1,987,033            |
| Total                                | <u>\$ 30,470,164</u> | <u>(\$ 6,976,482)</u>    | <u>(\$ 244,254)</u>    | <u>\$ 23,249,428</u> |

B) Certain fixed assets are pledged as security for bank loans. Please refer to Note 6 for details on pledged assets.

C) On June 25, 2010, the Board of Directors approved and authorized the Chairman to sell the vessel named “SHIN HSING No. 2” on behalf of the Company. On June 12, 2012, the Company had the selling agreement with the buyer. Based on the resolution and the selling agreement above, the vessel disposal meets the criteria in R.O.C. SFAS No. 38 “Non-current Assets Held for Sale and Discontinued Operations” and is classified as a discontinued operation. On July 11, 2012, the vessel was sold and settled. Income or loss and cash flows on the discontinued operation are as follows:

|  | For the years ended December 31, |                    |
|--|----------------------------------|--------------------|
|  | 2012                             | 2011               |
| Income or loss from discontinued operation                   |                                  |                    |
| Operation revenue  | \$ 59,141                        | \$ 116,216         |
| Operation costs  | ( 68,251)                        | ( 136,052)         |
| Loss from discontinued operation before income tax           | ( 9,110)                         | ( 19,836)          |
| Income tax benefit   | 1,549                            | 3,372              |
| Post tax loss from discontinued operation                    | <u>(\$ 7,561)</u>                | <u>(\$ 16,464)</u> |
| Gain or loss on disposal of discontinued operation           |                                  |                    |
| Gain on disposal of discontinued operation before income tax | \$ 80,674                        | \$ -               |
| Income tax expense   | ( 13,715)                        | -                  |
| Gain on disposal of discontinued operation                   | <u>\$ 66,959</u>                 | <u>\$ -</u>        |
| Cash flows from discontinued operation                       |                                  |                    |
| Cash flows provided by operating activities                  | \$ 30,713                        | \$ 36,887          |
| Cash flows provided by investing activities                  | 377,798                          | -                  |
| Cash flows provided by financing activities                  | -                                | -                  |

### (3) Short-term loans

|                  | December 31,        |                     |
|------------------|---------------------|---------------------|
|                  | 2012                | 2011                |
| Unsecured loans  | \$ 680,000          | \$ 660,000          |
| Secured loans    | 114,000             | 114,000             |
|                  | <u>\$ 794,000</u>   | <u>\$ 774,000</u>   |
| Interest rate    | <u>1.26%~1.32%</u>  | <u>1.28%~1.37%</u>  |
| Credit agreement | <u>\$ 1,274,000</u> | <u>\$ 1,274,000</u> |

As of December 31, 2012 and 2011, the Company’s Chairman, Fred Tsai, guaranteed for the credit lines of \$ 1,074,000; the Company also issued notes payable as guarantee for credit lines amounting to \$ 774,000.

(4) Long-term loans

| Bank                                      | Collateral        | December 31,                          |                                       |
|---|-------------------|---------------------------------------|---------------------------------------|
|   |                   | 2012                                  | 2011                                  |
| Mega Bank (and syndicate)                 | Maxim             | \$ 1,862,655<br>(USD 64,141 thousand) | \$ 2,170,682<br>(USD 71,687 thousand) |
| BNP Paribas (and syndicate)               | Mineral Antwerpen | 208,943<br>(USD 7,195 thousand)       | 274,185<br>(USD 9,055 thousand)       |
| BNP Paribas (and syndicate)               | Mineral Sines     | 183,533<br>(USD 6,320 thousand)       | 247,085<br>(USD 8,160 thousand)       |
| Mega Bank (and syndicate)                 | V. K. Eddie       | 566,276<br>(USD 19,500 thousand)      | 721,668<br>(USD 23,833 thousand)      |
| Mega Bank (and syndicate)                 | Chin Shan         | 279,167<br>(USD 9,613 thousand)       | 363,860<br>(USD 12,017 thousand)      |
| Mega Bank                                 | Heng Shan         | 367,530<br>(USD 12,656 thousand)      | 479,030<br>(USD 15,820 thousand)      |
| Mega Bank                                 | Chou Shan         | 349,226<br>(USD 12,026 thousand)      | 436,966<br>(USD 14,431 thousand)      |
| Mega Bank                                 | Bao Shan          | 463,447<br>(USD 15,959 thousand)      | 604,045<br>(USD 19,949 thousand)      |
| Mega Bank                                 | Madonna III       | 439,782<br>(USD 15,144 thousand)      | 534,987<br>(USD 17,668 thousand)      |
| Mega Bank (and syndicate)                 | Huang Shan        | 622,286<br>(USD 21,429 thousand)      | 865,143<br>(USD 28,571 thousand)      |
| Mega Bank (and syndicate)                 | Georgiana         | 680,232<br>(USD 23,424 thousand)      | 827,492<br>(USD 27,328 thousand)      |
| Mega Bank (and syndicate)                 | Yue Shan          | 1,341,648<br>(USD 46,200 thousand)    | 1,598,784<br>(USD 52,800 thousand)    |
| Mega Bank (and syndicate)                 | Kondor            | 2,047,029<br>(USD 70,490 thousand)    | -<br>(USD 0 thousand)                 |
| Mega Bank (and syndicate)                 | Mineral Oak       | 917,809<br>(USD 31,605 thousand)      | 1,084,599<br>(USD 35,819 thousand)    |
| Mega Bank (and syndicate)                 | Tai Shan          | 937,138<br>(USD 32,271 thousand)      | 1,085,725<br>(USD 35,856 thousand)    |
|   |                   | 11,266,701                            | 11,294,251                            |
| Less: Current portion-due within one year |                   | ( 2,112,571)                          | ( 1,680,902)                          |
|   |                   | <u>\$ 9,154,130</u>                   | <u>\$ 9,613,349</u>                   |
| Interest rates                            |                   | <u>1.06%~1.86%</u>                    | <u>0.95%~2.03%</u>                    |

(5) Pension plan

- A) The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly to a retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Total net periodic pension cost in 2012 and 2011 amounted to \$3,280 and \$3,323, respectively, which are recognized based on an actuarial valuation. The fund balance with Bank of Taiwan was \$42,262 and \$38,911 as of December 31, 2012 and 2011, respectively, and is not included in the consolidated financial statements.

The following sets forth the pension information based on the actuarial reports as of December 31, 2012 and 2011:

a) Actuarial assumptions:

|  | 2012  | 2011  |
|--|-------|-------|
| Discount rate                          | 1.75% | 1.90% |
| Expected rate of return on plan assets | 1.75% | 1.90% |
| Rate of compensation increase          | 3.25% | 3.25% |

b) Funded status of the pension plan:

|                                    | December 31, |           |
|------------------------------------|--------------|-----------|
|                                    | 2012         | 2011      |
| Vested benefit obligation          | \$ 41,253    | \$ 32,935 |
| Non-vested benefit obligation      | 8,978        | 12,905    |
| Accumulated benefit obligation     | 50,231       | 45,840    |
| Effect of future salary increments | 13,603       | 13,498    |
| Projected benefit obligation       | 63,834       | 59,338    |
| Fair value of pension plan assets  | ( 42,262)    | ( 38,911) |
| Funded status                      | 21,572       | 20,427    |
| Unrecognized loss on plan assets   | ( 26,998)    | ( 26,138) |
| Additional reserve for pension     | 13,394       | 12,640    |
| Deposits in transit                | -            | ( 235)    |
| Accrued pension liabilities        | \$ 7,968     | \$ 6,694  |
| Vested benefit                     | \$ 45,931    | \$ 36,993 |

c) Net pension cost comprises of the following:

|  | For the years ended December 31, |          |
|--|----------------------------------|----------|
|  | 2012                             | 2011     |
| Service cost                                     | \$ 1,208                         | \$ 1,230 |
| Interest cost                                    | 1,127                            | 1,041    |
| Expected return on pension plan assets           | ( 739)                           | ( 685)   |
| Amortization of unrecognized loss on plan assets | 1,684                            | 1,737    |
| Net periodic pension cost                        | \$ 3,280                         | \$ 3,323 |

- B) Effective July 1, 2005, the Company established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”). Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable upon termination of employment. Total pension cost under the defined contribution pension plan in 2012 and 2011 amounted to \$2,757 and \$3,302, respectively.
- C) The Company’s mainland subsidiary has a defined contribution retirement plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on the employees’ monthly salaries and wages. The pension costs for the years ended December 31, 2012 and 2011 were \$1,314 and \$1,214, respectively.

(6) Income tax

- A) An analysis of income tax payable and income tax expense are as follows:

|  | For the years ended December 31, |                   |
|--|----------------------------------|-------------------|
|  | 2012                             | 2011              |
| Income tax payable   | \$ 307,491                       | \$ 306,347        |
| Over provision of prior year's income tax                      | ( 36)                            | ( 2,217)          |
| Prepaid and withholding taxes                                  | 18                               | 19                |
| Current income tax expense                                     | 307,473                          | 304,149           |
| Net change in deferred income tax liabilities                  | ( 56,170)                        | ( 133,090)        |
| Income tax expense   | 251,303                          | 171,059           |
| Less: Income tax (expense) benefit from discontinued operation | ( 12,166)                        | 3,372             |
| Income tax expense from continuing operations                  | <u>\$ 239,137</u>                | <u>\$ 174,431</u> |

The additional 10% tax levied on the unappropriated earnings for 2011 and 2010 are \$127,937 and \$0, respectively.

- B) Deferred income tax consists of the following:

|                                    | December 31, |                     |              |                     |
|------------------------------------|--------------|---------------------|--------------|---------------------|
|                                    | 2012         |                     | 2011         |                     |
|                                    | Amount       | Tax effect          | Amount       | Tax effect          |
| Deferred income tax (liabilities)  |              |                     |              |                     |
| assets - current                   |              |                     |              |                     |
| Unrealized exchange (benefit) loss | (\$ 15,604)  | (\$ 2,653)          | \$ 45,917    | \$ 7,806            |
| Unrealized investment income       | ( 1,016,400) | ( 172,788)          | ( 1,408,281) | ( 239,408)          |
|                                    |              | <u>(\$ 175,441)</u> |              | <u>(\$ 231,602)</u> |
| Deferred income tax liabilities    |              |                     |              |                     |
| - non current                      |              |                     |              |                     |
| Unfunded pension expense           | (\$ 5,661)   | <u>(\$ 962)</u>     | (\$ 5,711)   | <u>(\$ 971)</u>     |

C) The major differences between financial income and taxable income are the deferred income tax accounts mentioned in B) for the year ended December 31, 2012.

D) As of December 31, 2012, the Company's income tax returns through 2010 has been assessed and approved by the Tax Authority.

(7) Common stock

As of December 31, 2012, the Company's authorized capital amounted to \$7,000,000, consisting of 700,000 thousand common shares with a par value of \$10 (in New Taiwan dollars) per share. Issued and outstanding shares amounted to \$5,683,042.

(8) Capital reserve

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(9) Retained earnings

Legal reserve

Under the R.O.C. Company Law, the Company is required to set aside a legal reserve equivalent to 10% of its annual net income (less losses of prior years, if any), until the accumulated legal reserve balance equals the total registered capital of the Company. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

Special reserve

In accordance with the R.O.C. regulations, in addition to legal reserve and prior to distribution of earnings, the Company should set aside a special reserve in an amount equal to the net change in the reduction of the stockholders' equity as of the prior year from its annual net income and undistributed earnings of prior years. Such special reserve is not available for dividend distribution. In the subsequent year(s), if the year-end balances of such items no longer result in a reduction in stockholders' equity, the special reserve previously set aside will then be available for distribution to be decided in the annual stockholders' meeting.

Undistributed earnings

A) Based on the Company's Articles of Incorporation, the Company's net income (less income taxes and prior years' losses, if any) is appropriated in the following order:

- a) 10% for legal reserve.
- b) Special reserve.
- c) Appropriation of remaining income according to the decision of the Board of Directors and Stockholders, which include the minimum of 1% as employees' bonus and maximum of 5% as directors' and supervisors' bonus.

B) Under the Taiwan imputation tax system, any undistributed current earnings are subject to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the Company can be used as tax credit by stockholders, including foreign stockholders, against the withholding tax on dividends. In addition, the domestic individual stockholders can claim a proportionate share in the Company's corporate income tax as tax credit against its individual income tax liability effective 1999. Details of undistributed earnings and tax credit as of December 31, 2012 and 2011 are as follows:

a) Undistributed earnings:

|                          | December 31,        |                     |
|--------------------------|---------------------|---------------------|
|                          | 2012                | 2011                |
| Before December 31, 1997 | \$ 359,267          | \$ 359,267          |
| After December 31, 1997  | 5,878,661           | 4,733,361           |
|                          | <u>\$ 6,237,928</u> | <u>\$ 5,092,628</u> |

b) As of December 31, 2012 and 2011, the balance of imputation tax credit account were \$665,269 and \$459,671, respectively. The creditable tax rate was 15.46% for 2011, and is estimated to be 16.55% for 2012.

c) The appropriation of 2011 and 2010 earnings had been resolved at the stockholder's meeting on June 22, 2012 and June 22, 2011, respectively. Details are summarized below:

|                 | 2011                |                                  | 2010                |                                  |
|-----------------|---------------------|----------------------------------|---------------------|----------------------------------|
|                 | Amount              | Dividends per share (in dollars) | Amount              | Dividends per share (in dollars) |
| Legal reserve   | \$ 175,932          |                                  | \$ 210,347          |                                  |
| Special reserve | -                   |                                  | 1,374,174           |                                  |
| Cash dividends  | 852,456             | \$ 1.50                          | 1,420,760           | \$ 2.50                          |
|                 | <u>\$ 1,028,388</u> |                                  | <u>\$ 3,005,281</u> |                                  |

d) Subsequent events:

The appropriation of 2012 earnings had been proposed by the Board of Directors on March 28, 2013. Details are summarized below:

|                 | 2012                |                                  |
|-----------------|---------------------|----------------------------------|
|                 | Amount              | Dividends per share (in dollars) |
| Legal reserve   | \$ 162,525          |                                  |
| Special reserve | 614,234             |                                  |
| Cash dividends  | 710,380             | \$ 1.25                          |
|                 | <u>\$ 1,487,139</u> |                                  |

C) The estimated amounts of employees' bonus and directors' and supervisors remuneration of 2012 both amounted to \$11,011, based on 1.5% of net income for the year ended December 31, 2012, and are recognized as operating expenses for 2012. While, if the estimated amounts are different from the amounts approved by the stockholders subsequently, the difference is

recognized as gain or loss in 2013.

D) The Company's employees' bonus and directors' and supervisors remuneration for 2011 resolved at the stockholders' meeting both amounted to \$13,199 and there was no difference in the estimated amount. Information on the appropriation of the Company's employees' bonus and directors' and supervisors' remuneration as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(10) Remittability of funds

The foreign investors of the Company can remit from Taiwan all dividends distributed, net of withholding taxes on such dividends. In addition, the foreign investors can repatriate their invested capital.

(11) Earnings per share (share in thousands)

|  | For the year ended December 31, 2012 |                    |                      |                    |                |
|--|--------------------------------------|--------------------|----------------------|--------------------|----------------|
|  | Amount                               |                    | Weighted-average     | Earnings per share |                |
|  | Income                               | Net                | outstanding          | (in NT dollars)    |                |
|  | before                               | income             | common shares        | Income             | Net            |
|  | income tax                           |                    | (in thousand shares) | before             | income         |
|  |                                      |                    |                      | income tax         | income         |
| <u>Basic earnings per share</u>  |                                      |                    |                      |                    |                |
| Net income from continuing operations  | \$1,804,991                          | \$1,565,854        | 568,304              | \$ 3.18            | \$ 2.76        |
| Net income from discontinued operation   | <u>71,564</u>                        | <u>59,398</u>      |                      | <u>0.12</u>        | <u>0.10</u>    |
| Net income   | <u>\$1,876,555</u>                   | <u>\$1,625,252</u> |                      | <u>\$ 3.30</u>     | <u>\$ 2.86</u> |
| <u>Dilutive earnings per share</u>   |                                      |                    |                      |                    |                |
| Dilutive effect of common stock equivalents: Employee bonus  |                                      |                    | 447                  |                    |                |
| Net income from continuing operations attributable to common stock holders plus dilutive effect of common stock equivalents  | \$1,804,991                          | \$1,565,854        |                      | \$ 3.17            | \$ 2.75        |
| Net income from discontinued operation attributable to common stock holders plus dilutive effect of common stock equivalents | <u>71,564</u>                        | <u>59,398</u>      |                      | <u>0.13</u>        | <u>0.11</u>    |
| Net income attributable to common stock holders plus dilutive effect of common stock equivalents                             | <u>\$1,876,555</u>                   | <u>\$1,625,252</u> | <u>568,751</u>       | <u>\$ 3.30</u>     | <u>\$ 2.86</u> |



| For the year ended December 31, 2011  |                                |                     |  |                                       |                |
|---------------------------------------|--------------------------------|---------------------|--|---------------------------------------|----------------|
|                                       | Amount                         |                     | Wighted-average<br>outstanding<br>common shares<br>(in thousand<br>shares) | Earnings per share<br>(in NT dollars) |                |
|                                       | Income<br>before<br>income tax | Net<br>income       |  | Income<br>before<br>income tax        | Net<br>income  |
| <u>Basic earnings per share</u>       |                                |                     |  |                                       |                |
| Net income from continuing operations | \$ 1,950,214                   | \$ 1,775,783        | 568,304  | \$ 3.43                               | \$ 3.12        |
| Net loss from discontinued operations | ( 19,836)                      | ( 16,464)           |  | ( 0.03)                               | ( 0.02)        |
| Net income                            | <u>\$ 1,930,378</u>            | <u>\$ 1,759,319</u> |  | <u>\$ 3.40</u>                        | <u>\$ 3.10</u> |

Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would be increased from employees' stock bonus issuance in the weighted-average number of common shares outstanding during the reporting year, which takes into account the dilutive effects of stock bonus on potential common shares; whereas basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year. Since capitalization of employees' bonus no longer belongs to distribution of stock dividends (or retained earnings and capital reserve capitalized), the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

(12) Personnel expenses, depreciation and amortization

| For the year ended December 31, 2012 |                 |                    |            |
|--------------------------------------|-----------------|--------------------|------------|
|                                      | Operating costs | Operating expenses | Total      |
| Personnel expenses                   |                 |                    |            |
| Salaries and wages                   | \$ 497,711      | \$ 89,534          | \$ 587,245 |
| Insurance                            | 3,222           | 2,835              | 6,057      |
| Pension                              | 1,610           | 5,741              | 7,351      |
| Others                               | 90,744          | 1,612              | 92,356     |
| Depreciation                         | 1,228,593       | 1,125              | 1,229,718  |
| Amortization                         | 142,559         | -                  | 142,559    |
| For the year ended December 31, 2011 |                 |                    |            |
|                                      | Operating costs | Operating expenses | Total      |
| Personnel expenses                   |                 |                    |            |
| Salaries and wages                   | \$ 435,238      | \$ 81,914          | \$ 517,152 |
| Insurance                            | 4,151           | 2,819              | 6,970      |
| Pension                              | 2,113           | 5,726              | 7,839      |
| Others                               | 74,544          | 1,972              | 76,516     |
| Depreciation                         | 1,146,943       | 1,020              | 1,147,963  |
| Amortization                         | 114,418         | -                  | 114,418    |

## 5. RELATED PARTY TRANSACTIONS

### (1) Names and relationship of major related parties

| <u>Names of major related parties</u>    | <u>Relationship with the Company</u>   |
|--|--|
| Fred Tsai                                | The Company's Chairman   |
| Universal Mariners S.A. (U.M.S.A.)       | Owned by relatives of a major stockholder of the Company                     |
| Oak Maritime (Agencies) Inc. (Oak)       | Oak's Chairman is a director of the Company                                  |
| Oak Maritime (HK) Inc. (Oak HK)          | Oak HK's Chairman is a director of the Company                               |
| Lexus Investment Limited (Lexus)         | Minority stockholder of a subsidiary which is 60% owned by Norley            |
| Apex Shipping Company Limited (Apex)     | Minority stockholder of a subsidiary which is 80% owned by Norley            |
| Success Investment Limited (Success)     | Minority stockholder of a subsidiary which is 55% owned by Norley            |
| Bocimar Hong Kong Limited (Bocimar H.K.) | Minority stockholder of a subsidiaries which are 50% and 51% owned by Norley |
| Bocimar International N.V. (Bocimar)     | Affiliate company of Bocimar H.K.  |
| Euronav Hong Kong Ltd. (Euronav H.K.)    | Minority stockholder of a subsidiary which is 50% owned by Norley            |
| Euronav N.V.                             | Parent company of Euronav H.K.   |

### (2) Significant transactions and balance with related parties

#### A) Charter revenue

|         | <u>For the years ended December 31,</u> |                   |
|---------|---|-------------------|
|         | <u>2012</u>                             | <u>2011</u>       |
| Bocimar | \$ <u>575,098</u>                       | \$ <u>554,870</u> |

The term of the above charter revenue are processed with terms of general sales and fixed pricing.

#### B) Advance collection

|         | <u>December 31,</u> |                  |
|---------|---------------------|------------------|
|         | <u>2012</u>         | <u>2011</u>      |
| Bocimar | \$ <u>15,734</u>    | \$ <u>20,757</u> |

#### C) Service revenues (shown as operating revenues)

|          | <u>For the years ended December 31,</u> |                 |
|----------|---|-----------------|
|          | <u>2012</u>                             | <u>2011</u>     |
| U.M.S.A. | \$ 2,342                                | \$ 2,116        |
| Oak HK   | 8,130                                   | 6,670           |
|          | \$ <u>10,472</u>                        | \$ <u>8,786</u> |

The revenues are generated from the contract the Group signed with U.M.S.A. and Oak HK.

D) Other receivables – related parties

Amounts prepaid on behalf of related parties and agents:

|     | December 31, |          |
|-----|--------------|----------|
|     | 2012         | 2011     |
| Oak | \$ 15,616    | \$ 5,332 |

E) Other payables – related parties

Advances from related parties and agency payable:

|         | December 31, |          |
|---------|--------------|----------|
|         | 2012         | 2011     |
| U.M.S.A | \$ 4,035     | \$ 2,669 |

F) Management fee

|         | For the years ended December 31, |           |
|---------|----------------------------------|-----------|
|         | 2012                             | 2011      |
| U.M.S.A | \$ 50,976                        | \$ 40,716 |

G) Technical management fee

|          | For the years ended December 31, |          |
|----------|----------------------------------|----------|
|          | 2012                             | 2011     |
| U.M.S.A. | \$ 9,936                         | \$ 9,055 |

H) Supervision fee

|          | For the years ended December 31, |           |
|----------|----------------------------------|-----------|
|          | 2012                             | 2011      |
| U.M.S.A. | \$ 1,479                         | \$ 33,211 |

The supervision fees for building the new vessels paid by the Group to U.M.S.A. were capitalized as vessel costs.

I) Guarantee transactions

As of December 31, 2012, Oak HK guarantees the building of new vessels provided to the Group in the amount of US\$10,800 thousand.

J) Other guarantee transactions

Please refer to Note 4(3) for details.

K) Salaries/rewards information of key management, such as directors, supervisors, general manager etc.

|   | For the years ended December 31, |                  |
|---|----------------------------------|------------------|
|   | 2012                             | 2011             |
| Salaries and bonuses  | \$ 19,926                        | \$ 23,673        |
| Service execution fees  | 1,510                            | 1,510            |
| Directors' and supervisors' remuneration and employees' bonuses | 16,136                           | 19,176           |
|   | <u>\$ 37,572</u>                 | <u>\$ 44,359</u> |

- a) Salaries and bonuses include regular wages, special responsibility allowances, pensions, severance pay, various bonuses, rewards, etc.
- b) Service execution fees include travel or transportation allowances, special expenditures, various allowances, housing & vehicle benefits, etc.
- c) Directors' and supervisors' remuneration and employees' bonuses were those amounts estimated and accrued in the statement of income for the current year.
- d) Share-based payment expenses were the compensation costs accounted for under R.O.C. SFAS No. 39.

6. PLEDGED ASSETS

The Group's assets pledged as collateral as of December 31, 2012 and 2011 are as follows:

|                                  |                       | For the years ended December 31, |                      |
|----------------------------------|-----------------------|----------------------------------|----------------------|
| Purpose                          |                       | 2012                             | 2011                 |
| Other financial assets - current | Long-term loans       |                                  |                      |
| Time deposits                    | and gurantee deposits | \$ 372,052                       | \$ 234,200           |
| Vessels and equipment - net      | Long-term loans       | 19,786,508                       | 18,346,776           |
| Land and building - net          | Credit lines          | 104,227                          | 104,855              |
|                                  |                       | <u>\$ 20,262,787</u>             | <u>\$ 18,685,831</u> |

7. COMMITMENTS AND CONTINGENT LIABILITIES

(1)The Group had the following outstanding vessel charter agreements as of December 31, 2012:

| Contract Company             | Contract period                  |
|------------------------------|----------------------------------|
| RIO TINTO (Singapore)        | August 2008 to August 2013       |
| Bocimar International N.V.   | March 2003 to June 2014          |
| Nippon Yusen Kaisha          | January 2010 to January 2018     |
| Nippon Yusen Kaisha          | September 2009 to September 2017 |
| Nippon Yusen Kaisha          | March 2010 to March 2015         |
| Armada Bulk Carriers Ltd.    | October 2003 to October 2013     |
| Nippon Yusen Kaisha          | August 2008 to August 2016       |
| Hachiuma Steamship Co., Ltd. | October 1996 to October 2013     |
| Hachiuma Steamship Co., Ltd. | July 1997 to March 2013          |
| RIO TINTO (Singapore)        | September 2011 to September 2018 |

(2)The Company's subsidiaries have ship building agreements with several shipbuilding companies. Under these agreements, the total paid construction commitments amounted to US\$54,000 thousand, which are divided into 4 installments. 30% of the amount should be paid before the ships are

delivered while the remaining amount should be paid upon delivery of the ships. As of December 31, 2012, the subsidiaries paid US\$5,400 thousand as prepayment of ships under construction.

(3)The Company issued notes payable as guarantee for credit lines. Please refer to Note 4(3) for details.

(4)As of December 31, 2012 and 2011, the Board of Directors authorized and approved that the Company issue a promissory note to Mega Bank as guarantee for the subsidiaries' loans. The information of guarantees provided by the subsidiary, Norley, to BNP Paribas (and syndicates) for its holding companies is as follows:

| Subsidiaries                    | Purpose    | Original<br>credit amount | (in USD thousands) |                   |
|---------------------------------|------------|---------------------------|--------------------|-------------------|
|                                 |            |                           | December 31,       |                   |
|                                 |            |                           | 2012               | 2011              |
| Brighton Shipping Inc.          | Bank loans | \$ 28,840                 | \$ 9,613           | \$ 12,016         |
| Rockwell Shipping Limited       | Bank loans | 28,862                    | 12,026             | 14,431            |
| Seven Seas Shipping Ltd.        | Bank loans | 52,000                    | 19,500             | 23,833            |
| Howells Shipping Inc.           | Bank loans | 39,920                    | 15,959             | 19,949            |
| Everprime Shipping Limited      | Bank loans | 31,640                    | 12,656             | 15,820            |
| Clifford Navigation Corporation | Bank loans | 50,000                    | 32,143             | 32,143            |
| Crimson Marine Company          | Bank loans | 39,040                    | 29,280             | 29,280            |
| Poseidon Marine Ltd.            | Bank loans | 66,000                    | 49,500             | 66,000            |
| Ocean Wise Limited              | Bank loans | 42,140                    | 42,140             | 42,140            |
| Everwin Maritime Limited        | Bank loans | 75,460                    | 75,460             | 75,460            |
| Maxson Shipping Inc.            | Bank loans | 37,450                    | 37,450             | 37,450            |
| Kenmore Shipping Inc.           | Bank loans | 74,200                    | 74,200             | 74,200            |
| Peg Shipping Company Ltd.       | Bank loans | 28,000                    | 7,195              | 9,055             |
| Meko Shipping Inc.              | Bank loans | 27,000                    | 6,320              | 8,160             |
|                                 |            |                           | <u>\$ 423,442</u>  | <u>\$ 459,937</u> |

#### 8. SIGNIFICANT CATASTROPHE

None.

#### 9. SUBSEQUENT EVENTS

(1)The appropriation of 2012 earnings was proposed by the Board of Directors. Please refer to Note 4(9)B)d).

(2)On March 28, 2013, the Board of Directors of the Company resolved to avail of a loan from the subsidiary – Heywood Limited amounting to US\$30,000 thousands for working capital.

#### 10. OTHERS

(1)Certain accounts in the December 31, 2011 consolidated financial statements were reclassified to conform with the December 31, 2012 financial statement presentation.

(2)The fair values of the financial instruments

|  | December 31, 2012 |                                      |   |
|--|-------------------|--------------------------------------|---|
|  |                   | Fair value                           |   |
|  | Book value        | Quotations<br>in an active<br>market | Estimated using<br>a valuation<br>technique |
| <u>Non-derivative financial instruments</u>                    |                   |                                      |   |
| Assets   |                   |                                      |   |
| Financial assets with fair values equal<br>to book values      | \$ 6,374,195      | \$ -                                 | \$ 6,374,195                                |
| Refundable deposits  | 7,358             | -                                    | 7,358                                       |
| Liabilities  |                   |                                      |   |
| Financial liabilities with fair values<br>equal to book values | 1,042,823         | -                                    | 1,042,823                                   |
| Long-term loans(current portion included)                      | 11,266,701        | -                                    | 11,266,701                                  |
|  | December 31, 2011 |                                      |   |
|  |                   | Fair value                           |   |
|  | Book value        | Quotations<br>in an active<br>market | Estimated using<br>a valuation<br>technique |
| <u>Non-derivative financial instruments</u>                    |                   |                                      |   |
| Assets   |                   |                                      |   |
| Financial assets with fair values equal<br>to book values      | \$ 5,359,581      | \$ -                                 | \$ 5,359,581                                |
| Refundable deposits  | 7,665             | -                                    | 7,665                                       |
| Liabilities  |                   |                                      |   |
| Financial liabilities with fair values<br>equal to book values | 1,035,603         | -                                    | 1,035,603                                   |
| Long-term loans(current portion included)                      | 11,294,251        | -                                    | 11,294,251                                  |

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

- A) For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, accounts receivable, accounts receivable - related parties, other receivables, other receivables - related parties, other financial assets - current, short-term loans, accrued expenses, other payables and other payables - related parties.
- B) As floating interest rates are adopted for the long-term loans, the fair value is based on the book value.
- C) The fair value of the deposits-out was based on the present value of expected cash flow amount. The discount rate was the one-year deposit rate of the Directorate General of Postal Remittances and Savings Bank. But the amounts were not material to be discounted.
- D) The financial instruments with credit risk on the balance sheets are as follows:

|                                | December 31,         |                      |
|--------------------------------|----------------------|----------------------|
|                                | 2012                 | 2011                 |
| Guarantees for the credit line | USD 423,442 thousand | USD 459,937 thousand |

(3) Information on significant gain/loss on financial instruments and equity items

For the years ended December 31, 2012 and 2011, total interest income (calculated using the effective interest method) on financial assets or financial liabilities that are not at fair value through profit or loss amounted to \$17,414 and \$8,732, respectively, and total interest expense amounted to \$214,629 and \$156,465, respectively.

(4) Information on interest rate risk positions

As of December 2012 and 2011, the financial assets with fair value risk due to the change of interest amounted to \$3,921,497 and \$2,273,309, respectively, the financial liabilities amounted to \$794,000 and \$774,000, respectively; and the financial liabilities with cash flow risk due to change of interest amounted to \$11,266,701 and \$11,294,251, respectively.

(5) Procedure of financial risk control

The Group's activities expose the Group to a variety of financial risk: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. To meet its risk management objectives, the Group adopts the following strategies to control financial risk:

Credit risk

The Group has a stringent credit policy in place. Transactions are conducted only with counterparties with good credit conditions. Appropriate measures are also undertaken where necessary to protect the Group's credit rights and thereby mitigate credit risk.

(6) Information on material financial risk

A) Market risk

a) Foreign exchange risk

The Group's major export transactions are conducted in United States dollars (USD). The fluctuations in foreign exchange rates will result in changes in fair value. However, as the amounts and periods of the Group's accounts receivable is equivalent to its accounts payable, the market risk could be offset. The Group estimates there would be no material risk.

The Company and its subsidiaries engage in services involving certain non-functional currencies (the Company's functional currency is New Taiwan dollars while some subsidiaries use United States dollars as their functional currency) and therefore are affected by exchange rate fluctuations. The information of foreign currency assets and liabilities involving significant exchange rate influences is as follows:

|  |                     |               |                     |               |
|--|---------------------|---------------|---------------------|---------------|
|  | (in thousands)      |               |                     |               |
|  | December 31,        |               |                     |               |
|  | 2012                |               | 2011                |               |
| (Foreign currency:<br>Functional currency) | Foreign<br>currency | Exchange rate | Foreign<br>currency | Exchange rate |
| <u>Financial assets</u>                    |                     |               |                     |               |
| <u>Monetary items</u>                      |                     |               |                     |               |
| USD:NTD                                    | \$ 9,785            | 29.04         | \$ 2,594            | 30.28         |
| <u>Financial liabilities</u>               |                     |               |                     |               |
| <u>Monetary items</u>                      |                     |               |                     |               |
| USD:NTD                                    | 15,154              | 29.04         | 18,294              | 30.28         |

b) Price risk

The Group is exposed to equity securities price risk because of fluctuations in market price. The Group has set the stop-loss amount of derivatives to reduce its market risk, so the Group estimates there would be no material risk

B) Credit risk

- a) The Group has no significant concentration of credit risk. It has policies in place to ensure that charters are made to charterers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.
- b) Loan guarantees provided by the Group are in compliance with the Group's "Procedures for Provision of Endorsements and Guarantees" and are only provided to related parties that are over 50% owned, either directly or indirectly, by the parent company, Sincere Navigation Corporation. As the Group is fully aware of the credit conditions of these related parties, it has not asked for collateral for the loan guarantees provided. In the event that these related parties should fail to comply with loan agreements with banks, the maximum loss to the Group would be the total amount of loan guarantees as listed above.

C) Cash flow risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at floating interest rates expose the Group to cash flow interest rate risk. The amount of cash flow would decrease by \$112,667, if the interest rate is raised by 1% at the balance sheet date.



## 11. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

### (1) Related information of significant transactions

In accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers", summaries of the information of major transactions are described below:

#### A) Loans granted during the year ended December 31, 2012:

| Number<br>(Note 1) | Creditor                             | Borrower                             | General ledger<br>account               | Maximum outstanding<br>balance during the year<br>ended December 31,<br>2012 | Balance as at December<br>31, 2012 | Interest<br>rate | Nature of<br>loan (Note 3) | Amount of<br>transactions<br>with the<br>borrower | Reason for<br>short-term<br>financing | Allowance<br>for<br>doubtful<br>accounts | Collateral |       | Limit on loans<br>granted to a<br>single party<br>(Note 2) | Ceiling on total<br>loans granted<br>(Note 2) |
|--------------------|--------------------------------------|--------------------------------------|---|--|------------------------------------|------------------|----------------------------|---|---------------------------------------|--|------------|-------|--|---|
|                    |                                      |                                      |   |  |                                    |                  |                            |   |                                       |  | Item       | Value |  |   |
| 0                  | Sincere<br>Navigation<br>Corporation | None                                 |   |  |                                    |                  |                            |   |                                       |  |            |       | \$ 4,209,020   | \$ 5,612,026                                  |
| 1                  | Norley<br>Corporation<br>Inc.        | Confidence<br>Navigation<br>Ltd.     | Advance to<br>associated<br>entity      | \$ 349,020<br>(USD 11,526 thousand)  | \$ 262,127<br>(USD 9,026 thousand) | -                | 2                          | -   | Working<br>capital                    | -  | -          |       | 10,916,936   | 10,916,936                                    |
| "                  | "                                    | Sincere<br>Navigation<br>Corporation | Other<br>receivables<br>related parties | 674,775<br>(USD 22,500 thousand)   | 653,400<br>(USD 22,500 thousand)   | -                | "                          | -   | "                                     | -  | -          |       | 3,275,081  | 4,366,774                                     |
| 2                  | Heywood<br>Limited                   | Sincere<br>Navigation<br>Corporation | "                                       | 681,300<br>(USD 22,500 thousand)   | -<br>(USD 0 thousand)              | -                | "                          | -   | "                                     | -  | -          |       | 1,299,570  | 1,732,760                                     |
| "                  | "                                    | Howells<br>Shipping<br>Inc.          | Advance to<br>associated<br>entity      | 31,471<br>(USD 1,039 thousand)   | 30,183<br>(USD 1,039 thousand)     | -                | "                          | -   | "                                     | -  | -          |       | 4,331,901  | 4,331,901                                     |
| "                  | "                                    | Century<br>Shipping<br>Ltd.          | Advance to<br>associated<br>entity      | 605<br>(USD 20 thousand)   | 581<br>(USD 20 thousand)           | -                | 2                          | -   | "                                     | -  | -          |       | 4,331,901  | 4,331,901                                     |
| 3                  | Great Wall<br>Navigation<br>Limited  | Heywood<br>Limited                   | "                                       | 198<br>(USD 7 thousand)  | -<br>(USD 0 thousand)              | -                | "                          | -   | "                                     | -  | -          |       | -  | -   |

Note 1: Number 0 represents the Company.

The subsidiaries numbered sequentially start from number 1.

Note 2: In accordance with the financing procedures of the Company, for business transaction purposes, maximum financing to each subsidiary and total financing is limited to 30% and 40% of the Company's net value, respectively. For short-term lending purpose, maximum financing to each subsidiary and total financing is limited 30% to 40% of the Company's net value, respectively.

The maximum financing between the subsidiaries which are directly or indirectly 100% owned by the Company is limited to 100% of the lender's net value.

Note 3: Number 1 represents the business transaction.

Number 2 represents the necessity for short-term lending.

B) Endorsements and guarantees provide during the year ended December 31, 2012:

| Number<br>(Note 1) | Endorser/garantor                 | Party being<br>endorsed/guaranteed | Relationship with<br>the<br>endorser/guarantor<br>(Note 2) | Limit on<br>endorsements/<br>guarantees<br>provided for a<br>single party<br>(Note 3) | Maximum outstanding<br>endorsement/guarantee<br>amount during 2012 | Outstanding<br>endorsement/<br>guarantee amount<br>at 12/31/2012 | Amount of<br>endorsements/<br>guarantees<br>secured with<br>collateral | Ratio of accumulated<br>endorsement/guarantee<br>amount to net value of<br>the Company | Ceiling on total<br>amount of<br>endorsements/<br>guarantees provided<br>(Note 3) | Note  |
|--------------------|-----------------------------------|------------------------------------|--|---|--|--|--|--|---|---|
| 0                  | Sincere Navigation<br>Corporation | Brighton<br>Shipping Inc.          | 3  | \$ 14,030,065   | \$ 363,860   | \$ 279,167   | \$ -   | 84.85%   | \$ 35,075,163   | (Note 4)                                      |
| "                  | "                                 | Rockwell<br>Shipping Limited       | "  | 14,030,065  | 436,966  | 349,226  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Howells<br>Shipping Inc.           | "  | 14,030,065  | 604,045  | 463,447  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Seven Seas<br>Shipping Ltd.        | "  | 14,030,065  | 721,668  | 566,276  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Everprime Shipping<br>Limited      | "  | 14,030,065  | 479,029  | 367,530  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Clifford Navigation<br>Corporation | "  | 14,030,065  | 973,286  | 933,429  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Crimson Marine<br>Company          | "  | 14,030,065  | 886,598  | 850,291  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Poseidon Marine<br>Ltd.            | "  | 14,030,065  | 1,998,480  | 1,437,480  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Ocean Wise<br>Limited              | "  | 14,030,065  | 1,275,999  | 1,223,756  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Everwin Maritime<br>Limited        | "  | 14,030,065  | 2,284,929  | 2,191,358  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Maxson<br>Shipping Inc.            | "  | 14,030,065  | 1,133,986  | 1,087,548  | -  | 84.85%   | 35,075,163  | "   |
| "                  | "                                 | Kenmore<br>Shipping Inc.           | "  | 14,030,065  | 2,246,776  | 2,154,768  | -  | 84.85%   | 35,075,163  | "   |
| 1                  | Norley Corporation<br>Inc.        | Peg Shipping<br>Company Ltd.       | "  | 10,916,936  | 274,185  | 208,943  | -  | 3.60%  | 27,292,340  | Guarantee<br>balance USD<br>7,195<br>thousand |
| "                  | "                                 | Meko<br>Shipping Inc.              | "  | 10,916,936  | 247,085  | 183,533  | -  | 3.60%  | 27,292,340  | Guarantee<br>balance USD<br>6,320<br>thousand |

Note 1: Number 0 represents the Company.

The subsidiaries numbered sequentially start from number 1.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following six categories; fill in the number of category each case belongs to:

(1) Having business relationship.

(2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

(4) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.

(5) Mutual guarantee of the trade as required by the construction contract.

(6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

Note 3: In accordance with the guarantee procedures of the Company, the Company's guarantee to others and total guarantee amount should not exceed 100% and 250% of the Company's net value, respectively. The guarantee amount for business transaction purposes should not exceed the total transaction amount with the Company within the current year. The total guarantee amount of the

Company and its subsidiaries together should not exceed 300% of the Company's net value. The guarantee amount to a single enterprise should not exceed the Company's net value.

Note 4: Guarantee balance in US Dollars, please refer to Note 5(2).

C) Marketable securities held as at December 31, 2012

| Securities held by               | Marketable Securities |                            | Relationship of the securities issuer | General ledger accounts | December 31, 2012 |                                    |              |                                    | Note |
|----------------------------------|-----------------------|----------------------------|---------------------------------------|-------------------------|-------------------|------------------------------------|--------------|------------------------------------|------|
|                                  | Type                  | Name                       |                                       |                         | Number of shares  | Book value                         | Ownership(%) | Market value                       |      |
| Sincere Navigaton Corporation    | Common Stock          | Norley Corporation Inc.    | 100% shares owned by the Company      | Long-term investment    | 500               | \$ 10,916,936                      | 100%         | \$ 10,916,936                      |      |
| "                                | "                     | Heywood Limited            | "                                     | "                       | "                 | 4,331,901                          | "            | 4,331,901                          |      |
| Norley Corporation Inc. (Norley) | "                     | Confidence Navigation Ltd. | 100% shares owned by Norley           | "                       | "                 | 1,143,624<br>(USD 39,381 thousand) | "            | 1,143,624<br>(USD 39,381 thousand) |      |
| "                                | "                     | Kenmore Shipping Inc.      | "                                     | "                       | "                 | 1,485,280<br>(USD 51,146 thousand) | "            | 1,485,280<br>(USD 51,146 thousand) |      |
| "                                | "                     | Poseidon Marine Ltd.       | "                                     | "                       | "                 | 1,337,989<br>(USD 46,074 thousand) | "            | 1,337,989<br>(USD 46,074 thousand) |      |
| "                                | "                     | Maxson Shipping Inc.       | "                                     | "                       | "                 | 822,122<br>(USD 28,310 thousand)   | "            | 822,122<br>(USD 28,310 thousand)   |      |
| "                                | "                     | Ocean Wise Limited         | 51% shares owned by Norley            | "                       | 127,755           | 369,505<br>(USD 12,724 thousand)   | 51%          | 369,505<br>(USD 12,724 thousand)   |      |
| "                                | "                     | Welluck Co., Ltd.          | 50% shares owned by Norley            | "                       | 250               | 256,075<br>(USD 8,818 thousand)    | 50%          | 256,075<br>(USD 8,818 thousand)    |      |
| "                                | "                     | Winnington Limited         | "                                     | "                       | "                 | 233,685<br>(USD 8,047 thousand)    | "            | 233,685<br>(USD 8,047 thousand)    |      |
| "                                | "                     | Kingswood Co., Ltd.        | "                                     | "                       | "                 | 434,003<br>(USD 14,945 thousand)   | "            | 434,003<br>(USD 14,945 thousand)   |      |
| "                                | "                     | Valentine Holdings Ltd.    | 60% shares owned by Norley            | "                       | 300               | 345,924<br>(USD 11,912 thousand)   | 60%          | 345,924<br>(USD 11,912 thousand)   |      |

| Securities held by               | Marketable Securities |                                 | Relationship of the securities issuer | General ledger accounts | December 31, 2012 |                                       |              |                                       | Note |
|----------------------------------|-----------------------|---------------------------------|---------------------------------------|-------------------------|-------------------|---------------------------------------|--------------|---------------------------------------|------|
|                                  | Type                  | Name                            |                                       |                         | Number of shares  | Book value                            | Ownership(%) | Market value                          |      |
| Norley Corporation Inc. (Norley) | Common Stock          | Jetwall Co., Ltd.               | 80% shares owned by Norley            | Long-term investment    | 400               | \$ 1,092,514<br>(USD 37,621 thousand) | 80%          | \$ 1,092,514<br>(USD 37,621 thousand) |      |
| "                                | "                     | Victory Navigation Inc.         | 55% shares owned by Norley            | "                       | 275               | 324,841<br>(USD 11,186 thousand)      | 55%          | 324,841<br>(USD 11,186 thousand)      |      |
| Heywood Limited (Heywood)        | "                     | Newton Navigation Limited       | 100% shares owned by Heywood          | "                       | 500               | 863,272<br>(USD 29,727 thousand)      | 100%         | 863,272<br>(USD 29,727 thousand)      |      |
| "                                | "                     | Clifford Navigation Corporation | "                                     | "                       | "                 | 256,046<br>(USD 8,817 thousand)       | "            | 256,046<br>(USD 8,817 thousand)       |      |
| "                                | "                     | Brighton Shipping Inc.          | "                                     | "                       | "                 | 601,389<br>(USD 20,709 thousand)      | "            | 601,389<br>(USD 20,709 thousand)      |      |
| "                                | "                     | Rockwell Shipping Limited       | "                                     | "                       | "                 | 487,785<br>(USD 16,797 thousand)      | "            | 487,785<br>(USD 16,797 thousand)      |      |
| "                                | "                     | Howells Shipping Inc.           | "                                     | "                       | "                 | 538,924<br>(USD 18,558 thousand)      | "            | 538,924<br>(USD 18,558 thousand)      |      |
| "                                | "                     | Crimson Marine Company          | "                                     | "                       | "                 | 615,822<br>(USD 21,206 thousand)      | "            | 692,988<br>(USD 21,206 thousand)      |      |
| "                                | "                     | Honco Shipping Limited          | "                                     | "                       | 2                 | -<br>(USD 0 thousand)                 | "            | -<br>(USD 0 thousand)                 |      |
| "                                | "                     | Century Shipping Limited        | "                                     | "                       | 50,000            | 8,131<br>(USD 280 thousand)           | "            | 8,131<br>(USD 280 thousand)           |      |
| "                                | "                     | Helmsman Navigation Co. Ltd.    | "                                     | "                       | 500               | 78,640<br>(USD 2,708 thousand)        | "            | 78,640<br>(USD 2,708 thousand)        |      |
| "                                | "                     | Keystone Shipping Co. Ltd.      | "                                     | "                       | "                 | 78,640<br>(USD 2,708 thousand)        | "            | 78,640<br>(USD 2,708 thousand)        |      |

| Securities held by                     | Marketable Securities |   | Relationship of the securities issuer | General ledger accounts | December 31, 2012 |                                    |              |                                    | Note |
|--|-----------------------|---|---------------------------------------|-------------------------|-------------------|------------------------------------|--------------|------------------------------------|------|
|  | Type                  | Name  |                                       |                         | Number of shares  | Book value                         | Ownership(%) | Market value                       |      |
| Century Shipping Limited (Century)     | Common Stock          | Haihu Maritime Service (Shanghai) Co., Ltd. | 100% shares owned by Century          | Long-term investment    | -                 | \$ 8,427<br>(RMB 1,824 thousand)   | 100%         | \$ 8,427<br>(RMB 1,824 thousand)   |      |
| Valentine Holdings Limited (Valentine) | "                     | Millennia Investment Company Ltd.           | 100% shares owned by Valentine        | "                       | 500               | 292,084<br>(USD 10,058 thousand)   | "            | 292,084<br>(USD 10,058 thousand)   |      |
| "                                      | "                     | Gemini Investment Company Ltd.              | "                                     | "                       | "                 | 244,052<br>(USD 8,404 thousand)    | "            | 244,052<br>(USD 8,404 thousand)    |      |
| Jetwall Co., Ltd. (Jetwall)            | "                     | Everwin Maritime Ltd.                       | 100% shares owned by Jetwall          | "                       | "                 | 1,366,100<br>(USD 47,042 thousand) | "            | 1,366,100<br>(USD 47,042 thousand) |      |
| Victory Navigation Inc. (Victory)      | "                     | Everprime Shipping Ltd.                     | 100% shares owned by Victory          | "                       | "                 | 587,102<br>(USD 20,217 thousand)   | "            | 587,102<br>(USD 20,217 thousand)   |      |
| Winnington Limited (Winnington)        | "                     | Peg Shipping Company Ltd.                   | 100% shares owned by Winnington       | "                       | "                 | 462,491<br>(USD 15,926 thousand)   | "            | 462,491<br>(USD 15,926 thousand)   |      |
| Welluck Co., Ltd. (Welluck)            | "                     | Meko Shipping Inc.                          | 100% shares owned by Welluck          | "                       | "                 | 503,873<br>(USD 17,351 thousand)   | "            | 503,873<br>(USD 17,351 thousand)   |      |
| Kingswood Co., Ltd. (Kingswood)        | "                     | Seven Seas Shipping Ltd.                    | 100% shares owned by Kingswood        | "                       | "                 | 838,937<br>(USD 28,889 thousand)   | "            | 838,937<br>(USD 28,889 thousand)   |      |

D) Acquisition or sale of the same security with the accumulated cost exceeding \$100 million or 20% of the Company's paid-in capital during the year ended December 31, 2012: None.

E) Acquisitions of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended December 31, 2012

| Property acquired by  | Property acquired | Date of transaction | Transaction amount                  | Status of payment | Counterparty                              | Relationship with the Company | If the counterparty is a related party, information as to the last transaction of the property is disclosed below: |   |                                  |        | Basis or reference used in setting the price | Reasons for acquisitions of properties and status of the properties | Other comments |
|-----------------------|-------------------|---------------------|-------------------------------------|-------------------|---|-------------------------------|--|---|----------------------------------|--------|--|---|----------------|
|                       |                   |                     |                                     |                   |   |                               | Original owner who sold the property to the counterparty   | Relationship of the original owner with the Company | Date of the original transaction | Amount |  |   |                |
| Kenmore Shipping Inc. | Kondor            | 1/10/2012           | \$ 3,321,754 (USD 109,175 thousand) | Settled           | China Shipping Trading Co., Ltd. Shanghai | -                             | -  | -   | -                                | \$ -   | Cost of new vessel acquired                  | Expand operational scale  | -              |

F) Disposal of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended December 31, 2012

| Property disposed of by        | Property        | Date of disposal | Date of acquisition | Book value | Disposal amount                 | Status of collection of proceeds | Gain on disposal | Counterparty                  | Relationship with the Company | Reason for disposal      | Basis or reference used in setting the price | Other comments |
|--------------------------------|-----------------|------------------|---------------------|------------|---------------------------------|----------------------------------|------------------|-------------------------------|-------------------------------|--------------------------|--|----------------|
| Sincere Navigation Corporation | Shin Hsing No.2 | 7/11/2012        | 10/21/2000          | \$ 280,298 | \$ 372,230 (USD12,450 thousand) | Received                         | \$ 80,674        | PT PELAYARAN BAHTERA ADHIGUNA | None                          | Replacement of old ships | Resolved by the Board of directors           | -              |

G) Purchases from or sales to related parties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended December 31, 2012:

| Purchaser/seller          | Counterparty               | Relationship with the Company                        | Transaction       |                     |                                       |             | Differences in transaction terms compared to third party transactions |             | Notes/accounts receivable (payable) |   | Remark                                  |
|---------------------------|----------------------------|--|-------------------|---------------------|---------------------------------------|-------------|---|-------------|-------------------------------------|---|---|
|                           |                            |  | Purchases (sales) | Amount              | Percentage of total purchases (sales) | Credit term | Unit price  | Credit term | Balance                             | Percentage of total notes/accounts receivable (payable) |   |
| Peg Shipping Company Ltd. | Bocimar International N.V. | Parent company of majority shareholder of Winnington | Charter revenue   | USD 19,449 thousand | 100%                                  | None        | The same as third parties   | None        | \$ -                                | -   | Advance collections of USD 542 thousand |

H) Receivables from related parties exceeding \$100 million or 20% of the Company's paid-in capital as of December 31, 2012:

| Creditor                         | Counterparty                   | Relationship with the Company | Balance of receivable from related parties | Turnover rate | Overdue receivable |              | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|----------------------------------|--------------------------------|-------------------------------|--|---------------|--------------------|--------------|---|---------------------------------|
|                                  |                                |                               |  |               | Amount             | Action taken |   |                                 |
| Sincere Navigation Corporation   | None                           |                               |  |               |                    |              |   |                                 |
| Norley Corporation Inc. (Norley) | Confidence Navigation Ltd.     | 100% shares owned by Norley   | \$ 262,127<br>(USD 9,026 thousand)         | -             | \$ -               | -            | \$ -  | \$ -                            |
| "                                | Sincere Navigation Corporation | Parent company of Norley      | 653,400<br>(USD 22,500 thousand)           | -             | -                  | -            | -   | -                               |

I) Derivative financial instruments undertaken during the year ended December 31, 2012: None.



(2) Disclosure information of investee company

A) Information of investee company:

| Investor                       | Investee                       | Location            | Main activities     | Initial investment amount       |                                 | Shares held as at December 31, 2012 |              |   | Net income (loss) of the investee   | Investment income recognized by the Company | Note                        |
|--------------------------------|--------------------------------|---------------------|---------------------|---------------------------------|---------------------------------|-------------------------------------|--------------|---|-------------------------------------|---|-----------------------------|
|                                |                                |                     |                     | Balance as of December 31, 2012 | Balance as of December 31, 2011 | Number of shares                    | Ownership(%) | Book value                              |                                     |   |                             |
| Sincere Navigation Corporation | Norley Corporation Inc.        | Republic of Liberia | Investment holdings | USD 1,000 thousand              | USD 1,000 thousand              | 500                                 | 100%         | \$ 10,916,936<br>(USD 375,928 thousand) | \$ 973,697<br>(USD 32,929 thousand) | \$ 973,697                                  | Subsidiary                  |
| "                              | Heywood Limited                | Marshall Islands    | "                   | USD 1,000 thousand              | USD 1,000 thousand              | 500                                 | 100%         | 4,331,901<br>(USD 149,170 thousand)     | 984,594<br>(USD 33,297 thousand)    | 984,594                                     | "                           |
| Norley Corporation Inc.        | Valentine Holdings Ltd.        | Republic of Liberia | "                   | USD 6 thousand                  | USD 6 thousand                  | 300                                 | 60%          | USD 11,912 thousand                     | USD 1,634 thousand                  | -   | Indirectly owned subsidiary |
| "                              | Confidence Navigation Ltd.     | Marshall Islands    | Oil tanker          | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 39,381 thousand                     | USD -533 thousand                   | -   | "                           |
| "                              | Kenmore Shipping Inc.          | "                   | "                   | USD 53,610 thousand             | USD 65,610 thousand             | 500                                 | 100%         | USD 51,146 thousand                     | USD -2,446 thousand                 | -   | "                           |
| "                              | Welluck Co., Ltd.              | "                   | Investment holdings | USD 5 thousand                  | USD 5 thousand                  | 250                                 | 50%          | USD 8,818 thousand                      | USD 13,301 thousand                 | -   | "                           |
| "                              | Winnington Limited             | "                   | "                   | USD 5 thousand                  | USD 5 thousand                  | 250                                 | 50%          | USD 8,047 thousand                      | USD 15,518 thousand                 | -   | "                           |
| "                              | Jetwall Co., Ltd.              | "                   | "                   | USD 41,776 thousand             | USD 37,776 thousand             | 400                                 | 80%          | USD 37,621 thousand                     | USD -1,890 thousand                 | -   | "                           |
| "                              | Victory Navigation Inc.        | "                   | "                   | USD 6 thousand                  | USD 6 thousand                  | 275                                 | 55%          | USD 11,186 thousand                     | USD 9,840 thousand                  | -   | "                           |
| "                              | Kingswood Co., Ltd.            | "                   | "                   | USD 3,242 thousand              | USD 3,242 thousand              | 250                                 | 50%          | USD 14,945 thousand                     | USD 681 thousand                    | -   | "                           |
| "                              | Poseidon Marine Ltd.           | "                   | Shipping charting   | USD 23,000 thousand             | USD 26,500 thousand             | 500                                 | 100%         | USD 46,074 thousand                     | USD 6,559 thousand                  | -   | "                           |
| "                              | Maxson Shipping Inc.           | "                   | "                   | USD 23,510 thousand             | USD 25,510 thousand             | 500                                 | 100%         | USD 28,310 thousand                     | USD 4,020 thousand                  | -   | "                           |
| "                              | Ocean Wise Limited             | Republic of Liberia | "                   | USD 2,555 thousand              | USD 2,555 thousand              | 127,755                             | 51%          | USD 12,724 thousand                     | USD 11,423 thousand                 | -   | "                           |
| Valentine Holdings Limited     | Millennia Investment Co., Ltd. | Marshall Islands    | "                   | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 10,058 thousand                     | USD 763 thousand                    | -   | "                           |

| Investor                 | Investee                                    | Location            | Main activities                  | Initial investment amount       |                                 | Shares held as at December 31, 2012 |              |                     | Net income (loss) of the investee | Investment income recognized by the Company | Note                        |
|--------------------------|---|---------------------|----------------------------------|---------------------------------|---------------------------------|-------------------------------------|--------------|---------------------|-----------------------------------|---|-----------------------------|
|                          |   |                     |                                  | Balance as of December 31, 2012 | Balance as of December 31, 2011 | Number of shares                    | Ownership(%) | Book value          |                                   |   |                             |
| Valentine Holdings Ltd.  | Gemini Investment Company Ltd.              | Marshall Islands    | Shipping charting                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 8,404 thousand  | USD 869 thousand                  | \$ -  | Indirectly owned subsidiary |
| Welluck Co., Ltd.        | Meko Shipping Inc.                          | Republic of Liberia | "                                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 17,351 thousand | USD 13,296 thousand               | -   | "                           |
| Winnington Limited       | Peg Shipping Company Ltd.                   | "                   | "                                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 15,926 thousand | USD 15,515 thousand               | -   | "                           |
| Kingswood Co., Ltd.      | Seven Seas Shipping Ltd.                    | Marshall Islands    | Oil tanker                       | USD 6,483 thousand              | USD 6,483 thousand              | 500                                 | 100%         | USD 28,889 thousand | USD 680 thousand                  | -   | "                           |
| Jetwall Co., Ltd.        | Everwin Maritime Limited                    | "                   | "                                | USD 52,220 thousand             | USD 47,220 thousand             | 500                                 | 100%         | USD 47,042 thousand | USD -1,888 thousand               | -   | "                           |
| Victory Navigation Inc.  | Everprime Shipping Limited                  | "                   | Shipping charting                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 20,217 thousand | USD 9,843 thousand                | -   | "                           |
| Heywood Limited          | Clifford Navigation Corporation             | "                   | "                                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 8,817 thousand  | USD 11,193 thousand               | -   | "                           |
| "                        | Newton Navigation Limited                   | "                   | "                                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 29,727 thousand | USD 13,996 thousand               | -   | "                           |
| "                        | Brighton Shipping Inc.                      | "                   | "                                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 20,709 thousand | USD 9,112 thousand                | -   | "                           |
| "                        | Rockwell Shipping Limited                   | "                   | "                                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 16,797 thousand | USD 800 thousand                  | -   | "                           |
| "                        | Howells Shipping Inc.                       | "                   | "                                | USD 10 thousand                 | USD 10 thousand                 | 500                                 | 100%         | USD 18,558 thousand | USD -50 thousand                  | -   | "                           |
| "                        | Crimson Marine Company                      | "                   | "                                | USD 24,398 thousand             | USD 24,398 thousand             | 500                                 | 100%         | USD 21,206 thousand | USD -1,680 thousand               | -   | "                           |
| "                        | Honco Shipping Limited                      | Hong Kong           | Investment holdings              | USD 0 thousand                  | USD 0 thousand                  | 2                                   | 100%         | USD 0 thousand      | USD 0 thousand                    | -   | "                           |
| "                        | Century Shipping Limited                    | Marshall Islands    | "                                | USD 500 thousand                | USD 500 thousand                | 50,000                              | 100%         | USD 280 thousand    | USD -20 thousand                  | -   | "                           |
| "                        | Helmsman Navigation Co. Ltd.                | "                   | Holding in shipbuilding contract | USD 2,710 thousand              | USD 0 thousand                  | 500                                 | 100%         | USD 2,708 thousand  | USD -2 thousand                   | -   | "                           |
| "                        | Keystone Shipping Co. Ltd.                  | "                   | "                                | USD 2,710 thousand              | USD 0 thousand                  | 500                                 | 100%         | USD 2,708 thousand  | USD -2 thousand                   | -   | "                           |
| Century Shipping Limited | Haihu Maritime Service (Shanghai) Co., Ltd. | China               | Maritime service                 | USD 500 thousand                | USD 500 thousand                | -                                   | 100%         | CNY 1,824 thousand  | CNY -124 thousand                 | -   | "                           |

B) Significant transactions between investee company:

- (a) Loans granted during the year ended December 31, 2012: Please see Note 11. (1) A).
- (b) Endorsements and guarantees provided during the year ended December 31, 2012: Please see Note 11. (1) B).
- (c) Marketable securities held at December 31, 2012: Please see Note 11. (1) C).
- (d) Acquisition or sale of the same security with the accumulated cost exceeding \$100 million or 20% percent of the Company's paid-in capital during the year ended December 31, 2012: None.
- (e) Acquisition of real estate properties exceeding \$100 million or 20% percent of the Company's paid-in capital during the year ended December 31, 2012: Please see Note 11. (1) E).
- (f) Disposal of real estate properties exceeding \$100 million or 20% percent of the Company's paid-in capital during the year ended December 31, 2012: None
- (g) Purchases from or sales to related parties exceeding \$100 million or 20% percent of the Company's paid-in capital during the year ended December 31, 2012: Please see Note 11. (1) G).
- (h) Receivables from related parties exceeding \$100 million or 20% percent of the Company's paid-in capital during the year ended December 31, 2012: Please see Note 11. (1) H).
- (i) Derivative financial instruments undertaken during the year ended December 31, 2012: None.

(3) Disclosure of information on indirect investments in Mainland China

A) The related information of investee company in Mainland China:

| Investee in Mainland China                  | Main activities  | Paid-in Capital                 | Investment method | Accumulated amount of remittance to Mainland China as of January 1, 2012 | Investment amount                                 |  | Accumulated amount of remittance to Mainland China as of December 31, 2012 | Ownership held by the Company | Investment income (loss) (Note 2)          | Investment amount as of December 31, 2012 | Accumulated amount of income remitted back to Taiwan as of December 31, 2012 |
|---|------------------|---------------------------------|-------------------|--|---|--|--|-------------------------------|--|---|--|
|   |                  |                                 |                   |  | Amount remitted to Mainland China during the year | Amount remitted back to Taiwan during the year |  |                               |  |   |  |
| Haihu Maritime Service (Shanghai) Co., Ltd. | Maritime service | \$ 15,855<br>(USD 500 thousand) | Note 1            | \$ 15,855<br>(USD 500 thousand)  | \$ -  | \$ -   | \$ 15,855<br>(USD 500 thousand)  | 100%                          | (Note 2)<br>\$ 580<br>(RMB - 124 thousand) | \$ 8,427<br>(RMB 1,824 thousand)          | \$ -   |

Note 1: Investments in Mainland China are through investees in third countries.

Note 2: Based on the financial statements audited by R.O.C. parent company's CPA.

B) Ceiling amount of investment in Mainland China:

| Company name                                | Accumulated amount of remittance from Taiwan to Mainland China | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs | Ceiling amount on investments in Mainland China imposed by the investment commission of the Ministry of Economic Affairs |
|---|--|---|--|
| Haihu Maritime Service (Shanghai) Co., Ltd. | \$ 15,855<br>(USD 500 thousand)                                | \$ 95,130<br>(USD 3000 thousand)  | \$ 8,418,039   |

(4) Significant inter-company transactions  
For the year ended December 31, 2012:

| Number<br>(Note 1) | Company name                   | Counterparty                    | Relationships<br>(Note 2) | Transactions                 |                                     |                                |  |
|--------------------|--------------------------------|---------------------------------|---------------------------|------------------------------|-------------------------------------|--------------------------------|--|
|                    |                                |                                 |                           | General<br>ledger<br>account | Amount                              | Terms of<br>transaction        | Percentage of consolidated total<br>operating revenues or total assets<br>(Note 3) |
| 0                  | Sincere Navigation Corporation | Rockwell Shipping Limited       | 1                         | Guarantees                   | \$ 349,226<br>(USD 12,026 thousand) | As per the Company's<br>policy | 1.20%  |
| "                  | "                              | Howells Shipping Inc.           | "                         | "                            | 463,447<br>(USD 15,959 thousand)    | "                              | 1.60%  |
| "                  | "                              | Seven Seas Shipping Ltd.        | "                         | "                            | 566,276<br>(USD 19,500 thousand)    | "                              | 1.95%  |
| "                  | "                              | Everprime Shipping Limited      | "                         | "                            | 367,530<br>(USD 12,656 thousand)    | "                              | 1.27%  |
| "                  | "                              | Clifford Navigation Corporation | "                         | "                            | 933,429<br>(USD 32,143 thousand)    | "                              | 3.22%  |
| "                  | "                              | Crimson Marine Company          | "                         | "                            | 850,291<br>(USD 29,280 thousand)    | "                              | 2.93%  |
| "                  | "                              | Poseidon Marine Ltd.            | "                         | "                            | 1,437,480<br>(USD 49,500 thousand)  | "                              | 4.95%  |
| "                  | "                              | Ocean Wise Limited              | "                         | "                            | 1,223,756<br>(USD 42,140 thousand)  | "                              | 4.22%  |
| "                  | "                              | Everwin Maritime Limited        | "                         | "                            | 2,191,358<br>(USD 75,460 thousand)  | "                              | 7.55%  |

| Number<br>(Note 1) | Company name                   | Counterparty                   | Relationships<br>(Note 2) | Transactions                            |                                    |                                |  |
|--------------------|--------------------------------|--------------------------------|---------------------------|---|------------------------------------|--------------------------------|--|
|                    |                                |                                |                           | General<br>ledger<br>account            | Amount                             | Terms of<br>transaction        | Percentage of consolidated total<br>operating revenues or total assets<br>(Note 3) |
| 0                  | Sincere Navigation Corporation | Maxson Shipping Inc.           | 1                         | Guarantees                              | 1,087,548<br>(USD 37,450 thousand) | As per the Company's<br>policy | 3.75%  |
| "                  | "                              | Kenmore Shipping Inc.          | "                         | "                                       | 2,154,768<br>(USD 74,200 thousand) | "                              | 7.42%  |
| 1                  | Norley Corporation Inc.        | Sincere Navigation Corporation | 2                         | Other<br>receivables<br>related parties | 653,400<br>(USD 22,500 thousand)   | "                              | 2.25%  |

For the year ended December 31, 2011:

| Number<br>(Note 1) | Company name                   | Counterparty              | Relationships<br>(Note 2) | Transactions                 |                                     |                                |  |
|--------------------|--------------------------------|---------------------------|---------------------------|------------------------------|-------------------------------------|--------------------------------|--|
|                    |                                |                           |                           | General<br>ledger<br>account | Amount                              | Terms of<br>transaction        | Percentage of consolidated total<br>operating revenues or total assets<br>(Note 3) |
| 0                  | Sincere Navigation Corporation | Brighton Shipping Inc.    | 1                         | Guarantees                   | \$ 363,860<br>(USD 12,016 thousand) | As per the Company's<br>policy | 1.26%  |
| "                  | "                              | Rockwell Shipping Limited | "                         | "                            | 436,966<br>(USD 14,431 thousand)    | "                              | 1.51%  |
| "                  | "                              | Howells Shipping Inc.     | "                         | "                            | 604,045<br>(USD 19,949 thousand)    | "                              | 2.09%  |

| Number<br>(Note 1) | Company name                   | Counterparty                    | Relationships<br>(Note 2) | Transactions                            |                                     |                                |  |
|--------------------|--------------------------------|---------------------------------|---------------------------|---|-------------------------------------|--------------------------------|--|
|                    |                                |                                 |                           | General<br>ledger<br>account            | Amount                              | Terms of<br>transaction        | Percentage of consolidated total<br>operating revenues or total assets<br>(Note 3) |
| 0                  | Sincere Navigation Corporation | Seven Seas Shipping Ltd.        | 1                         | Guarantees                              | \$ 721,668<br>(USD 23,833 thousand) | As per the Company's<br>policy | 2.49%  |
| "                  | "                              | Everprime Shipping Limited      | "                         | "                                       | 479,029<br>(USD 15,820 thousand)    | "                              | 1.66%  |
| "                  | "                              | Clifford Navigation Corporation | "                         | "                                       | 973,286<br>(USD 32,143 thousand)    | "                              | 3.36%  |
| "                  | "                              | Crimson Marine Company          | "                         | "                                       | 886,598<br>(USD 29,280 thousand)    | "                              | 3.06%  |
| "                  | "                              | Poseidon Marine Ltd.            | "                         | "                                       | 1,998,480<br>(USD 66,000 thousand)  | "                              | 6.91%  |
| "                  | "                              | Ocean Wise Limited              | "                         | "                                       | 1,275,999<br>(USD 42,140 thousand)  | "                              | 4.41%  |
| "                  | "                              | Everwin Martitime Limited       | "                         | "                                       | 2,284,929<br>(USD 75,460 thousand)  | "                              | 7.90%  |
| "                  | "                              | Maxson Shipping Inc.            | "                         | "                                       | 1,133,986<br>(USD 37,450 thousand)  | "                              | 3.92%  |
| "                  | "                              | Kenmore Shipping Inc.           | "                         | "                                       | 2,246,776<br>(USD 74,200 thousand)  | "                              | 7.77%  |
| 1                  | Norley Corporation Inc.        | Confidence Navigation Ltd.      | 3                         | Advance to<br>associated<br>entity      | 321,055<br>(USD 10,603 thousand)    | "                              | 1.11%  |
| 2                  | Heywood Limited                | Sincere Navigation Corporation  | 2                         | Other<br>receivables<br>related parties | 681,300<br>(USD 22,500 thousand)    | "                              | 2.36%  |

The inter-company transactions under 1% of consolidated assets or revenue are not disclosed.

Note 1: The numbers filled for inter-company transactions are as follows:

- (a) The parent company is numbered "0".
- (b) The subsidiaries are numbered starting from "1".

Note 2: Relationship with the transaction company:

- (a) The parent company to the subsidiary is numbered "1".
- (b) The subsidiary to the parent company is numbered "2".
- (c) The subsidiary to subsidiary is numbered "3".

Note 3: Regarding the ratio of transaction amount to consolidated total operating revenues or total assets, it is computed based on the ending balance to consolidated total assets for balance sheet accounts and based on accumulated amount in the interim to consolidated total operating revenues for income statement accounts.

## 12. OPERATING SEGMENT INFORMATION

### (1) General information

According to the R.O.C. SFAS No. 41, "Operating Segments", the reported measures are determined in accordance with the measurement principles consistent with those the chief operating decision-maker uses in indentifying the reportable segments.

The Group's chief operating decision-maker operates businesses by the type of carriers. Under R.O.C. SFAS No. 41, the reportable segments include bulk carrier segment and oil tanker segment.

### (2) Measurements

The Group's chief operating decision-maker uses the measure of operating segment's profit or loss before income tax to evaluate the results of their operations. The measurement does not include the effects resulting from unusual matters.

### (3) Financial information

| For the year ended December 31, 2012 |              |              |                |              |
|--------------------------------------|--------------|--------------|----------------|--------------|
|                                      | Bulk carrier | Oil tanker   | Other segments | Total        |
| Revenue from third parties           | \$ 5,204,400 | \$ 834,825   | \$ 2,342       | \$ 6,041,567 |
| Segment income (loss)                | \$ 2,632,050 | (\$ 124,450) | \$ 2,342       | \$ 2,509,942 |
| Segment assets                       | \$ -         | \$ -         | \$ -           | \$ -         |

| For the year ended December 31, 2011 |              |              |                |              |
|--------------------------------------|--------------|--------------|----------------|--------------|
|                                      | Bulk carrier | Oil tanker   | Other segments | Total        |
| Revenue from third parties           | \$ 5,324,929 | \$ 449,905   | \$ 2,115       | \$ 5,776,949 |
| Segment income (loss)                | \$ 2,854,103 | (\$ 141,977) | \$ 2,115       | \$ 2,714,241 |
| Segment assets                       | \$ -         | \$ -         | \$ -           | \$ -         |

Note: Pursuant to EITF 99-151 the Accounting Research and Development Foundation, R.O.C., dated June 28, 2010, "Disclosure of Operating Segments", if the information segment assets was not used in any operating decision, the balance of segment assets shall be zero.

### (4) Reconciliations

The basis of transactions between segments is arm's length. The revenue from third parties reported to the chief operating decision-maker is determined in accordance with the same measurement principle which is used in measuring the revenue from the Group.

Reconciling profit or loss before income tax and interest expense of reportable segments to income from continuing operations before income tax is as follows:

| For the years ended December 31,             |              |              |
|--|--------------|--------------|
|  | 2012         | 2011         |
| Reportable segment income                    | \$ 2,507,600 | \$ 2,712,126 |
| Other segment income                         | 2,342        | 2,115        |
| Total operating segment income               | 2,509,942    | 2,714,241    |
| Others                                       | 39,172       | (54,213)     |
| Income from continuing operations before tax | \$ 2,549,114 | \$ 2,660,028 |



(5) Financial information by geographic area

| <u>2012</u>                  | <u>Foreign</u>       | <u>Domestic</u>   | <u>Total</u>         |
|------------------------------|----------------------|-------------------|----------------------|
| Revenues from third parties  | \$ 5,614,242         | \$ 427,325        | \$ 6,041,567         |
| Revenues from the Group      | -                    | -                 | -                    |
| Total revenue                | <u>\$ 5,614,242</u>  | <u>\$ 427,325</u> | <u>\$ 6,041,567</u>  |
| Segment assets - non current | <u>\$ 21,606,075</u> | <u>\$ 902,718</u> | <u>\$ 22,508,793</u> |

  

| <u>2011</u>                 | <u>Foreign</u>       | <u>Domestic</u>   | <u>Total</u>         |
|-----------------------------|----------------------|-------------------|----------------------|
| Revenues from third parties | \$ 5,592,674         | \$ 184,275        | \$ 5,776,949         |
| Revenues from the Group     | -                    | -                 | -                    |
| Total revenue               | <u>\$ 5,592,674</u>  | <u>\$ 184,275</u> | <u>\$ 5,776,949</u>  |
| Segment assets- non-current | <u>\$ 22,159,883</u> | <u>\$ 945,554</u> | <u>\$ 23,105,437</u> |

(6) Information on major customers

For the years ended December 31, 2012 and 2011, the Group's customers that accounts for more than 10% of consolidated sales revenues are as follows:

| <u>Customers</u> | <u>2012</u>             |                | <u>2011</u>             |                |
|------------------|-------------------------|----------------|-------------------------|----------------|
|                  | <u>Charter revenues</u> | <u>Segment</u> | <u>Charter revenues</u> | <u>Segment</u> |
| Customer A       | \$ 2,349,584            | Bulk carrier   | \$ 2,237,189            | Bulk carrier   |
| Customer B       | 834,825                 | Oil tanker     | 444,027                 | Oil tanker     |
| Customer C       | 789,049                 | Bulk carrier   | 629,155                 | Bulk carrier   |
| Customer D       | 575,098                 | Bulk carrier   | 554,870                 | Bulk carrier   |

### 13. DISCLOSURES RELATING TO THE ADOPTION OF IFRSs

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), and relevant interpretations and interpretative bulletins that are ratified by the Financial Supervisory Commission.

The Group discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010:

(1) Major contents and status of execution of the Group’s plan for IFRSs adoption:

The Group has formed an IFRSs group headed by the Company’s manager, who is responsible for setting up a plan relative to the Group’s transition to IFRSs. The major contents and status of execution of this plan are outlined below:

| Working Items for IFRSs Adoption   | Status of Execution |
|--|---------------------|
| a. Formation of an IFRSs group   | Completed           |
| b. Setting up a plan relative to the Company's transition to IFRSs   | Completed           |
| c. Identification of the differences between current accounting policies and IFRSs   | Completed           |
| d. Identification of consolidated entities under the IFRSs framework   | Completed           |
| e. Evaluation of the impact of each exemption and option on the Company under IFRS 1- First-time Adoption of International Financial Reporting Standards | Completed           |
| f. Evaluation of needed information system adjustments   | Completed           |
| g. Evaluation of needed internal control adjustments   | Completed           |
| h. Establish IFRSs accounting policies   | Completed           |
| i. Selection of exemptions and options available under IFRS 1- First-time Adoption of International Financial Reporting Standards                        | Completed           |
| j. Preparation of statement of financial position on the date of transition to IFRSs   | Completed           |
| k. Preparation of IFRSs comparative financial information for 2012   | In progress         |
| l. Completion of relevant internal control (including financial process and relevant information system) adjustments                                     | Completed           |

(2) Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and “Rules Governing the Preparation of Financial Statements by Security Issuers” that will be used in the preparation of financial statements in the future.

The Group uses the IFRSs already ratified currently by the Financial Supervisory Commission and the “Rules Governing the Preparation of Financial Statements by Security Issuers” that are expected to be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Group’s current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs that are subsequently recognized by the Financial Supervisory Commission or amendments to the “Rules Governing the Preparation of Financial Statements by Security Issuers” come in the future and therefore, the actual effects of those differences may also change.

The effects of material differences identified by the Group that may arise between current accounting policies used in the preparation of financial statements and IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be used in the preparation of financial statements in the future, and the effects of exemptions selected by the Company under IFRS 1 – first-time Adoption of International Financial Reporting Standards (refer to Note 13(3)) are set forth below:

A) Reconciliation of balance sheet accounts with material differences in accounting policies adopted at January 1, 2012 are outlined below:

|   | R.O.C. GAAP   | Adjustments | IFRSs        | Note     |
|---|---------------|-------------|--------------|----------|
| Fixed assets                                  | \$ 23,249,428 | \$ 158,249  | \$23,407,677 | e)       |
| Deferred expenses                             | 158,249       | ( 158,249)  | -            | e)       |
| Deferred income tax assets - non current      | -             | 11,885      | 11,885       | a) b) d) |
| Others  | 5,519,926     | -           | 5,519,926    |          |
| Total assets                                  | 28,927,603    | 11,885      | 28,939,488   |          |
| Accrued expenses                              | 211,225       | 1,846       | 213,071      | a)       |
| Deferred income tax liabilities - current     | 231,602       | ( 231,602)  | -            | d)       |
| Accrued pension liabilities                   | 6,694         | 15,224      | 21,918       | b)       |
| Deferred income tax liabilities - non current | 971           | 238,437     | 239,408      | d)       |
| Others  | 12,588,422    | -           | 12,588,422   |          |
| Total liabilities                             | \$ 13,038,914 | \$ 23,905   | \$13,062,819 |          |
| Capital reserve                               | 130,378       | ( 91,135)   | 39,243       | c)       |
| Undistributed earnings                        | 5,092,628     | 66,475      | 5,159,103    | a) b) c) |
| Unrecognized pension cost                     | ( 12,640)     | 12,640      | -            | b)       |
| Others  | 10,678,323    | -           | 10,678,323   |          |
| Total stockholders' equity                    | \$ 15,888,689 | (\$ 12,020) | \$15,876,669 |          |
| Total liabilities and stockholders' equity    | \$ 28,927,603 | \$ 11,885   | \$28,939,488 |          |

B) Reconciliation of balance sheet accounts with material differences in accounting policies adopted at December 31, 2012 are outlined below:

|   | R.O.C. GAAP  | Adjustments | IFRSs        | Note     |
|---|--------------|-------------|--------------|----------|
| Fixed assets                                  | \$22,297,274 | \$ 211,519  | \$22,508,793 | e)       |
| Deferred expenses                             | 211,519      | ( 211,519)  | -            | e)       |
| Deferred income tax assets - non current      | -            | 4,204       | 4,204        | a) b) d) |
| Others  | 6,522,528    | -           | 6,522,528    |          |
| Total assets                                  | 29,031,321   | 4,204       | 29,035,525   |          |
| Accrued expenses                              | 199,947      | 1,945       | 201,892      | a)       |
| Deferred income tax liabilities - current     | 175,441      | ( 175,441)  | -            | d)       |
| Accrued pension liabilities                   | 7,968        | 15,054      | 23,022       | b)       |
| Deferred income tax liabilities - non current | 962          | 174,479     | 175,441      | d)       |
| Others  | 12,557,056   | -           | 12,557,056   |          |
| Total liabilities                             | \$12,941,374 | \$ 16,037   | \$12,957,411 |          |
| Capital reserve                               | 130,378      | ( 91,135)   | 39,243       | c)       |
| Undistributed earnings                        | 6,237,928    | 65,908      | 6,303,836    | a) b) c) |
| Unrecognized pension cost                     | ( 13,394)    | 13,394      | -            | b)       |
| Others  | 9,735,035    | -           | 9,735,035    |          |
| Total stockholders' equity                    | \$16,089,947 | (\$ 11,833) | \$16,078,114 |          |
| Total liabilities and stockholders' equity    | \$29,031,321 | \$ 4,204    | \$29,035,525 |          |

C) Reconciliation of income statement accounts with material differences in accounting policies adopted for the year ended December 31, 2012 are outlined below:

|   | R.O.C. GAAP  | Adjustments | IFRSs        | Note  |
|---|--------------|-------------|--------------|-------|
| Operating revenues                                  | \$ 6,041,567 | \$ -        | \$ 6,041,567 |       |
| Operating costs                                     | ( 3,126,410) | -           | ( 3,126,410) |       |
| Operating expenses                                  | ( 204,204)   | 1,567       | ( 202,628)   | a) b) |
| Income from operations                              | 2,710,953    | 1,576       | 2,712,529    |       |
| Non-operating income and expenses                   | ( 161,839)   | -           | ( 161,839)   |       |
| Income before income tax and minority interest      | 2,549,114    | 1,576       | 2,550,690    |       |
| Income tax expense                                  | ( 239,137)   | ( 268)      | ( 239,405)   | a) b) |
| Net income from continuing operations               | 2,309,977    | 1,308       | 2,311,285    |       |
| Post tax loss from discontinued operation           | ( 7,561)     | -           | ( 7,561)     |       |
| Post tax gain on disposal of discontinued operation | 66,959       | -           | 66,959       |       |
| Consolidated net income                             | \$ 2,369,375 | \$ 1,308    | \$ 2,370,683 |       |

Reasons for reconciliation are outlined below:

a) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on the cost recognition of accumulated unused compensated absences. The Group recognizes such costs as expenses upon actual payment. However, IAS 19, "Employee Benefits", requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. The Group recognized accrued expenses by \$1,846, decreased

deferred income tax liabilities by \$313 and reduced undistributed earnings by \$1,533, at the date of transition to IFRSs. For the year ended December 31, 2012, the Group increased accrued expenses, salaries and wages and deferred income tax assets by \$99, \$99 and \$17, respectively; and reduced income tax expense by \$17.

b) Pension

- i. The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end date of the reporting period and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead.
- ii. In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension plan (fund) assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet ("minimum pension liability"). However, IAS 19, "Employee Benefits", has no regulation regarding the minimum pension liability.
- iii. In accordance with current accounting standards in R.O.C., actuarial pension gains or losses of the Group is recognized in net pension cost of the current period using the 'corridor method'. However, IAS 19, "Employee Benefits", requires that actuarial pension gains or losses should be recognized immediately in other comprehensive income.

The Group selected to recognize accumulated actuarial gain or loss associated with employee benefit plans in undistributed earnings by \$23,127 and increase accrued pension liabilities, deferred tax assets and unrecognized pension cost by \$15,224, \$4,737 and \$12,640, respectively, at the date of transition to IFRSs. For the year ended December 31, 2012, the Group increased deferred tax assets, income tax expense and unrecognized pension cost by \$99, \$285 and \$754, respectively; decreased accrued pension liabilities, operating expense and other comprehensive income by \$170, \$1,675 and \$1,875, respectively.

- c) Capital reserve - long-term investment do not meet the definition of capital reserve under IFRSs. Therefore, the Group reclassified capital reserve - long-term investment to undistributed earnings by \$91,135 at the date of transition to IFRSs.
- d) In accordance with current accounting standards in R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting, should be classified as current or noncurrent according to the expected time period to realize or settle a deferred tax asset or liability. However, under IAS 1, "Presentation of Financial Statements", an entity should not classify a deferred tax asset or liability as current. Deferred income tax assets and liabilities cannot be offset as they do not meet the criteria of offsetting assets and liabilities under IAS 12, "Income Taxes".  
Therefore, the Group reclassified deferred income tax liabilities - current at the date of transition to IFRSs, and increased deferred income tax assets - non current by \$6,835, and deferred income tax liabilities - non current by \$238,437. The Group also reduced deferred

income tax assets - non current by \$962 and increased deferred income tax liabilities - non current by \$174,479, as at December 31, 2012.

- e) In accordance with current accounting standards in R.O.C., the cost of repair and dry-dock inspection of the vessels was capitalized and amortized, and was shown as deferred charges. However, under IFRSs, it should be classified to “Property, plant and equipment” according to its nature. Therefore, the Group reclassified deferred charges to property, plant and equipment amounting to \$158,249 at the transition date, and amounting to \$211,519 as at December 31, 2012.

(3) The Group selects the following exemptions in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that are expected to be applied in 2013:

A) Business combinations

The Group selects not to apply the requirements in IFRS 3, “Business Combinations”, retrospectively to business combinations that occur before the date of transition to IFRSs (“the transition date”).

B) Share-based payment

The Group has elected not to apply the requirements in IFRS 2, ‘Share-based Payment’, retrospectively to cash capital increases reserved for employee pre-emption and employees’ bonus arising from share-based payment transactions prior to transition date.

C) Employee benefits

The Group selects to recognize all accumulated actuarial gain or loss associated with employee benefits plans in undistributed earnings at the date of transition to IFRSs, and disclose present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments in accordance with paragraph 120A (P), IAS 19, “Employee Benefits”, based on their prospective amounts for each accounting period from the date of transition to IFRSs.

D) Borrowing costs

The Group selects to adopt the transitional regulations specified in Paragraphs 27 and 28, IAS 23, “Borrowing Costs”, amended in 2007 from the date of transition to IFRSs.

The selection of exemptions above might be different from the actual selection at the date of transition to IFRSs due to the issuance of related rulings by competent authorities, changes in economic environments, or changes in the evaluation of effect of the Company’s selection of exemptions.