

For the financial year ended 31 December 2004

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# 50 Directors' Report

For the financial year ended 31 December 2004

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2004 and the balance sheet of the Company as at 31 December 2004.

## Directors

The directors of the Company in office at the date of this report are:

Wei Jia Fu	
Li Jian Hong	
Sun Yue Ying	
Ji Hai Sheng	
Yao Hong	
Zhou Lian Cheng	
Ye Bin Lin	(alternate director to Sun Yue Ying)
Wang Kai Yuen	
Tom Yee Lat Shing	
Li Jian Xiong	(alternate director to Li Jian Hong)
Er Kwong Wah	
Liu De Tian	(alternate director to Zhou Lian Cheng)

## Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed in the paragraph on "Share Options".

## Directors' interests in shares and debentures

(a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the share capital of the Company and related corporations, except as follows:

	Holdings registered in the name of director or nominee		Holdings in which a director is deemed to have an interest	
	At 31.12.2004	At 1.1.2004	At 31.12.2004	At 1.1.2004
<b>The Company (ordinary shares of \$0.20 each)</b>				
Ji Hai Sheng	720,000	300,000	–	–
Yao Hong	300,000	–	–	–
Ye Bin Lin	600,000	250,000	–	–
Wang Kai Yuen	–	–	340,000	200,000
Li Jian Xiong	600,000	250,000	–	–
Er Kwong Wah	–	–	12,000	10,000
Liu De Tian	354,000	120,000	–	–

**Directors' interests in shares and debentures** (continued)

(b) According to the register of directors' shareholdings, certain of the directors holding office at the end of the financial year had interests in options to subscribe for ordinary shares of the Company granted pursuant to the Cosco Group Employees' Share Option Schemes as set out below and in the paragraphs on "Share Options".

	Number of unissued ordinary shares of \$0.20 each under option held by director	
	At 31.12.2004	At 1.1.2004
<b>2002 Options</b>		
Wei Jia Fu	350,000	350,000
Li Jian Hong	200,000	200,000
Sun Yue Ying	250,000	250,000
Zhou Lian Cheng	–	250,000
<b>2003 Options</b>		
Wei Jia Fu	350,000	350,000
Li Jian Hong	250,000	250,000
Sun Yue Ying	250,000	250,000
Ji Hai Sheng	–	300,000
Yao Hong	–	250,000
Zhou Lian Cheng	–	250,000
Ye Bin Lin	–	250,000
Li Jian Xiong	–	250,000
Liu De Tian	–	175,000
<b>2004 Options</b>		
Wei Jia Fu	700,000	–
Li Jian Hong	500,000	–
Sun Yue Ying	500,000	–
Ji Hai Sheng	600,000	–
Yao Hong	500,000	–
Zhou Lian Cheng	500,000	–
Ye Bin Lin	500,000	–
Li Jian Xiong	500,000	–
Liu De Tian	500,000	–
Tom Yee Lat Shing	500,000	–
Er Kwong Wah	500,000	–
Wang Kai Yuen	500,000	–

(c) The directors' interests in the shares of the Company at 21 January 2005 were the same as 31 December 2004.

**Directors' contractual benefits**

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, other than as disclosed in the financial statements and in this report, and except that certain directors have employment relationships with the ultimate holding corporation or related corporations and have received remuneration in those capacities.

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## Directors' Report

For the financial year ended 31 December 2004

### Share options

#### (a) Cosco Group Employees' Share Option Scheme ("Scheme")

- (i) The Cosco Group Employees' Share Option Scheme (the "Scheme") was approved by the members of the Company at an Extraordinary General Meeting on 13 May 1995.
- (ii) Particulars of the options granted pursuant to the Scheme in 1999 known as the "1999 Options" were set out in the Directors' Report for the financial year ended 31 December 1999. The 1999 Options expired on 30 September 2004.
- (iii) No share options were granted in 2000 and 2001.

#### (b) Cosco Group Employees' Share Option Scheme ("Scheme 2002")

- (i) The Cosco Group Employees' Share Option Scheme (the "Scheme 2002") was approved by the members of the Company at an Extraordinary General Meeting on 8 May 2002.
- (ii) Particulars of the options granted pursuant to the Scheme 2002 in 2002 and 2003 known as "2002 Options" and "2003 Options" respectively were set out in the Directors' Report for the financial years ended 31 December 2002 and 31 December 2003 respectively.
- (iii) During the financial year, options were granted pursuant to the Scheme 2002 in respect of 15,340,000 unissued ordinary shares of \$0.20 each in the Company hereinafter called the "2004 Options" at an exercise price of \$0.735 per share to eligible employees of the Group.

Statutory information regarding the 2004 Options is as follows:

- The options are exercisable from 24 May 2005 and expires on 23 May 2014.
- The options may be exercised in full or in multiples of 1,000 shares, on the payment of the exercise price.
- The persons to whom the options have been issued have no right to participate by virtue of the options in any share issue of any other company.

- (iv) The Remuneration Committee administering the share option schemes comprises the following directors:

Er Kwong Wah (Chairman)  
Ji Hai Sheng  
Wang Kai Yuen  
Tom Yee Lat Shing

## Share options (continued)

## (b) Cosco Group Employees' Share Option Scheme ("Scheme 2002") (continued)

(v) Options granted to directors of the Company (as defined in the Singapore Exchange Limited Listing Manual) are as follows:

Name of participant	Options granted for financial year ended 31.12.2004	Aggregate options granted since commencement of scheme to 31.12.2004	Aggregate options exercised since commencement of scheme to 31.12.2004	Aggregate options lapsed since commencement of scheme to 31.12.2004	Aggregate options outstanding as at 31.12.2004
<b>Directors of the Company</b>					
Wei Jia Fu	700,000	1,400,000	–	–	1,400,000
Li Jian Hong	500,000	950,000	–	–	950,000
Sun Yue Ying	500,000	1,000,000	–	–	1,000,000
Ji Hai Sheng	600,000	1,200,000	600,000	–	600,000
Yao Hong	500,000	750,000	250,000	–	500,000
Zhou Lian Cheng	500,000	1,000,000	500,000	–	500,000
Ye Bin Lin	500,000	1,000,000	500,000	–	500,000
Wang Kai Yuen	500,000	500,000	–	–	500,000
Tom Yee Lat Shing	500,000	500,000	–	–	500,000
Li Jian Xiong	500,000	1,000,000	500,000	–	500,000
Er Kwong Wah	500,000	500,000	–	–	500,000
Liu De Tian	500,000	935,000	435,000	–	500,000
	6,300,000	10,735,000	2,785,000	–	7,950,000

No employee has received 5% or more of the total options available under the Scheme and Scheme 2002.

No option has been granted to controlling shareholders of the Company or their associates.

No option has been granted at a discount during the financial year.

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For the financial year ended 31 December 2004

## Share options (continued)

### (b) Cosco Group Employees' Share Option Scheme ("Scheme 2002") (continued)

There were no unissued shares of the subsidiaries under option at the end of the financial year.

### (c) Options outstanding

The options on ordinary shares of the Company outstanding at the end of the financial year were as follows:

Options relating to Cosco Group Employees' Share Option Scheme	Number outstanding at 1.1.2004	Number issued during the financial year	Number exercised during the financial year	Number cancelled/lapsed during the financial year	Number outstanding at 31.12.2004	Exercise price	Exercise period
						\$	
1999 Options	80,000	–	80,000	–	–	0.2288	30.9.2000 – 29.9.2004
2002 Options	1,395,000	–	595,000	–	800,000	0.20	12.8.2003 – 11.8.2012
2003 Options	5,115,000	–	4,195,000	–	920,000	0.20	1.4.2004 – 31.3.2013
2004 Options	–	15,340,000	–	930,000	14,410,000	0.735	24.5.2005 – 23.5.2014
	6,590,000	15,340,000	4,870,000	930,000	16,130,000		

## Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to accept re-appointment.

On behalf of the directors

**JI HAI SHENG**

Director

**YAO HONG**

Director

23 March 2005

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 57 to 112 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2004 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

**JI HAI SHENG**  
Director

**YAO HONG**  
Director

23 March 2005

## Auditors' Report To The Members of COSCO Corporation (Singapore) Limited

We have audited the accompanying financial statements of Cosco Corporation (Singapore) Limited set out on pages 57 to 112 for the financial year ended 31 December 2004, comprising the balance sheet of the Company and the consolidated financial statements of the Group. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance 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 the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the accompanying balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Companies Act, Cap. 50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers  
Certified Public Accountants

Singapore,

23 March 2005

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## Consolidated Income Statement

For the financial year ended 31 December 2004

	Notes	The Group	
		2004 \$	2003 \$
Revenue	3	116,345,552	91,942,280
Cost of sales		<b>(58,841,620)</b>	(56,337,269)
<b>Gross profit</b>		<b>57,503,932</b>	35,605,011
Other operating income	3	<b>3,999,888</b>	1,496,283
Distribution costs		<b>(1,052,586)</b>	(1,272,555)
Administrative expenses		<b>(12,526,996)</b>	(11,155,114)
Other operating expenses		<b>(289,790)</b>	(1,164,927)
Exceptional gain	4	<b>448,307</b>	340,363
<b>Profit from operations</b>	5	<b>48,082,755</b>	23,849,061
Finance costs-net	6	<b>(10,766,596)</b>	(10,781,180)
Share of results of associated companies before tax	16	<b>36,433,865</b>	17,577,661
Amortisation of goodwill on acquisition of an associated company	16	<b>(578,154)</b>	(578,154)
<b>Profit before tax</b>		<b>73,171,870</b>	30,067,388
Income tax expense	9	<b>(6,142,167)</b>	(4,918,626)
<b>Profit from ordinary activities after tax</b>		<b>67,029,703</b>	25,148,762
Minority interest		<b>(830,616)</b>	(862,128)
<b>Net profit for the financial year</b>		<b>66,199,087</b>	24,286,634
<b>Earnings per share (cents)</b>	10		
– Basic		<b>6.11</b>	2.70
– Diluted		<b>6.10</b>	2.69

The accompanying notes form an integral part of these financial statements.  
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# 58 Balance Sheets

At at 31 December 2004

	Notes	The Group		The Company	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	11	94,046,358	86,124,150	41,953,900	53,406,818
Trade and other receivables	12	20,082,302	22,199,567	16,941,287	2,356,438
Trading property	13	23,215,000	615,000	–	–
Income tax recoverable	9	73,338	271,920	–	–
		<b>137,416,998</b>	109,210,637	<b>58,895,187</b>	55,763,256
<b>Non-current assets</b>					
Non trade receivables	14	1,676,711	1,064,245	846,921	200,000
Other investments	15	503,371	557,542	150,000	200,000
Investments in associated companies	16	83,167,698	69,809,936	55,966,592	58,211,632
Investments in subsidiaries	17	–	–	141,307,704	171,054,249
Investment properties	18	–	30,275,361	–	–
Property, plant and equipment	19	321,293,726	352,773,945	381,298	472,794
Deferred income tax assets	20	–	201,001	–	–
		<b>406,641,506</b>	454,682,030	<b>198,652,515</b>	230,138,675
<b>Total assets</b>		<b>544,058,504</b>	563,892,667	<b>257,547,702</b>	285,901,931
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	21	49,599,673	54,170,128	9,097,939	20,398,224
Borrowings	22	26,597,873	43,316,530	500,000	5,068,203
Provision for other liabilities and charges	26	2,466,343	2,288,361	–	–
Current income tax liabilities	9	1,670,470	1,519,246	655,354	616,248
		<b>80,334,359</b>	101,294,265	<b>10,253,293</b>	26,082,675
<b>Non-current liabilities</b>					
Provision for other liabilities and charges	26	4,125,325	4,493,525	96,800	107,360
Borrowings	22	135,805,044	183,921,909	–	26,868,854
Deferred income tax liabilities	20	229,906	251,628	–	–
		<b>140,160,275</b>	188,667,062	<b>96,800</b>	26,976,214
<b>Total liabilities</b>		<b>220,494,634</b>	289,961,327	<b>10,350,093</b>	53,058,889
<b>NET ASSETS</b>		<b>323,563,870</b>	273,931,340	<b>247,197,609</b>	232,843,042
<b>EQUITY</b>					
Share capital	27	217,029,495	179,647,532	217,029,495	179,647,532
Translation Reserves		(13,845,047)	(4,643,236)	–	–
Other Reserves	28	3,435,180	30,423,224	537,215	27,498,759
Retained earnings		115,308,141	65,866,031	29,630,899	25,696,751
<b>Shareholders' equity</b>		<b>321,927,769</b>	271,293,551	<b>247,197,609</b>	232,843,042
<b>Minority interest</b>		<b>1,636,101</b>	2,637,789	–	–
		<b>323,563,870</b>	273,931,340	<b>247,197,609</b>	232,843,042

The accompanying notes form an integral part of these financial statements.  
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## Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2004

	Notes	Share capital	Translation reserves	Other reserves	Retained profits	Total
		\$	\$	\$	\$	\$
<b>Balance at 1 January 2004</b>		<b>179,647,532</b>	<b>(4,643,236)</b>	<b>30,423,224</b>	<b>65,866,031</b>	<b>271,293,551</b>
Net loss not recognised in income statement						
– foreign currency translation differences		–	(9,695,711)	–	–	(9,695,711)
Net profit for the financial year		–	–	–	66,199,087	66,199,087
<b>Total recognised losses and gains for the financial year</b>		<b>–</b>	<b>(9,695,711)</b>	<b>–</b>	<b>66,199,087</b>	<b>56,503,376</b>
Transfer from retained profits to statutory reserve	28	–	493,900	(26,500)	(467,400)	–
Dividend for 2003	29	–	–	–	(7,230,284)	(7,230,284)
Issuance of share capital	27, 28	974,000	–	2,304	–	976,304
Bonus issue of 1 ordinary share for every 5 existing ordinary shares of \$0.20 each	27, 28	36,151,415	–	(27,092,122)	(9,059,293)	–
Conversion of Redeemable Convertible Cumulative Preference Shares (“RCCPS”)	27, 28	256,548	–	128,274	–	384,822
<b>Balance at 31 December 2004</b>		<b>217,029,495</b>	<b>(13,845,047)</b>	<b>3,435,180</b>	<b>115,308,141</b>	<b>321,927,769</b>
<b>Balance at 1 January 2003</b>		<b>124,945,462</b>	<b>(228,784)</b>	<b>11,253,514</b>	<b>48,372,809</b>	<b>184,343,001</b>
Net loss not recognised in income statement						
– foreign currency translation differences		–	(4,414,452)	–	–	(4,414,452)
Net profit for the financial year		–	–	–	24,286,634	24,286,634
<b>Total recognised losses and gains for the financial year</b>		<b>–</b>	<b>(4,414,452)</b>	<b>–</b>	<b>24,286,634</b>	<b>19,872,182</b>
Transfer from retained profits to statutory reserve	28	–	–	3,382,401	(3,382,401)	–
Dividend for 2002	29	–	–	–	(3,411,011)	(3,411,011)
Issuance of share capital	27, 28	21,542,000	–	(426,160)	–	21,115,840
Conversion of Redeemable Convertible Cumulative Preference Shares (“RCCPS”)	27, 28	33,160,070	–	16,213,469	–	49,373,539
<b>Balance at 31 December 2003</b>		<b>179,647,532</b>	<b>(4,643,236)</b>	<b>30,423,224</b>	<b>65,866,031</b>	<b>271,293,551</b>

The accompanying notes form an integral part of these financial statements.  
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## Consolidated Cash Flow Statement

For the financial year ended 31 December 2004

	2004	2003
Notes	\$	\$
<b>Cash flows from operating activities</b>		
Profit before tax and share of results of associated companies	<b>37,316,159</b>	13,067,881
Adjustments for:		
– Depreciation of property, plant and equipment	<b>23,535,368</b>	23,461,588
– Depreciation of investment properties	<b>113,550</b>	151,400
– Impairment in value of transferable country club memberships	<b>50,000</b>	35,785
– Gain on disposal of property, plant and equipment	<b>(8,010,118)</b>	(46,195)
– Property, plant and equipment written off	<b>239,790</b>	7,683
– Preference shares dividend (financing)	<b>5,723</b>	1,041,004
– Interest expense (financing)	<b>9,854,093</b>	9,766,899
– Interest income (investing)	<b>(597,104)</b>	(202,746)
– Impairment in value on completed properties for sale	<b>–</b>	9,368,000
– Impairment in value of trading properties	<b>1,200,000</b>	15,000
– Impairment in value of investment properties	<b>6,361,810</b>	–
– Goodwill written off	<b>(273,586)</b>	–
– Gain on disposal of subsidiaries	<b>–</b>	(23,132)
Operating cash flow before working capital changes	<b>69,795,685</b>	56,643,167
Changes in operating assets and liabilities, net of effects from disposal of subsidiaries:		
– Trade and other receivables	<b>(3,725,018)</b>	7,275,742
– Trade and other payables	<b>7,175,884</b>	1,724,307
– Exchange differences	<b>(2,262,040)</b>	(1,294,271)
Cash generated from operations	70,984,511	64,348,945
Income tax paid	<b>(863,257)</b>	(1,543,900)
<b>Net cash from operating activities</b>	<b>70,121,254</b>	62,805,045
<b>Cash flows from investing activities</b>		
Net cash outflow from disposal of subsidiaries	<b>–</b>	(2,181,006)
Proceeds from disposal of property, plant and equipment	<b>18,411,590</b>	187,336
Purchase of property, plant and equipment	<b>(8,586,702)</b>	(31,546,425)
Purchase of associated companies	<b>–</b>	(18,244,742)
Deferred expenditure incurred	<b>(215,375)</b>	–
Interest received	<b>598,700</b>	204,127
Purchase of transferable club memberships	<b>–</b>	(115,743)
Dividend income received from associated companies	<b>14,543,433</b>	3,777,711
Payment to minority shareholder for acquisition of additional investment in subsidiary	<b>(800,000)</b>	–
<b>Net cash from/(used in) investing activities</b>	<b>23,951,646</b>	(47,918,742)

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## Consolidated Cash Flow Statement

For the financial year ended 31 December 2004

	Notes	2004 \$	2003 \$
<b>Cash flows from financing activities</b>			
Repayments of borrowings		(56,977,996)	(48,343,537)
Proceeds from borrowings		13,000,000	26,852,100
Repayments of finance lease liabilities		(23,328)	(20,328)
Decrease in cash collateral		87,206	564,807
(Payment in settlement of non-trade payables to related corporations)/ repayments of loans by related corporations		(13,956,929)	58,691,472
Dividends paid to shareholders of the Company		(7,230,284)	(3,411,011)
Dividends paid to holders of RCCPS		(6,459)	(1,228,568)
Dividends paid to minority shareholders of subsidiaries		(746,429)	(738,326)
Repayment of loan from previous immediate holding company		-	(6,924,430)
Proceeds from issuance of ordinary shares		976,304	21,115,840
Interest paid		(8,612,411)	(8,747,571)
Redemption of RCCPS		(54,997)	-
<b>Net cash (used in)/from financing activities</b>		<b>(73,545,321)</b>	<b>37,810,448</b>
<b>Net increase in cash and cash equivalents held</b>			
Cash and cash equivalents at beginning of financial year		20,527,577	52,696,751
		70,798,613	18,101,862
<b>Cash and cash equivalents at end of financial year</b>	11	<b>91,326,190</b>	<b>70,798,613</b>

The accompanying notes form an integral part of these financial statements.  
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## Notes to the Financial Statements

For the financial year ended 31 December 2004

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

### 1. General

Cosco Corporation (Singapore) Limited, (the "Company") is incorporated and domiciled in Singapore and its shares are publicly traded on the Singapore Exchange. The address of its registered office is as follows:  
9 Temasek Boulevard, #07-00 Suntec City Tower 2, Singapore 038989.

The principal activities of the Company are those of investment holding and provision of management services to the subsidiaries. The principal activities of its subsidiaries are set out in note 17(b) to the financial statements.

### 2. Significant accounting policies

#### (a) Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with FRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

#### (b) Revenue recognition

##### (1) Rendering of services

Revenue comprises time charter revenue and voyage freight, shipping agency income, ship repairs and fabrication service income and rental income, net of goods and services tax, rebates and discounts, and after eliminating sales within the Group.

##### (i) Shipping

Income from voyage charter is recognised when a voyage is completed based on the complete discharge of cargoes at the last port of call whilst income from time charter is recognised over the period of the time charter agreement on an accrual basis. Any losses arising from voyage or time charters are provided for in full as soon as they are anticipated.

Booking commissions, agency and transhipment fees are recognised upon the rendering of services to vessels.

Revenue from freight forwarding, transport agency and feeder services are recognised when the service is rendered.

##### (ii) Ship repairing and marine related activities

Revenue from ship repairing, marine engineering, container repairs and services, fabrication work services and production of marine outfitting components for short-term project is recognised upon completion of the job as certified by the service engineers. For long-term project, revenue is recognised on the percentage of completion method based on progress of the contract work, where the outcome of the contract can be estimated reliably. If the contract covers a number of projects and the cost and revenue of such individual projects can be identified within the terms of the overall contract, each such project is treated as a separate contract. Provision is made in full where applicable for anticipated losses on contracts in progress.

##### (iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

##### (iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

## 2. Significant accounting policies (continued)

### (b) Revenue recognition (continued)

#### (1) *Rendering of services (continued)*

#### (v) *Rental income*

Revenue from the sale of trading and completed properties is recognised when title passes to the buyer.

Rental income from operating leases on trading, investment and leasehold properties are recognised over the lease term on an accrual basis.

### (c) Group accounting

#### (1) *Subsidiaries*

Subsidiaries are entities over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest. Please refer to note 2(e) for the accounting policy on goodwill on acquisition of subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date on which that control ceases. In preparing the consolidated financial statements, intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the parent. It is measured at the minorities' share of post-acquisition fair values of the subsidiaries' identifiable assets and liabilities, except when the losses applicable to the minority in a subsidiary exceed the minority interest in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority are taken to the consolidated income statement, unless the minority has a binding obligation to, and is able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority are taken to the consolidated income statement until the minority's share of losses previously taken to the consolidated income statement is fully recovered.

Please refer to note 2(i) for the Company's accounting policy on investments in subsidiaries.

#### (2) *Associated companies*

Associated companies are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting. Investments in associated companies in the consolidated balance sheet includes goodwill (net of accumulated amortisation) identified on acquisition, where applicable. Please refer to note 2(e) for the Group's accounting policy on goodwill.

Equity accounting involves recording investments in associated companies initially at cost, and recognising the Group's share of its associated companies' post-acquisition results and its share of post-acquisition movements in reserves against the carrying amount of the investments. When the Group's share of losses in an associated company equals or exceeds its investment in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 2. Significant accounting policies (continued)

#### (c) Group accounting (continued)

##### (2) *Associated companies (continued)*

In applying the equity method, unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of associated companies to ensure consistency of accounting policies with those of the Group.

Please refer to note 2(i) for the Company's accounting policy on investments in associated companies.

##### (3) *Joint ventures*

Joint ventures are entities over which the Group has contractual arrangements to jointly share the control with one or more parties. The Group's interest in joint ventures is accounted for in the consolidated financial statements by proportionate consolidation.

Proportionate consolidation involves combining the Group's share of joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture to the extent that it is attributable to the other venturers. The Group does not recognise its share of results from the joint ventures that arose from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

Please refer to note 2(i) for the Company's accounting policy on investments in joint ventures.

##### (4) *Transaction costs*

Costs directly attributable to an acquisition are included as part of the cost of acquisition.

#### (d) Property, plant and equipment

##### (1) *Land and buildings*

Land and buildings are initially recorded at cost. Buildings are subsequently stated at cost less accumulated depreciation and accumulated impairment losses (note 2(j)).

##### (2) *Motor vessels*

Cost of motor vessels includes actual interest incurred on borrowings used to finance the motor vessels while under construction and other direct relevant expenditure incurred in bringing the vessels into operation. For this purpose, the interest rate applied to funds provided for constructing the motor vessels is arrived at by reference to the actual rate payable on borrowings for construction purposes. The capitalisation of interest charges will cease upon the completion and delivery of the motor vessels.

The inherent components of the vessel which are subject to major overhauls at the drydocking of vessels, are determined based on their estimated costs and are depreciated over a period of 2 1/2 years in order to reflect their useful lives. Drydocking expenditure incurred are capitalised as additions when incurred.

##### (3) *Other property, plant and equipment*

Motor vehicles and other plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (note 2(j)).

## 2. Significant accounting policies (continued)

### (d) Property, plant and equipment (continued)

#### (4) Depreciation

Depreciation on motor vessels is calculated on a straight line method to write off the cost less estimated residual value on a straight line basis over their estimated useful lives of 25 years from the date the vessels were put to use or the remaining useful lives from the date of acquisition.

Depreciation on other property, plant and equipment is calculated on a straight line method to allocate the depreciable amounts of other property, plant and equipment over their estimated useful lives. The estimated useful lives are as follows:

Buildings on freehold and leasehold land	26 - 50 years
Plant, machinery and equipment	3 - 8 years
Office renovation, furniture, fixtures and equipment	3 - 5 years
Motor vehicles	10 years

#### (5) Subsequent Expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

#### (6) Disposal

On disposal of a property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement; any amount in revaluation reserve relating to that asset is transferred to retained earnings.

### (e) Intangible assets

#### Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiaries or associated companies over the fair value of the Group's share of their identifiable net assets at the date of acquisition.

Goodwill on acquisitions of subsidiaries occurring on or after 1 January 2001 is included as intangible assets. Goodwill on acquisitions of associated companies occurring on or after 1 January 2001 is included in investments in associated companies. Goodwill on acquisitions that occurred prior to 1 January 2001 has been transferred in full to the retained earnings; such goodwill has not been retrospectively capitalised and amortised.

Goodwill recognised as intangible assets is stated at cost less accumulated amortisation and accumulated impairment losses (note 2(j)). Goodwill is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. Goodwill arising on acquisition of associated companies is amortised over a maximum period of 10 years.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold, but exclude those goodwill previously taken to retained earnings (pre-1 January 2001 acquisitions).

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Negative goodwill arising from the acquisition of subsidiaries is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the remaining average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the consolidated income statement immediately.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 2. Significant accounting policies (continued)

#### (e) Intangible assets (continued)

##### **Goodwill (continued)**

Negative goodwill arising from the acquisition of associated companies is included in investments in associated companies. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the consolidated income statement as part of the Group's share of the results of associated companies when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the Group's share of the non-monetary assets acquired, is recognised in the consolidated income statement as part of the Group's share of the results of associated companies over the remaining average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the consolidated income statement as part of the Group's share of the results of associated companies immediately.

On the acquisition of a foreign subsidiary or associated company, the goodwill arising is translated at the exchange rate prevailing at the date of acquisition.

The gain or loss on disposal of an entity includes the carrying amount of goodwill relating to the entity sold but exclude those goodwill previously taken to retained earnings (pre-1 January 2001 acquisitions).

#### (f) Borrowing costs

Borrowing costs incurred to finance the construction of motor vessels are capitalised during the period of time that is required to complete and prepare the motor vessels for its intended use. Other borrowing costs are taken to the income statement over the period of borrowing using the effective interest method.

#### (g) Investment properties

Investment properties are held for long-term rental yields and for the generation of rental income and are not occupied by the Group or its related companies. These properties are stated at cost and are depreciated on a straight line basis over the expected useful lives of the properties of 50 years.

Where an indication of impairment exists, the carrying amount of the investment properties is assessed and written down immediately to its recoverable amount.

On disposal of an investment property, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

If investment properties become owner-occupied, it is classified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

#### (h) Trading properties

Trading properties are held for sale in the ordinary course of business and are stated at the lower of cost and estimated net realisable value. Cost of the trading properties comprises its purchase price.

Cost of completed properties includes cost of land and other direct and related development expenditure, including interest on borrowings, incurred on developing the property.

Provision is made when the carrying amount of the trading and completed properties or its cash generating unit exceeds its net realisable value.

## 2. Significant accounting policies (continued)

### (i) Investments

#### (1) Long-term and other non-current investments

Investments in subsidiaries and associated companies are stated at cost less accumulated impairment losses in the Company's balance sheet. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

Other investments comprise long-term equity and club memberships. They are stated at cost less allowance for diminution in value based on a review at the balance sheet date. An allowance for diminution is made where, in the opinion of the Directors, there is a decline other than temporary in the value of such investments; such reduction being determined and made for each investment individually. Where there has been a decline other than temporary in the value of an investment, such a decline is recognised as an expense in the period in which the decline is identified.

On disposal of an investment, including subsidiaries and associated companies, the difference between net disposal proceeds and its carrying amount is taken to the income statement.

#### (2) Short-term investments

Short-term investments are stated at the lower of cost and market value determined on a portfolio basis. Cost is determined on the first-in first-out method. Profits or losses on disposal of short-term investments are taken to the income statement.

### (j) Impairment of assets

Assets including property, plant and equipment and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

### (k) Trade and other receivables

Trade and other receivables including receivables from related corporations and immediate holding corporation are stated at cost less allowance made for doubtful receivables based on a review of all outstanding amounts at the balance sheet date. An allowance for doubtful receivables is made when there is objective evidence that the Group will not be able to collect amounts due according to original terms of receivables. Bad debts are written off when identified.

### (l) Borrowings

#### (1) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

#### (2) Redeemable preference shares

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are taken to the income statement as interest expense.

**2. Significant accounting policies (continued)****(m) Financial instruments*****Interest rate swap contracts***

Interest rate swap contracts are used to hedge the Group's exposure to interest rate risks. These contracts entitle the Group to receive interest at floating rates on notional principal amounts and oblige the Group to pay interest at fixed rates on the same notional principal amounts.

Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. This difference is taken to the income statement on an accrual basis. The excess of fixed rate interest payables over floating rate interest receivables is recorded as current payables; the excess of floating rate interest receivable over fixed rate interest payable is recorded as current receivables.

The notional principal amounts of the interest rate swap contracts are recorded as off-balance sheet items. The fair values of the interest rate swap contracts are not recognised in the financial statements.

**(n) Leases****(1) When a group company is the lessee:*****Finance leases***

Leases of assets in which the Group assumes substantially the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is taken to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

***Operating leases***

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

**(2) When a group company is the lessor:*****Operating leases***

Assets leased out under operating leases are included in trading properties, investment properties and property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised over the lease term on an accrual basis.

## 2. Significant accounting policies (continued)

### (o) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### (p) Provisions for other liabilities and charges

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

### (q) Employee benefits

#### (1) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as Central Provident Fund, and will have no legal or constructive obligation to pay further contributions if any of the funds does not hold sufficient assets to pay all employee benefits relating to employee service in the current and preceding financial years. The Group's contribution to defined contribution plans are recognised in the financial year to which they relate.

#### (2) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

#### (3) *Equity compensation benefits*

No compensation expense is recognised when share options are issued under the Cosco Group Employees' Share Option Scheme. When the options are exercised, the proceeds received net of any transaction costs are taken to share capital (nominal value) and share premium.

### (r) Foreign currency translation

#### (1) *Measurement currency*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements of the Group and the balance sheet of the Company are presented in Singapore Dollars, which is the measurement currency of the Company.

#### (2) *Transactions and balances*

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the date of transactions. Foreign currency monetary assets and liabilities are translated into the measurement currency at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are taken to the income statement.

**2. Significant accounting policies (continued)****(r) Foreign currency translation (continued)****(3) Translation of Group entities' financial statements**

The results and financial position of group entities (none of which has the currency of a hyperinflationary economy) that are in measurement currencies other than Singapore Dollars are translated into Singapore Dollars as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are taken to the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is disposed of, such exchange differences are taken to the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on acquisition of a foreign entity are treated as non-monetary foreign currency assets and liabilities of the acquirer and recorded at the exchange rate at the date of the transaction.

**(s) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

**(t) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits with financial institutions and bank overdrafts. Bank overdrafts are included under borrowings on the balance sheet.

**(u) Share capital**

Ordinary shares are classified as equity. Preference shares, which are redeemable on a specific date or at the option of the shareholders or which carry non-discretionary dividend obligations, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as finance costs.

Incremental costs directly attributable to the issuance of new equity instruments, other than for the acquisition of businesses, are taken to equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issuance of new equity instruments for the acquisition of businesses are included in the cost of acquisition as part of the purchase consideration.

**(v) Dividends**

Interim dividends are recorded during the financial year in which they are declared payable. Final dividends are recorded during the financial year in which the dividends are approved by the shareholders.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 3. Revenue

	The Group	
	2004 \$	2003 \$
Rental income from investment and leasehold properties	1,225,455	2,825,113
Time charter revenue and voyage freight	92,229,859	67,403,436
Shipping agency income	19,012,020	18,874,716
Ship repair and fabrication service income	3,878,218	2,839,015
	<b>116,345,552</b>	91,942,280
Other operating income:		
Storage rental income	213,476	298,763
Dividend income received from unquoted equity investments (gross)	36,000	15,600
Bareboat termination compensation received	1,441,061	–
Insurance claims	826,620	294,514
Sundry income	1,482,731	887,406
Total other operating income	3,999,888	1,496,283
Interest income	597,104	202,746
	<b>120,942,544</b>	93,641,309

## 4. Exceptional gain

	The Group	
	2004 \$	2003 \$
Gain on disposal of subsidiaries to previous immediate holding company	–	23,132
Profit on disposal of property, plant and equipment	8,010,118	46,195
Reimbursement from previous immediate holding company for share of loss on completed properties for sale	–	9,654,036
Impairment losses of:		
– investment properties (note 18)	(6,361,811)	–
– trading properties (note 13)	(1,200,000)	(15,000)
– completed properties for sale	–	(9,368,000)
	<b>448,307</b>	340,363

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 5. Profit from operations

The following items have been included in arriving at profit from operations:

	The Group	
	2004	2003
	\$	\$
<b>Charging/(crediting):</b>		
Amortisation charge:		
– goodwill (included in share of results of associated companies) (note 16)	578,154	578,154
Auditors' remuneration paid/payable to:		
– auditors of the Company	398,672	410,772
– other auditors	18,698	12,293
Other fees paid/payable to auditors of the Company	436,870	324,478
Depreciation of property, plant and equipment (note 19)		
– Buildings on freehold land	99,309	99,309
– Leasehold land and buildings	870,573	875,329
– Office renovations, furniture, fixtures and equipment	463,449	504,100
– Plant, machinery and equipment	8,831	14,068
– Motor vehicles	331,906	355,341
– Motor vessels	21,761,300	21,613,441
Total depreciation charges	23,535,368	23,461,588
Depreciation of investment properties (note 18)	113,550	151,400
Goodwill written off	273,586	–
Foreign exchange losses – net	1,503,884	176,023
Provision for off-hire claim on freight and hire income (note 26)	292,083	506,014
Operating leases		
– apartment rental	195,600	456,763
– office rental	582,597	708,752
– time and bareboat charter hire	4,593,800	4,940,601

Fees for non-audit services paid to auditors of the Company in connection with the market due diligence, financial due diligence and professional services rendered to the Company and the Group as reporting accountant for the acquisition of Cosco Shipyard (Group) Co., Ltd amounting to \$398,000 had been included in deferred expenditure [note 14(ii)].

### 6. Finance costs-net

	The Group	
	2004	2003
	\$	\$
<b>Income</b>		
Interest Income from :		
– Fixed Deposits	578,561	104,138
– Related Corporations	–	71,943
– Others	18,543	26,665
	597,104	202,746

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 6. Finance costs-net (continued)

	The Group	
	2004	2003
	\$	\$
<b>Cost</b>		
Interest expense on :		
– Other borrowings including cost of interest rate swaps	9,854,093	9,759,194
– Loans from immediate holding company	–	7,705
Dividend on RCCPS		
– Fixed dividend on RCCPS of 5.7 cents (2003: 5.7 cents) per share per annum net of tax at 20%(2003: 22%)	5,723	1,041,004
Net foreign exchange loss	1,503,884	176,023
	<b>11,363,700</b>	10,983,926
Net finance costs	<b>10,766,596</b>	10,781,180

## 7. Remuneration bands of directors of the Company

	2004	2003
Number of directors of the Company in remuneration bands:		
Above \$500,000	5	1
\$250,000 to below \$500,000	2	4
Below \$250,000	6	9
Total	<b>13</b>	14

## 8. Staff costs

	The Group	
	2004	2003
	\$	\$
Wages, salaries and staff benefits	11,580,747	11,254,947
Employer's contribution to defined contribution plans including Central Provident Fund	709,892	788,943
	<b>12,290,639</b>	12,043,890

Key management remuneration is disclosed in note 35.

Average number of persons employed during the financial year:

	The Group	
	2004	2003
Full time	236	244
Part time	9	1
	<b>245</b>	245

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 9. Income tax

## (a) Income tax expense

	The Group	
	2004 \$	2003 \$
Tax expense attributable to profit is made up of:		
Current income tax		
– Singapore	814,006	1,643,310
– Foreign	262,076	200,434
	<b>1,076,082</b>	1,843,744
Deferred income tax – Singapore (note 20)	(13,213)	(940,427)
Share of tax of associated companies (note 16)	4,748,816	2,345,286
	<b>5,811,685</b>	3,248,603
Under/(over) provision in prior financial years:		
– Current income tax		
– Singapore	144,873	1,295,310
– Foreign	(7,892)	(3,083)
	<b>136,981</b>	1,292,227
– Deferred income tax – Singapore (note 20)	193,501	377,796
	<b>6,142,167</b>	4,918,626

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	The Group	
	2004 \$	2003 \$
Profit before tax	73,171,870	30,067,388
Tax calculated at a tax rate of 20% (2003: 22%)	14,634,374	6,614,825
Effect of different tax rates in other countries	(1,715,574)	(780,414)
Effect of tax concessions applicable to associated companies	(685,070)	(523,788)
Singapore stepped income exemption	(42,000)	(49,825)
Exempt income under AIS and Section 13A of Singapore Income Tax Act	(18,100,054)	(3,901,882)
Income not subject to tax	(14,825)	(2,240,293)
Expenses not deductible for tax purposes	10,368,564	2,274,402
Utilisation of previously unrecognised deferred tax asset	(2,374)	(733,471)
Deferred tax asset not recognised	1,368,644	2,589,049
	<b>5,811,685</b>	3,248,603

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 9. Income tax (continued)

## (b) Movements in current income tax liabilities

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>At the beginning of financial year:</b>				
Current tax liabilities/(income tax recoverable)	1,247,326	(344,745)	616,248	(1,029,309)
Income tax paid	(863,257)	(1,543,900)	(502,976)	(1,431,209)
Current financial year's income tax expense	1,076,082	1,843,744	542,082	1,705,031
Under provision in prior financial years	136,981	1,292,227	–	1,371,735
At the end of financial year	1,597,132	1,247,326	655,354	616,248
<b>Included in:</b>				
Current tax liabilities	1,670,470	1,519,246	655,354	616,248
Income tax recoverable	(73,338)	(271,920)	–	–
	1,597,132	1,247,326	655,354	616,248

## 10. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to members of Cosco Corporation (Singapore) Limited by the weighted average number of ordinary shares in issue during the financial year.

	The Group	
	2004	2003
	\$	\$
Net profit attributable to members of Cosco Corporation (Singapore) Limited (\$)	66,199,087	24,286,634
Weighted average number of ordinary shares of \$0.20 each in issue for basic earnings per share	1,083,181,948	899,483,222
Basic earnings per share (cents)	6.11	2.70

The weighted average number of shares for both 2004 and 2003 has been adjusted to reflect the bonus issue in 2004.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 10. Earnings per share (continued)

The diluted earnings per share is adjusted for the effects of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: RCCPS and outstanding share options. The RCCPS are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The differences is added to the denominator as an issuance of ordinary shares for no consideration. No adjustment is made to earning (numerator).

	The Group	
	2004	2003
	\$	\$
Net profit attributable to members of Cosco Corporation (Singapore) Limited (\$)	<b>66,199,087</b>	24,286,634
Dividend on RCCPS (\$)	–	13,036
Net profit used to determine diluted earnings per share (\$)	<b>66,199,087</b>	24,299,670
Weighted average number of ordinary shares of \$0.20 each in issue for basic earnings per share	<b>1,083,181,948</b>	899,483,222
Adjustments for		
– assumed conversion of RCCPS	–	1,466,065
– share options	<b>2,765,100</b>	1,825,671
Weighted average number of ordinary shares of \$0.20 each for diluted earnings per share	<b>1,085,947,048</b>	902,774,958
Diluted earnings per share (cents)	<b>6.10</b>	2.69

### 11. Cash and cash equivalents

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Cash at bank and on hand	<b>63,356,614</b>	73,222,414	<b>41,953,900</b>	53,406,818
Short-term bank deposits	<b>30,689,744</b>	12,901,736	–	–
	<b>94,046,358</b>	86,124,150	<b>41,953,900</b>	53,406,818

The carrying amounts of cash and cash equivalents approximate their fair value.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 11. Cash and cash equivalents (continued)

Cash and cash equivalents are denominated in the following currencies:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Singapore Dollar	<b>2,935,328</b>	5,867,115	<b>664,194</b>	4,380,635
United States Dollar	<b>78,073,865</b>	71,898,783	<b>41,287,106</b>	49,025,090
Others	<b>13,037,165</b>	8,358,252	<b>2,600</b>	1,093
	<b>94,046,358</b>	86,124,150	<b>41,953,900</b>	53,406,818

Short-term bank deposits have an average maturity of 1.7 months (2003: 1 month) from the end of the financial year with the following weighted average effective interest rates:

	The Group		The Company	
	2004	2003	2004	2003
Singapore Dollar	<b>0.45%</b>	0.66%	–	–
United States Dollar	<b>1.43%</b>	0.37%	–	–
Others	<b>3.54%</b>	3.15%	–	–

The exposure of cash and cash equivalent to interest rate risks is disclosed in note 32(ii).

For the purposes of the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

	The Group	
	2004	2003
	\$	\$
Cash and bank balances (as above)	<b>94,046,358</b>	86,124,150
Less bank overdrafts (note 22)	–	(12,518,163)
Less cash collateral	<b>(2,720,168)</b>	(2,807,374)
Cash and cash equivalents per consolidated cash flow statement	<b>91,326,190</b>	70,798,613

Bank and cash balances and bank deposits of the Group to the extent of \$1,594,974 (2003: \$1,672,023) were pledged as security for the following:

- (i) long-term bank loans obtained to finance the purchases of certain motor vessels; and
- (ii) the issuance of banker's guarantees in favour of third parties.

In addition, bank and cash balances and bank deposits with a financial institution of the Group to the extent of \$1,125,194 (2003: \$1,135,351) are jointly held with a third party, China Shipbuilding Trading Co., Ltd ("CSTCL") and are earmarked for the repayment of loan principal and interest due to CSTCL (note 23).

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## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 12. Trade and other receivables

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Trade receivables:				
– third parties	11,615,410	11,807,213	–	–
– related corporations	7,564,607	3,382,577	–	–
– subsidiaries	–	–	318,539	190,320
	<b>19,180,017</b>	15,189,790	<b>318,539</b>	190,320
Less: Allowance for doubtful receivables				
– third parties	–	(195,000)	–	–
	<b>19,180,017</b>	14,994,790	<b>318,539</b>	190,320
Short-term loan to a subsidiary	–	–	–	2,000,000
Other receivables				
– related corporations	3,314	12,884	1,646	12,884
– subsidiaries	–	–	6,764	29,359
– previous immediate holding corporation (note 34)	–	11,955	–	11,885
	<b>3,314</b>	24,839	<b>8,410</b>	54,128
Deposits and prepayments	357,742	6,857,517	96,868	98,279
Staff loans and advances (see note below)	210,290	87,185	200,000	9,409
Interest receivable	–	1,595	–	–
Sundry debtors	330,939	233,641	–	4,302
Dividend receivables from subsidiaries	–	–	16,317,470	–
Total	<b>20,082,302</b>	22,199,567	<b>16,941,287</b>	2,356,438

#### Staff loans and advances

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Not later than one year	210,290	87,185	200,000	9,409
Later than one year but not later than five years	–	200,000	–	200,000
	<b>210,290</b>	287,185	<b>200,000</b>	209,409

The carrying amounts of current trade and other receivables approximate their fair value. The currency denomination and exposure to interest rate risks of current trade and other receivables are disclosed in notes 14 and 32(ii) respectively, together with non-current trade and other receivables.

## 13. Trading properties

	The Group	
	2004	2003
	\$	\$
Cost		
At 1 January	977,223	977,223
Transfer from investment properties (note 18)	31,108,062	–
At 31 December	32,085,285	977,223
Accumulated depreciation and accumulated impairment losses		
At 1 January	362,223	347,223
Transfer from investment properties (note 18)	7,308,062	–
Impairment loss	1,200,000	15,000
At 31 December	8,870,285	362,223
Net realisable value	23,215,000	615,000

The Group's trading properties as at 31 December 2004 are set out below:

Address	Held by	Title	Description	Gross floor area (Square metres)
Grangeford Apartment, Leonie Hill Road (i)	Harington Property Pte Ltd	99 years leasehold commencing 1974	1 unit of service apartment	109
Telok Ayer Street (ii)	Harington Property Pte Ltd	999 years leasehold commencing 1884	8 units of shop houses	3,939

- (i) This trading property is stated at net realisable value, which is lower than cost. This property has been mortgaged to a bank as security for a long-term bank loan and bank facilities (note 22). The net book value of this trading property is \$615,000 as at 31 December 2004.
- (ii) During the financial year, this property was reclassified from investment properties to trading properties (note 18). These properties were written down by \$6,361,810 to its estimated recoverable amounts prior to the reclassification from investment property. The amount written down was based on an independent professional valuation carried out by CB Richard Ellis (Pte) Ltd on 8 October 2004 on the basis of open market value for existing use. Subsequent to its reclassification as a trading property, management made a further impairment charge of \$1.2 million to this property.

As at the balance sheet date, this property which has a net book value of \$22,600,000 is mortgaged to a bank to secure long-term bank loans (note 22).

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## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 14. Non-trade receivables

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Staff loans and advances (note 12)	–	200,000	–	200,000
Non-trade receivables (i)	<b>829,790</b>	864,245	–	–
Deferred expenditure (ii)	<b>846,921</b>	–	<b>846,921</b>	–
	<b>1,676,711</b>	1,064,245	<b>846,921</b>	200,000

- (i) This represents the operating loss incurred in operating a motor vessel which is recoverable from a third party. In 1997, a subsidiary of the Company entered into an agreement with a third party (“Charterer”) to bareboat charter a motor vessel for a period of 15 years commencing on 12 January 1999. During the period of the bareboat charter, any operating loss incurred on the motor vessel at the end of a financial year shall be carried forward from year to year until the sale of the motor vessel or the termination of the bareboat charter arrangement, whichever is earlier.

The operating loss incurred on the motor vessel will be recovered via the sale proceeds derived from the sale of the motor vessel. In the event that the proceeds of such sale are insufficient to discharge any operating loss brought forward, the Charterer shall bear and be fully responsible for all outstanding undischarged amounts thereunder. Accordingly, the operating loss mentioned above has been reflected as an amount recoverable from the Charterer.

- (ii) Deferred expenditure relates to costs incurred on the acquisition of 51% interest in the registered capital of Cosco Shipyard (Group) Co.,Ltd (“Cosco Shipyard”), a company registered in the People’s Republic of China. These costs will be capitalized as part of the cost of acquisition upon completion of the acquisition. See note 31 to the financial statements.

Included in deferred expenditure are fees for non-audit services paid to auditors of the Company of \$398,000 (2003: Nil) in connection with the market due diligence, financial and tax due diligence and professional services rendered as reporting accountant for the acquisition of Cosco Shipyard.

Trade and other receivables (current (note 12) and non-current) are denominated in the following currencies:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Singapore Dollar	<b>9,775,105</b>	9,974,604	<b>1,467,130</b>	2,551,727
United States Dollar	<b>8,259,036</b>	11,461,344	<b>16,321,078</b>	4,711
Ringgit Dollar	<b>3,701,787</b>	1,808,259	–	–
Others	<b>23,085</b>	19,605	–	–
	<b>21,759,013</b>	23,263,812	<b>17,788,208</b>	2,556,438

The weighted average effective interest rates for current and non-current receivables are as follows:

	The Group		The Company	
	2004	2003	2004	2003
Staff loans and advances	<b>1%</b>	1%	<b>1%</b>	1%

The exposure of non-current trade and other receivables to interest rate risks is disclosed in note 32(ii), together with current trade and other receivables.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 15. Other investments

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Unquoted equity shares in corporations, at cost	120,000	120,000	–	–
Transferable country club memberships, at cost	918,201	961,709	454,820	497,820
Exchange rate adjustments	(5,559)	(507)	–	–
Less: Impairment of transferable country club memberships	(529,271)	(523,660)	(304,820)	(297,820)
	383,371	437,542	150,000	200,000
Total	503,371	557,542	150,000	200,000
Transferable country club membership, at market value	410,000	420,000	156,000	178,000

It is not practical to estimate the fair value of the Company's non-current unquoted equity investments in corporations because of the lack of quoted market prices and liabilities to estimate fair value without incurring excessive costs.

The exposure of other investments to interest rate risks is disclosed in note 32(ii).

## 16. Investments in associated companies

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Investment at cost	–	–	55,966,592	58,211,632
At the beginning of financial year	69,809,936	28,229,115		
Share of net assets of an associated company acquired during the financial year	–	32,541,312		
Share of results before tax	36,433,865	17,577,661		
Amortisation of goodwill	(578,154)	(578,154)		
Share of tax (note 9)	(4,748,816)	(2,345,286)		
Share of results after tax	31,106,895	14,654,221		
Dividends received, net of tax	(14,543,433)	(3,777,711)		
Exchange rate adjustments	(3,205,700)	(1,837,001)		
At the end of financial year	83,167,698	69,809,936		

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 16. Investments in associated companies (continued)

(a) Investment in associated companies includes the following goodwill:

	The Group	
	2004	2003
	\$	\$
Cost	5,781,539	5,781,539
Accumulated amortisation	(1,686,282)	(1,108,128)
	<b>4,095,257</b>	4,673,411

(b) Information relating to the associated companies is set out below:

Name of associated company	Principal activities	Country of incorporation/country of business	% of paid-up capital held by the Company	
			2004	2003
			%	%
Cosem Pte Ltd (i)	Investment holding	Singapore	50	50
Cosco (Nantong) Shipyard Co., Ltd (ii)	Ship repairing	People's Republic of China ("PRC")	50	50
Cosco (Dalian) Shipyard Co., Ltd (ii)	Ship repairing	PRC	40	40

(i) Audited by KPMG, Singapore.

(ii) Audited by BDO Reanda Certified Public Accountants, Republic of China

### 17. Subsidiaries

(a) Investments in subsidiaries comprise:

	The Company	
	2004	2003
	\$	\$
Unquoted equity shares, at cost	64,732,072	63,932,072
Less:		
Impairment charge for the financial year and accumulated impairment charge at the end of the financial year (i)	(21,824,508)	–
Loans to subsidiaries (ii)	98,400,140	107,122,177
	<b>141,307,704</b>	171,054,249

(i) An impairment charge of \$21,824,508 (2003 : Nil) was recognized for the Company's investment in one of the subsidiaries, being the difference between the carrying amount of the investment and its recoverable amount. The recoverable amount (the higher of value in use or net selling price) was determined for the subsidiary and represents the net tangible assets of the subsidiary as at 31 December 2004.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 17. Subsidiaries (continued)

- (ii) The loans to subsidiaries are unsecured and have no fixed terms of repayment but substantial repayments are not expected within the next twelve months from the balance sheet date. The loan amount of \$98,400,140 (2003: \$101,499,953) due from wholly-owned subsidiaries is interest free. The weighted average effective interest rate for the remaining loans at 31 December 2003 was 2.44%.

Included in loans to subsidiaries is an amount of \$74,655,140 (2003: \$77,754,953) which the Company deemed as part of its net investment in a subsidiary.

In April 2004, the Company acquired an additional 30% interest in the share capital of one of its subsidiaries Cosco Marine Engineering (Singapore) Pte Ltd from Tong Foong Holdings Pte Ltd. The purchase consideration amounted to \$800,000.

- (b) The subsidiaries are:

Name of subsidiary	Principal activities	Country of incorporation/ country of business	Cost of investment		% of paid-up capital held by			
					The Company		Subsidiaries	
			2004 \$	2003 \$	2004 %	2003 %	2004 %	2003 %
Cosco (Singapore) Pte Ltd (i)	Ship owning, ship chartering and investment holding	Singapore	5,000,000	5,000,000	100	100	–	–
Cosco Marine Engineering (Singapore) Pte Ltd (i)	Ship repairing, marine engineering, container repairs and services, fabrication works services and production of marine outfitting components	Singapore	2,242,400	1,442,400	90	60	–	–
Harrington Property Pte Ltd (i)	Trading and investing in properties, provide property management services and investment holding	Singapore	52,700,730	52,700,730	100	100	–	–
Coslink (M) Sdn. Bhd. (ii)	Shipping agency and related activities	Malaysia	770,950	770,950	70	70	18	18
Costar Shipping Pte Ltd (i)	Shipping agents and investment holding	Singapore	4,017,990	4,017,990	70	70	–	–

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 17. Subsidiaries (continued)

(b) The subsidiaries are: (continued)

Name of subsidiary	Principal activities	Country of incorporation/ country of business	Cost of investment		% of paid-up capital held by				
					The Company		Subsidiaries		
			2004	2003	2004	2003	2004	2003	
			\$	\$	%	%	%	%	%
Marlene International Ltd (iii)	Investment holding	British Virgin Islands	2	2	100	100	–	–	
Serene Sky Shipping Inc. (i)	Ship owning and ship chartering	Liberia/ Worldwide	–	–	–	–	100	100	
Greenery Shipping Corporation S.A. (i)	Ship owning and ship chartering	Panama/ Worldwide	–	–	–	–	100	100	
Dynamism Shipping Corporation S.A. (i)	Ship owning and ship chartering	Panama/ Worldwide	–	–	–	–	100	100	
Cos Glory Shipping Inc. (i)	Ship owning and ship chartering	Panama/ Worldwide	–	–	–	–	100	100	
Cos Knight Shipping Inc. (i)	Ship owning and ship chartering	Panama/ Worldwide	–	–	–	–	100	100	
Cos Lucky Shipping Inc. (i)	Ship owning and ship chartering	Panama/ Worldwide	–	–	–	–	100	100	
Cos Orchid Shipping Inc. (i), (v)	Ship owning and ship chartering	Panama/ Worldwide	–	–	–	–	–	100	
Cos Prosperity Shipping Inc. (i), (v)	Ship owning and ship chartering	Panama/ Worldwide	–	–	–	–	–	100	
Hanbo Shipping Limited (ii)	Ship owning and ship chartering	Hong Kong/ Worldwide	–	–	–	–	100	100	

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 17. Subsidiaries (continued)

(b) The subsidiaries are: (continued)

Name of subsidiary	Principal activities	Country of incorporation/ country of business	Cost of investment		% of paid-up capital held by			
					The Company		Subsidiaries	
			2004	2003	2004	2003	2004	2003
			\$	\$	%	%	%	%
Sanbo Shipping Limited (ii)	Ship owning and ship chartering	Hong Kong/ Worldwide	-	-	-	-	100	100
Cos Orchid Shipping Pte Ltd (vi), (i)	Ship owning and ship chartering	Singapore/ Worldwide	-	-	-	-	100	-
Cos Prosperity Shipping Pte Ltd (vi), (i)	Ship owning and ship chartering	Singapore/ Worldwide	-	-	-	-	100	-
Costar Agencies (M) Sdn. Bhd. (iv)	Shipping agent	Malaysia	-	-	-	-	100	100
CNF Shipping (M) Sdn. Bhd. (iv)	Vessel chartering, feederling, freight forwarders, transport agents, warehousing and other related services	Malaysia	-	-	-	-	60	60
CNF Shipping Agencies Pte Ltd (i)	Shipping agent	Singapore	-	-	-	-	100	100
Cosco Engineering Pte Ltd (i)	Provision of support services to shipping companies	Singapore	-	-	-	-	100	100
			<b>64,732,072</b>	63,932,072				

(i) Audited by PricewaterhouseCoopers, Singapore.

(ii) Audited by PricewaterhouseCoopers firms outside Singapore.

(iii) Not required by the law of the country of its incorporation to be audited. The company has not commenced operations since the date of incorporation.

(iv) Audited by Deloitte KassimChan, Malaysia.

(v) Liquidated during the financial year.

(vi) Incorporated during the financial year.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 18. Investment properties

	The Group	
	2004	2003
	\$	\$
<b>Leasehold investment properties, at cost</b>		
At the beginning of financial year	31,108,062	31,108,062
Transfer to trading properties (note 13)	(31,108,062)	–
At the end of financial year	–	31,108,062
<b>Accumulated depreciation and impairment losses</b>		
At the beginning of financial year	832,701	681,301
Depreciation charge for the financial year	113,550	151,400
Impairment loss	6,361,811	–
Transfer to trading properties (note 13)	(7,308,062)	–
At the end of financial year	–	832,701
Net book value at the end of financial year	–	30,275,361
Market value	–	23,500,000

- (a) The open market value of the investment properties as at 31 December 2003 was based on an independent professional valuation carried out by CB Richard Ellis (Pte) Ltd, on the basis of open market value for existing use.
- (b) On 30 September 2004, the directors of the Company resolved to sell the investment properties of the Company. The carrying amounts of the investment properties have been reduced to their recoverable amount, which is the net selling price based on the properties market prices in an active market, through recognition of an impairment loss of \$6,361,811. The investment properties have been transferred to trading properties (note 13).

The details of the investment properties are disclosed in note 13.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 19. Property, plant and equipment

## (a) The Group

	Buildings on freehold land	Leasehold land and buildings	Office renovations, furniture, fixtures and equipment	Plant, machinery and equipment	Motor vehicles	Motor vessels	Vessel under construction	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>								
At 1								
January 2004	4,955,556	36,242,068	4,020,673	1,584,942	4,034,323	439,561,199	–	490,398,761
Exchange rate adjustments	–	(208,462)	(50,215)	(10,909)	(55,026)	(17,523,736)	–	(17,848,348)
Additions	–	–	494,562	6,600	45,092	5,063,656	9,059,420	14,669,330
Disposals	–	(836,759)	(1,217,781)	(262,724)	(373,709)	(29,302,615)	–	(31,993,588)
At 31								
December 2004	4,955,556	35,196,847	3,247,239	1,317,909	3,650,680	397,798,504	9,059,420	455,226,155
<b>Accumulated depreciation</b>								
At 1								
January 2004	833,152	5,279,454	3,198,616	1,544,458	1,914,793	124,854,343	–	137,624,816
Exchange rate adjustments	–	(39,083)	(41,670)	(10,909)	(33,546)	(5,750,220)	–	(5,875,428)
Depreciation charge	99,309	870,573	463,449	8,831	331,906	21,761,300	–	23,535,368
Disposals	–	(157,583)	(1,200,793)	(262,724)	(308,485)	(19,422,742)	–	(21,352,327)
At 31								
December 2004	932,461	5,953,362	2,419,602	1,279,656	1,904,668	121,442,681	–	133,932,429
<b>Net book value at 31 December 2004</b>								
	<b>4,023,095</b>	<b>29,243,486</b>	<b>827,637</b>	<b>38,253</b>	<b>1,746,012</b>	<b>276,355,823</b>	<b>9,059,420</b>	<b>321,293,726</b>
Net book value at 31 December 2003								
	4,122,404	30,962,614	822,057	40,484	2,119,530	314,706,856	–	352,773,945

- (i) As at the balance sheet date, the net book value of property, plant and equipment of the Group amounted to \$213,151,743 (2003: \$283,378,107) is mortgaged to banks to secure long-term bank loans and bank facilities. The details of these property, plant and equipment are disclosed in note 22.
- (ii) As at the balance sheet date, the net book value of property, plant and equipment of the Group amounted to \$57,892,211 (2003: \$62,398,502) is mortgaged to a third party, China Shipbuilding Trading Co., Ltd, to secure term loans. The details of these property, plant and equipment are disclosed in note 23.
- (iii) As at the balance sheet date, the net book value of property, plant and equipment of the Group under finance leases included in motor vehicles amounted to \$148,713 (2003: \$124,811).
- (iv) The interest capitalised in motor vessels during the financial year amounted to \$Nil (2003: \$131,501).

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 19. Property, plant and equipment (continued)

#### (a) The Group (continued)

(v) The open market values of the following assets were valued by independent professional valuers at 31 December 2004:

	The Group	
	2004	2003
	\$	\$
Buildings on freehold land	2,851,000	3,603,979
Leasehold land and buildings	19,670,000	21,980,000
Motor vessels	323,085,906	328,343,400
	<b>345,606,906</b>	<b>353,927,379</b>

#### (b) The Company

	Office renovations, furniture, fixtures and equipment	Motor vehicles	Total
	\$	\$	\$
<b>Cost</b>			
At 1 January 2004	483,649	389,302	872,951
Additions	38,043	–	38,043
Disposals	(63,629)	–	(63,629)
At 31 December 2004	458,063	389,302	847,365
<b>Accumulated depreciation</b>			
At 1 January 2004	227,780	172,377	400,157
Disposals	(59,522)	–	(59,522)
Depreciation charge	86,673	38,759	125,432
At 31 December 2004	254,931	211,136	466,067
<b>Net book value at 31 December 2004</b>	<b>203,132</b>	<b>178,166</b>	<b>381,298</b>
Net book value at 31 December 2003	255,869	216,925	472,794

## 19. Property, plant and equipment (continued)

(c) The Group's properties as at 31 December 2004, which are all located in Singapore are set out below:

Address	Held By	Title	Description
(i) Riverwalk Apartment, Upper Circular Road	Harington Property Pte Ltd	99 years leasehold commencing 15 December 1980	Residential apartment
(ii) Grangeford Apartments, Leonie Hill Road	Harington Property Pte Ltd	99 years leasehold commencing December 1974	Residential apartment
(iii) Suntec City, Temasek Boulevard	Harington Property Pte Ltd	99 years leasehold commencing 1 March 1989	3 units of office space
(iv) Roxy Square, East Coast Road	Cosco (Singapore) Pte Ltd	9,999 years leasehold commencing 3 April 1848	5 units of residential apartments
(v) 52 Penjuru Lane	Cosco Marine Engineering (Singapore) Pte Ltd	30 years leasehold commencing 15 April 1992	Leasehold industrial land and building for ship repair workshops and production of marine outfitting components
(vi) Amber Park Garden	Costar Shipping Pte Ltd	Freehold	Residential apartment
(vii) Sarhad Ville, Lorong Sarhad	Costar Shipping Pte Ltd	Freehold	Residential apartment
(viii) Buona Vista Garden, Zehnder Road	Costar Shipping Pte Ltd	Freehold	Residential apartment
(ix) Margate Mansion, Margate Road	Costar Shipping Pte Ltd	Freehold	2 units of residential apartments

## 20. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The movements in the deferred income tax account are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
At the beginning of the financial year	50,627	613,761	–	888,371
Exchange differences	(1,009)	(503)	–	–
Tax charged /(credited) to income statement (note 9)	180,288	(562,631)	–	(888,371)
At the end of financial year	229,906	50,627	–	–

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## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 20. Deferred income taxes (continued)

The movements in the Company and the Group's deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the financial year are as follows:

#### The Group

##### Deferred income tax liabilities

	Accelerated tax depreciation	Interest receivable	Total
	\$	\$	\$
At 1 January 2004	251,885	–	251,885
Exchange rate adjustments	(1,009)	–	(1,009)
Credited to income statement	(20,970)	–	(20,970)
<b>At 31 December 2004</b>	<b>229,906</b>	<b>–</b>	<b>229,906</b>
At 1 January 2003	224,867	1,854,051	2,078,918
Exchange rate adjustments	(503)	–	(503)
Charged/(credited) to income statement	27,521	(1,854,051)	(1,826,530)
At 31 December 2003	251,885	–	251,885
Deferred tax assets available for offsetting of deferred tax liabilities within the same tax jurisdiction			(257)
			251,628

##### Deferred income tax assets

	Provisions	Accumulated loss and capital allowances available for future offsetting	Total
	\$	\$	\$
At 1 January 2004	42,900	158,358	201,258
Charged to income statement	(42,900)	(158,358)	(201,258)
<b>At 31 December 2004</b>	<b>–</b>	<b>–</b>	<b>–</b>
At 1 January 2003	20,900	1,444,257	1,465,157
Credited/(charged) to income statement	22,000	(1,285,899)	(1,263,899)
At 31 December 2003	42,900	158,358	201,258
Deferred tax assets available for offset against deferred tax liabilities within the same tax jurisdiction			(257)
			201,001

## 20. Deferred income taxes (continued)

## The Company

## Deferred income tax liabilities

	Interest receivable	
	2004	2003
	\$	\$
At the beginning of financial year	–	888,371
Credited to income statement	–	(888,371)
At the end of financial year	–	–

## 21. Trade and other payables

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Trade payables to:				
– third parties	15,290,715	8,387,477	–	–
– ultimate holding corporation (note 34(a))	12,117,406	9,929,600	–	–
– related corporations	4,398,928	5,007,203	–	–
– associated company	–	255,696	–	–
	31,807,049	23,579,976	–	–
Advances from:				
– ultimate holding corporation (note 34(b))	3,293,755	4,248,750	–	–
– customers and third parties	244,061	930,810	–	–
	3,537,816	5,179,560	–	–
Non-trade payables to :				
– related corporations	19,735	13,824,928	–	13,809,048
– subsidiary	–	–	5,007,593	4,290,334
	19,735	13,824,928	5,007,593	18,099,382
Dividend payable on RCCPS (note 25 (b))	–	736	–	736
Rental deposits	300,374	326,566	–	–
Accrued operating expenses	13,934,699	11,258,362	4,090,346	2,298,106
Total	49,599,673	54,170,128	9,097,939	20,398,224

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 21. Trade and other payables (continued)

Trade and other payables are denominated in the following currencies:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Singapore	<b>12,190,494</b>	9,034,159	<b>6,750,077</b>	5,147,368
United States Dollar	<b>23,716,844</b>	36,800,046	<b>2,347,862</b>	15,250,856
Others	<b>13,692,335</b>	8,335,923	–	–
	<b>49,599,673</b>	54,170,128	<b>9,097,939</b>	20,398,224

### 22. Borrowings

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Current</b>				
Bank overdrafts				
– Secured (See note (a) below)	–	8,389,779	–	–
– Unsecured	–	4,128,384	–	4,128,384
	–	12,518,163	–	4,128,384
Short-term loans:				
– associated company (See note(b) below)	<b>500,000</b>	500,000	<b>500,000</b>	500,000
Bank loans - Secured	<b>19,721,504</b>	23,224,514	–	–
Other term loans (note 23)	<b>6,350,041</b>	6,613,706	–	–
Finance lease liabilities (note 24)	<b>26,328</b>	20,328	–	–
Preference shares (note 25)	–	439,819	–	439,819
Total	<b>26,597,873</b>	43,316,530	<b>500,000</b>	5,068,203
<b>Non-current</b>				
Bank loans				
– Secured	<b>100,810,908</b>	133,376,525	–	19,368,854
– Unsecured	–	7,500,000	–	7,500,000
	<b>100,810,908</b>	140,876,525	–	26,868,854
Other term loans (note 23)	<b>34,925,162</b>	42,989,022	–	–
Finance lease liabilities (note 24)	<b>68,974</b>	56,362	–	–
Total	<b>135,805,044</b>	183,921,909	–	26,868,854
	<b>162,402,917</b>	227,238,439	<b>500,000</b>	31,937,057

**22. Borrowings (continued)**

- (a) Bank overdraft facilities of the Group to the extent of \$Nil (2003: \$8,389,780) are secured by way of a first legal mortgage on the leasehold properties at Telok Ayer Street and an assignment over all rental/lease income generated by these properties.
- (b) The short-term loan from an associated company is unsecured and repayable on demand.
- (c) The Group's secured long-term bank loans comprise the following:

	The Group	
	2004	2003
	\$	\$
<b>Taken up by the Company</b>		
(i) Secured by a first preferred mortgage over the motor vessels MV Sea Crane, MV Sea Phoenix and MV Sea Swan (disposed off in 2004) belonging to certain subsidiaries, an assignment of the time charter agreements of the motor vessels and earnings accounts pledged to the lending bank. The term loan was fully repaid in 2004. The loan bears interest at Nil% (2003: 1.25%) per annum over US Dollar Singapore Inter-bank Offer Rate (SIBOR).	–	13,250,654
(ii) Secured by a first preferred mortgage over the motor vessels MV Cos Angel and MV Jurong Sea and a second preferred mortgage over MV Sea Crane, MV Sea Phoenix and MV Sea Swan (after the discharge of (i) above) belonging to certain subsidiaries, an assignment of the time charter agreements of the motor vessels and earnings accounts pledged to the lending bank. The term loan was fully repaid in 2004. The loan bears interest at Nil% (2003: 1.25%) per annum over US Dollar SIBOR.	–	6,118,200
	–	19,368,854
<b>Taken up by subsidiaries</b>		
(iii) Secured by a first mortgage over the motor vessel MV Cos Cherry and an assignment of the vessel's earnings, fixed deposit of US\$Nil (2003: US\$469,176) equivalent to \$Nil (2003: \$797,365) and insurance coverage. The loan bears interest at Nil% (2003: 0.9%) per annum over three, six or twelve months' US Dollar SIBOR. The loan was fully repaid during the financial year.	–	11,471,625
(iv) Secured by a first legal mortgage over the motor vessel MV Cos Bonny and an assignment of the vessel's earnings, fixed deposit of US\$269,034 (2003: US\$265,360) equivalent to \$438,995 (2003: \$450,979) and insurance coverage. The loan is repayable in 48 equal quarterly instalments of US\$281,250 equivalent to \$458,929 (2003: \$477,984) each and a final instalment of US\$4,290,110 (2003: US\$4,290,110) equivalent to \$7,000,374 (2003: \$7,291,042). The first quarterly repayment commenced in February 1997. The loan bears interest at 1% (2003: 1%) per annum over three, six or twelve months' US Dollar LIBOR.	<b>14,343,235</b>	16,850,729
(v) Secured by a first legal mortgage on a subsidiary's leasehold property at Riverwalk Apartment. The loan is repayable over 10 years at a monthly instalment of \$8,336 (2003: \$8,336) each. The loan will expire on 1 April 2005. The loan bears interest at 6% (2003: 6%) per annum and is subject to fluctuations at the lending bank's discretion.	<b>40,207</b>	132,255
(vi) Secured by a first legal mortgage on a subsidiary's leasehold properties at Telok Ayer Street and an assignment of all rental/lease income generated by these properties, assignment of insurance policy taken on leasehold properties at Suntec City and corporate guarantees from the immediate holding company. The loan is repayable over 26 equal quarterly instalments of \$500,000 (2003: \$Nil) each, which commenced in March 2004. The loan bears interest at 1.5% (2003: Nil) per annum over three months S\$ Swap Offer rate.	<b>11,500,000</b>	–

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 22. Borrowings (continued)

	The Group	
	2004	2003
	\$	\$
(vii) Secured by a first legal mortgage on a subsidiary's leasehold properties at Suntec City, Temasek Boulevard and an assignment of the lease proceeds generated by these properties and insurance policies taken on these properties. The loan is repayable over 31 quarterly instalments of US\$250,000 equivalent to \$407,937 (2003: \$424,875) each, which commenced in September 1997, and a final repayment of US\$4,750,000 equivalent to \$7,750,798 (2003: \$8,072,625). The loan bears interest at 1.25% (2003: 1.25%) per annum over three months' US Dollar SIBOR.	<b>7,620,726</b>	9,636,652
(viii) Secured by a first legal mortgage on a subsidiary's leasehold land and building at 52 Penjuru Lane. The bank loan is repayable in 19 quarterly instalments of \$60,000 each, which commenced in January 2002, and a final repayment of \$1,210,000. The loan bears interest at the rate of 4.28% (2003: 4.28%) per annum.	<b>1,690,000</b>	1,930,000
(x) Secured by a first legal mortgage on a subsidiary's leasehold and trading properties at Leonie Hill Road and an assignment of the rental proceeds generated by these properties. The loan is repayable over 15 years at a monthly instalment of \$5,777 (2003: \$5,777) each, which commenced in June 1997, and a final repayment of \$5,917. The loan bears interest at 5% per annum for the first year, 5.25% per annum for the second year and 0.5% per annum over the bank's prime lending rate from the third year onwards. The loan was fully repaid during the financial year.	-	589,394
(xi) Secured by a first and second preferred Panamanian Mortgage over the motor vessel MV Cos Fair, an assignment of the time charter agreements of the motor vessel, an earnings account and a contract and refund guarantee assignment pledged to the lending banks. The loans are repayable in two tranches. The first tranche which represents 70% of the loan drawn down is repayable over 40 consecutive quarterly instalments of equal amounts of US\$325,873, equivalent to \$531,742 (2003: \$553,821) each, commencing from July 1999 and the second tranche of 30% of US\$5,586,400 equivalent to \$9,115,591 (2003: \$9,494,087) is repayable in one final instalment together with the 40th instalment. The loan bears interest at 1.1125% (2003: 1.1125%) per annum over three months' US Dollar LIBOR.	<b>18,686,964</b>	21,678,167
Included in the loans is an amount of up to US\$1,818,856 (2003: US\$2,025,880) equivalent to \$2,967,913 (2003: \$3,442,983) from a lending financial institution for which the repayment is subordinated to other lending banks as a second priority lender.		
(xii) Secured by a first and second preferred Panamanian Mortgage over the motor vessel MV Cos Glory, an assignment of the time charter agreements of the motor vessel and an earnings account pledged and a contract and refund guarantee assignment to the lending banks. The loans are repayable in two tranches. The first tranche which represents 70% of the loan drawn down is repayable over 40 consecutive quarterly instalments of equal amounts of US\$318,161 equivalent to \$519,158 (2003: \$540,715) each and the second tranche of 30% of US\$5,454,193 equivalent to \$8,899,863 (2003: \$9,269,401) is repayable in one final instalment together with the 40th instalment. The first repayment commenced in September 1999. The loan bears interest at 1.1125% (2003: 1.1125%) per annum over three months' US Dollar LIBOR.	<b>18,244,721</b>	21,165,134
Included in the loans is an amount of up to US\$1,776,158 (2003: US\$1,978,322) equivalent to \$2,898,240 (2003: \$3,362,158) from a lending financial institution for which the repayment is subordinated to other lending banks as a second priority lender.		

## 22. Borrowings (continued)

	The Group	
	2004	2003
	\$	\$
(xiii) Secured by a first preferred Panamanian Mortgage over the motor vessel MV Cos Knight, an assignment of the time charter agreement of the motor vessel pledged to the lending bank. The loan is repayable in two tranches, where the first tranche which represents 18% of the loan drawn down is repayable over 28 consecutive quarterly instalments commencing from 31 January 2003 and the second tranche of 82% of US\$16,787,500, equivalent to \$27,392,953 (2003: \$28,530,356) is repayable over 40 consecutive instalments plus a final payment of US\$4,200,000, equivalent to \$6,853,337 (2003: \$7,137,900) together with the 40th instalment. The loan bears interest at 1.2% (2003: 1.2%) per annum over three months' US Dollar LIBOR.	<b>23,737,052</b>	26,651,974
(xiv) Secured by a first preferred mortgage over the motor vessel MV Cos Lucky, an assignment of the time charter agreement of the motor vessel pledged to the lending bank. The loan is repayable in two tranches, where the first tranche which represents 18% of the loan drawn down is repayable over 28 consecutive quarterly instalments commencing from 31 January 2003 and the second tranche of 82% of US\$16,787,500, equivalent to \$27,392,953 (2003: \$28,530,356) is repayable over 40 consecutive instalments plus a final payment of US\$4,200,000, equivalent to \$6,853,337 (2003: \$7,137,900) together with the 40th instalment. The loan bears interest at 1.2% (2003: 1.2%) per annum over three months' US Dollar LIBOR.	<b>24,669,507</b>	27,126,255
	<b>120,532,412</b>	156,601,039
Included in:		
– Current liabilities	<b>19,721,504</b>	23,224,514
– Non-current liabilities	<b>100,810,908</b>	133,376,525
	<b>120,532,412</b>	156,601,039

The loans taken up by subsidiaries set out in note (c)(iii) to (xiv) above are guaranteed by the Company. In addition, the loans taken up by subsidiaries set out in note (c)(xi) to (xiv) above are guaranteed by the previous immediate holding company [note 34(a)].

- (d) The remaining unsecured term loans of the Group and the Company amounting to Nil (2003: \$7,500,000) bear interest at Nil (2003: 1.25% to 1.5%) per annum over US Dollar SIBOR and has no fixed terms of repayment but substantial repayments are not expected within the next twelve months from the balance sheet date.

## (e) Interest rate risks

The weighted average effective interest rates at the balance sheet date are as follows:

The Group	2004			2003		
	SGD	USD	Others	SGD	USD	Others
Bank overdrafts	–	–	–	5.92%	2.09%	–
Bank loans	<b>2.43%</b>	<b>3.33%</b>	–	2.43%	2.16%	–
Other term loans	–	<b>3.30%</b>	–	–	2.58%	–
Redeemable preference shares	–	–	–	3.80%	–	–
Loan from associate company	<b>1.00%</b>	–	–	1.00%	–	–

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 22. Borrowings (continued)

#### (e) Interest rate risks (continued)

The weighted average effective interest rates at the balance sheet date are as follows:

The Company	2004			2003		
	SGD	USD	Others	SGD	USD	Others
Bank overdrafts	-	-	-	5.60%	2.10%	-
Bank loans	-	-	-	2.43%	2.40%	-
Redeemable preference shares	-	-	-	3.80%	-	-
Loan from associate company	<b>1.00%</b>	-	-	1.00%	-	-

The exposure of current and non-current borrowings to interest rate risks is disclosed in note 32(ii).

#### (f) Maturity of borrowings

The current borrowings have an average maturity of 7 months (2003: 7.4 months) from the end of the financial year.

The repayment of non-current borrowings [excluding finance lease liabilities (note 24) and preference shares (note 25)] are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Between 1 and 2 years	<b>18,516,511</b>	38,746,740	-	13,618,200
Between 2 and 5 years	<b>81,131,492</b>	66,117,859	-	13,250,654
Over 5 years	<b>36,088,067</b>	79,000,948	-	-
	<b>135,736,070</b>	183,865,547	-	26,868,854

#### (g) Fair value of non-current borrowings

The carrying amounts of current borrowings approximate their fair values.

The fair values of non-current borrowings (as defined in note 22(f)) approximate their carrying amounts at balance sheet date.

The fair values are based on discounted cash out flows using a discount rate which the directors expect would be available to the Group at the balance sheet date.

**22. Borrowings (continued)****(h) Currency risk**

The carrying amounts of total borrowings are denominated in the following currencies:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Singapore Dollar	<b>13,825,503</b>	26,457,814	<b>500,000</b>	15,339,695
United States Dollar	<b>148,577,414</b>	200,780,625	–	16,597,362
Others	–	–	–	–
	<b>162,402,917</b>	227,238,439	<b>500,000</b>	31,937,057

**23. Other term loans**

- (a) This represents loans obtained from a third party, China Shipbuilding Trading Co., Ltd (“CSTCL”) for the construction of motor vessels and are repayable by quarterly instalments from 2003 to 2011. The loans bear interest at a rate of 1% (2003: 1%) over US Dollar LIBOR per annum.

The loans are secured by the following:

- (i) a first legal mortgage over the motor vessels MV Cos Joy and MV Cos Intrepid;
- (ii) an assignment of the charter earnings, requisition compensation and insurance coverage relating to the above vessels;
- (iii) corporate guarantees from related corporations; and
- (iv) bank fixed deposits with a financial institution of the Group jointly held with CSTCL (note 11).

**24. Finance lease liabilities**

- (a)

	The Group	
	2004	2003
	\$	\$
Minimum lease payments due:		
– not later than one year	<b>31,728</b>	24,384
– later than one year but not later than five years	<b>83,357</b>	67,422
	<b>115,085</b>	91,806
Less: Future finance charges	<b>(19,783)</b>	(15,116)
Present value of finance lease liabilities	<b>95,302</b>	76,690
The present value of finance lease liabilities may be analysed as follows:		
– not later than one year (note 22)	<b>26,328</b>	20,328
– later than one year but not later than five years (note 22)	<b>68,974</b>	56,362
	<b>95,302</b>	76,690

- (b) The weighted average effective interest rate at the balance sheet date is 5.7% (2003: 5.41%) per annum.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 25. Preference shares

(a) Information relating to the preference shares as required by the Singapore Companies Act is as follows:

	The Group and the Company	
	2004	2003
	\$	\$
Authorised preference share capital: 37,829,333 (2003: 37,829,333) 3.8% RCCPS of \$0.01 each	<b>378,293</b>	378,293
Issued and fully paid preference share capital:		
Nil (2003: 293,213) RCCPS of \$0.01 each	–	2,932
Share premium account	–	436,887
Obligation on redemption of RCCPS	–	439,819

(b) In 1999, the Company issued 33,453,283 of RCCPS of \$0.01 each at \$1.50. The RCCPS holders have the right to receive a fixed gross preferential dividend of 5.7 cents (3.8% of the issue price) per annum for each RCCPS, payable annually in arrears on each dividend payment date in priority to any dividend or distribution in favour of any other classes of shares.

As a result of the share split in 2000, the RCCPS holders are entitled to convert all or any of their RCCPS into fully paid ordinary shares of \$0.20 each based on the conversion ratio of five ordinary shares of \$0.20 each for every one RCCPS held subject to adjustment under certain circumstances in accordance with the Articles of Association (“AA”) of the Company, or such other ratio as may be prescribed by the directors of the Company for a new issue of preference shares, commencing on and including the date of the first anniversary of the issue date of the RCCPS (15 November 2000) up to the final redemption date which is on 15 November 2004.

The RCCPS holders are not entitled to attend or vote at any General Meeting other than under the circumstances set out in the AA of the Company.

The share premium account cannot be used except for payment of premium on the redemption of RCCPS.

During the financial year, 256,548 RCCPS of \$0.01 each were converted to 1,282,740 ordinary shares of \$0.20 each (note 27), while 36,665 RCCPS of \$0.01 each were redeemed by the Company at \$1.50 per RCCPS on the final redemption on 15 November 2004.

(c) Dividend paid and payable on RCCPS

	The Group and the Company	
	2004	2003
	\$	\$
At the beginning of financial year	<b>736</b>	188,300
Fixed dividend on RCCPS of 5.7 cents (2003: 5.7 cents) per share per annum net of tax at 20% (2003: 22%)	<b>5,723</b>	1,041,004
Dividends paid	<b>(6,459)</b>	(1,228,568)
At the end of financial year	–	736

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 26. Provision for the liabilities and charges

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Current</b>				
Provision for off hire claim on freight and hire income (note (a))	2,466,343	2,288,361	–	–
<b>Non-current</b>				
Club membership payable	96,800	107,360	96,800	107,360
Income received in advance (note (b))	4,028,525	4,386,165	–	–
	4,125,325	4,493,525	96,800	107,360
	6,591,668	6,781,886	96,800	107,360

(a) Movements in provision for off hire claim on freight and hire income are as follows:

	The Group	
	2004	2003
	\$	\$
At the beginning of financial year	2,288,361	1,883,339
Provision made during the financial year	292,083	506,014
Amount utilised during the financial year	–	(49,625)
Exchange rate adjustments	(114,101)	(51,367)
At the end of financial year	2,466,343	2,288,361

(b) Income received in advance represents amounts received from a lessee of the Group's motor vessels. The income received in advance is recognised on a straight line basis over the lease period. In the event of pre-mature termination of the lease, the amount of outstanding income received in advance is repayable to the lessee.

## 27. Share capital of the Company

## (a) Authorised ordinary share capital

The total authorised number of ordinary shares is 1.25 billion shares (2003: 1.25 billion shares) with a par value of \$0.20 per share (2003: \$0.20 per share).

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## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 27. Share capital of the Company (continued)

#### (b) Issued ordinary share capital

	2004 Shares	2003 Shares	2004 \$	2003 \$
At the beginning of financial year	<b>898,237,659</b>	624,727,309	<b>179,647,532</b>	124,945,462
Issue of fully paid ordinary shares of \$0.20 each on the exercise of options granted under the Cosco Group Employees' Share Option Scheme comprising, Nil (2003: 2,115,000) 1998 Options at \$0.20 (2003: \$ 0.20) each, 80,000 (2003: 2,160,000) 1999 Options at \$0.2288 (2003: \$0.2288) each, 595,000 (2003: 3,435,000) 2002 Options at \$0.20 (2003: \$0.20) each, and 4,195,000 (2003: Nil) 2003 options at \$0.20 (2003: \$0.20) each, for cash	<b>4,870,000</b>	7,710,000	<b>974,000</b>	1,542,000
Issue of fully paid ordinary shares of \$0.20 each for private placement	–	100,000,000	–	20,000,000
Issue of fully paid ordinary shares of \$0.20 each on conversion of RCCPS	<b>1,282,740</b>	165,800,350	<b>256,548</b>	33,160,070
Issue of fully paid ordinary shares of \$0.20 each on bonus issue of 1 ordinary share for every 5 existing ordinary share	<b>180,757,078</b>	–	<b>36,151,415</b>	–
At the end of financial year	<b>1,085,147,477</b>	898,237,659	<b>217,029,495</b>	179,647,532

All issued shares are fully paid. The newly issued ordinary shares rank pari passu in all respects with the previously issued ordinary shares.

#### (c) Share Options

Share options are granted to management and key employees under Cosco Employees' Share Option Schemes. Options are exercisable beginning one year from the date of grant and have a contractual option term of 10 years.

Movements in the number of share options on ordinary shares outstanding at the end of the financial year and their exercise prices are as follows:

#### The Group and the Company

*Financial year ended 31 December 2004*

Options relating to Cosco Group Employees' Share Option Scheme	At the beginning of the year	Granted during the financial year	Exercised during the financial year	Lapsed during the financial year	At the end of the financial year	Exercise Price	Exercise Period
						\$	
1999 Options	80,000	–	(80,000)	–	–	0.2288	30.9.2000 – 29.9.2004
2002 Options	1,395,000	–	(595,000)	–	800,000	0.20	12.8.2003 – 11.8.2012
2003 Options	5,115,000	–	(4,195,000)	–	920,000	0.20	1.4.2004 – 31.3.2013
2004 Options	–	15,340,000	–	(930,000)	14,410,000	0.735	24.5.2005 – 23.5.2014
	<b>6,590,000</b>	<b>15,340,000</b>	<b>(4,870,000)</b>	<b>(930,000)</b>	<b>16,130,000</b>		

## 27. Share capital of the Company (continued)

On 24 May 2004, 15,340,000 share options were granted to directors and employees with an exercise price of \$0.735 pursuant to the 2004 Options to 2 executive directors, 10 non-executive directors and 55 employees of the Group and its parent company. These options are exercisable from 24 May 2005 to 23 May 2014.

### Financial year ended 31 December 2003

Options relating to Cosco Group Employees' Share Option Scheme	At the beginning of the year	Granted during the financial year	Exercised during the financial year	Lapsed during the financial year	At the end of the financial year	Exercise Price	Exercise Period
						\$	
1998 Options	3,000,000	–	(2,115,000)	(885,000)	–	0.20	9.11.1999 – 8.11.2003
1999 Options	3,190,000	–	(2,160,000)	(950,000)	80,000	0.2288	30.9.2000 – 29.9.2004
2002 Options	5,860,000	–	(3,435,000)	(1,030,000)	1,395,000	0.20	12.8.2003 – 11.8.2012
2003 Options	–	5,435,000	–	(320,000)	5,115,000	0.20	1.4.2004 – 31.3.2013
	12,050,000	5,435,000	(7,710,000)	(3,185,000)	6,590,000		

## 28. Other reserves

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Non-distributable reserves:</b>				
<b>Share premium</b>				
At the beginning of financial year	26,972,043	11,184,734	26,972,043	11,184,734
Premium on the exercise of options granted under the Cosco Group Employees' Share Option Scheme	2,304	62,208	2,304	62,208
Expenses incurred for the issue of ordinary shares through a private placement	–	(628,368)	–	(628,368)
Premium arising from issue of ordinary shares through a private placement	–	140,000	–	140,000
Premium arising from issue of ordinary shares on conversion of RCCPS	128,274	16,213,469	128,274	16,213,469
Bonus issue of 1 ordinary share for every 5 existing ordinary shares of \$0.20 each	(27,092,122)	–	(27,092,122)	–
At the end of financial year	10,499	26,972,043	10,499	26,972,043
<b>Statutory reserve</b>				
At the beginning of financial year	3,382,401	–	–	–
Transfer (to)/from retained profits	(26,500)	3,382,401	–	–
At the end of financial year	3,355,901	3,382,401	–	–

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## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 28. Other reserves (continued)

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Distributable reserve:</b>				
Realised surplus on long-term investments	<b>68,780</b>	68,780	<b>526,716</b>	526,716
<b>Total other reserves</b>	<b>3,435,180</b>	30,423,224	<b>537,215</b>	27,498,759

Statutory reserve represents the amount set aside in compliance with the local laws in the PRC where the associated companies of the Group reside.

### 29. Dividends

	The Group and the Company	
	2004	2003
	\$	\$
First and final dividend paid in respect of the previous financial year of 1.0 (2003: 0.7) cent per ordinary share	<b>7,230,284</b>	3,411,011

At the Annual General Meeting on 20 April 2005, a final and exempt (one-tier) dividend of 2 cents per share amounting to a total of \$21,703,000 (2003 : \$7,230,000), based on current number of shares issued as of 31 December 2004, will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2005.

### 30. Contingent liabilities (unsecured)

As at the balance sheet date, the Company had given the following unsecured guarantees and indemnities:

	The Company	
	2004	2003
	\$	\$
(i) Guarantees given to banks in connection with bank facilities provided to subsidiaries	<b>225,343,774</b>	220,973,814
(ii) Counter-indemnity given to a related corporation in respect of banking facilities entered into by an associated company	<b>30,533,297</b>	29,561,775
(iii) Counter-indemnity given to a related corporation in respect of banking facilities entered into by subsidiaries	<b>57,150,306</b>	59,523,288
(iv) Guarantees given to banks in connection with bank facilities provided to related companies	<b>9,124,901</b>	36,503,783
(v) Guarantee given to third party in connection with services provided to a subsidiary	<b>200,000</b>	–
	<b>322,352,278</b>	346,562,660

The directors are of the view that no losses are anticipated in respect of the above guarantees and indemnities.

### 31. Commitments

#### (a) Capital and investment commitments

Capital and investment expenditure contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Motor vessel under construction	60,374,638	–	–	–
Acquisition of COSCO Shipyard Group Co. Ltd	113,955,590	–	–	–
	174,330,228	–	–	–

#### *Motor vessel under construction*

On 26 November 2003, two wholly owned subsidiaries of Cosco (Singapore) Pte Ltd, (“the subsidiaries”) each signed a conditional shipbuilding contract with Nantong Cosco KHI Shipping Inc. (“Nantong Cosco”) to purchase a new 55,000 metric ton deadweight type motor bulk carrier at a purchase consideration of US\$18,500,000 (equivalent to \$30,187,319) for each vessel. The conditional shipbuilding contracts were approved by the shareholders of the Company at an Extra-ordinary General Meeting held on 20 April 2004.

The construction of the two vessels by Nantong Cosco is expected to be completed by the third quarter of 2006. Under the conditional shipbuilding contracts, Cosco (Singapore) Pte Ltd has issued letters of guarantee to Nantong Cosco to undertake to perform the obligations of the subsidiaries in the event that the subsidiaries fail to do so.

#### *Acquisition of COSCO Shipyard Group Co. Ltd*

On 11 September 2004, the Company entered into a conditional acquisition agreement with China Ocean Shipping (Group) Company, Guangzhou Ocean Shipping Company, Shanghai Ocean Shipping Company and Tianjin Ocean Shipping Company for the acquisition of an aggregate of 51% interest in the registered capital in Cosco Shipyard Group Co., Ltd. The purchase consideration amounts to RMB578,000,000 equivalent to \$113,955,590 is to be satisfied by three instalments after the Company obtained the business licence from the PRC regulatory authority. The required business licence was issued on 1 January 2005.

#### (b) Operating lease commitments – where a group company is a lessee

The Group leases various warehouses and motor vessels under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Group also leases various office premises and staff apartments under cancellable operating lease agreements. The lease expenditure charged to the income statement during the financial year is disclosed in note 5.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Not later than 1 year	4,057,793	3,977,223	–	–
Later than 1 year but not later than 5 years	15,731,740	16,039,619	–	–
Later than 5 years	17,990,078	18,095,684	–	–
	37,779,611	38,112,526	–	–

Included in the above lease commitments is an arrangement whereby a subsidiary of the Company has entered into an agreement with a third party to bareboat charter a motor vessel for fifteen years from the date of delivery of the motor vessel, which was on 12 January 1999, at a fixed rate of Yen 620,000 per day equivalent to \$9,858 (2003: \$9,828). The bareboat charter rental can be revised from time to time upon mutual consent by both parties.

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## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 31. Commitments (continued)

#### (c) Operating lease commitments – where a group company is a lessor

The future aggregate minimum lease receivables under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables, are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Not later than 1 year	56,428,337	61,060,065	–	–
Later than 1 year but not later than 5 years	35,954,623	14,683,668	–	–
Later than 5 years	67,053,244	55,277,303	–	–
	159,436,204	131,021,036	–	–

#### (d) Others

The Company has given undertaking to continue to provide financial support to certain subsidiaries for at least the next twelve months from the balance sheet date.

### 32. Financial risk management

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: price risk (including currency risk, fair value interest risk and market risk), credit risk, liquidity risk and cash flow interest rate risk.

Risk management is carried out under policies approved by the Board of Directors. The Board approves guidelines for overall risk management, as well as policies covering these specific areas.

#### (i) Foreign exchange risk

Foreign currency exchange rate risks arise from borrowings in foreign currencies.

The Group monitors its foreign currency exchange risks closely and will use derivative financial instruments to hedge their exposure when the exposure is significant.

#### (ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest risk mainly arises from non-current borrowings. The Group monitors the interest rates on borrowings closely to ensure that the borrowings are maintained at favourable rates and will use derivative financial instruments to hedge their exposures when the exposure is significant.

## 32. Financial risk management (continued)

## (ii) Interest rate risk (continued)

The tables below set out the Group and the Company's exposure to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

## The Group

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	\$	\$	\$	\$	\$	\$	\$	\$
<b>At 31 December 2004</b>								
<b>Assets</b>								
Cash and cash equivalents	–	–	30,689,744	–	–	–	63,356,614	94,046,358
Trade and other receivables and other assets	–	–	–	200,000	–	–	21,632,351	21,832,351
Investments	–	–	–	–	–	–	428,179,795	428,179,795
<b>Total assets</b>	<b>–</b>	<b>–</b>	<b>30,689,744</b>	<b>200,000</b>	<b>–</b>	<b>–</b>	<b>513,168,760</b>	<b>544,058,504</b>
<b>Liabilities</b>								
Borrowings	160,077,408	–	729,509	120,000	1,476,000	–	–	162,402,917
Other liabilities	–	–	–	–	–	–	58,091,717	58,091,717
<b>Total liabilities</b>	<b>160,077,408</b>	<b>–</b>	<b>729,509</b>	<b>120,000</b>	<b>1,476,000</b>	<b>–</b>	<b>58,091,717</b>	<b>220,494,634</b>
<b>At 31 December 2003</b>								
<b>Assets</b>								
Cash and cash equivalents	–	–	12,901,736	–	–	–	73,222,414	86,124,150
Trade and other receivables and other assets	–	–	–	9,000	200,000	–	23,527,733	23,736,733
Investments	–	–	–	–	–	–	454,031,784	454,031,784
<b>Total assets</b>	<b>–</b>	<b>–</b>	<b>12,901,736</b>	<b>9,000</b>	<b>200,000</b>	<b>–</b>	<b>550,781,931</b>	<b>563,892,667</b>
<b>Liabilities</b>								
Borrowings	211,052,118	–	12,724,083	666,067	2,622,720	173,451	–	227,238,439
Other liabilities	–	–	–	–	–	–	62,722,888	62,722,888
<b>Total liabilities</b>	<b>211,052,118</b>	<b>–</b>	<b>12,724,083</b>	<b>666,067</b>	<b>2,622,720</b>	<b>173,451</b>	<b>62,722,888</b>	<b>289,961,327</b>

## Notes to the Financial Statements

For the financial year ended 31 December 2004

## 32. Financial risk management (continued)

## (ii) Interest rate risk (continued)

## The Company

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	\$	\$	\$	\$	\$	\$	\$	\$
<b>At 31 December 2004</b>								
<b>Assets</b>								
Cash and cash equivalents	-	-	-	-	-	-	41,953,900	41,953,900
Trade and other receivables and other assets	-	-	-	200,000	-	-	17,588,208	17,788,208
Investments	-	-	-	-	-	-	197,805,594	197,805,594
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>257,347,702</b>	<b>257,547,702</b>
<b>Liabilities</b>								
Borrowings	-	-	-	500,000	-	-	-	500,000
Other liabilities	-	-	-	-	-	-	9,850,093	9,850,093
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>500,000</b>	<b>-</b>	<b>-</b>	<b>9,850,093</b>	<b>10,350,093</b>
<b>At 31 December 2003</b>								
<b>Assets</b>								
Cash and cash equivalents	-	-	-	-	-	-	53,406,818	53,406,818
Trade and other receivables and other assets	-	-	2,000,000	9,000	200,000	-	347,438	2,556,438
Investments	-	-	5,622,224	-	-	-	224,316,451	229,938,675
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>7,622,224</b>	<b>9,000</b>	<b>200,000</b>	<b>-</b>	<b>278,070,707</b>	<b>285,901,931</b>
<b>Liabilities</b>								
Borrowings	26,868,854	-	4,128,384	939,819	-	-	-	31,937,057
Other liabilities	-	-	-	13,809,048	-	-	7,312,784	21,121,832
<b>Total liabilities</b>	<b>26,868,854</b>	<b>-</b>	<b>4,128,384</b>	<b>14,748,867</b>	<b>-</b>	<b>-</b>	<b>7,312,784</b>	<b>53,058,889</b>

### 32. Financial risk management (continued)

#### (ii) Interest rate risk (continued)

The exposure of current and non-current borrowings to interest rate risks is as follows:

	Variable rates		Fixed rates				Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years	
	\$	\$	\$	\$	\$	\$	\$
<b>The Group</b>							
At 31 December 2004							
Borrowings	160,077,048	–	729,869	120,000	1,476,000	–	162,402,917
At 31 December 2003							
Borrowings	211,052,118	–	12,724,105	666,067	2,622,720	173,429	227,238,439
<b>The Company</b>							
At 31 December 2004							
Borrowings	–	–	–	500,000	–	–	500,000
At 31 December 2003							
Borrowings	26,868,854	–	4,128,384	939,819	–	–	31,937,057

#### (iii) Credit risk

The Group has no significant concentration of credit risk.

The Group has policies in place to ensure that customers are of adequate financial standing and appropriate credit history.

#### (iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of available credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping credit lines available.

### 33. Derivative financial instruments

- (a) At 31 December 2003, the Company held an interest rate swap for a notional amount of US\$60,000,000 (equivalent to \$97,904,820) which expires in August 2005. In 2003, the Company reviewed the effective interest rate which it pays on the Group's US\$60,000,000 (equivalent to \$97,904,820) bank loans taking into account the above interest rate swap contract. Arising from the review and management's discussions with the bankers of the Company, the Company entered into an interest rate swap of the same amount which effectively unwound the original interest rate swap and at the same time, it entered into another interest rate swap of US\$60,000,000 (equivalent to \$97,904,820).
- (b) In 2003, the Company also entered into another interest rate swap for a notional amount of US\$120,000,000 (equivalent to \$195,809,640). This interest rate swap will cover the period from August 2005 (on the expiry of the interest rate swap contracts as described in (a) above) to November 2005.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 33. Derivative financial instruments (continued)

The table below sets out the favourable and unfavourable fair values of the outstanding interest rate swap contracts of the Group and the Company at the balance sheet date:

	The Group and the Company	
	2004	2003
	\$	\$
Favourable fair value of interest rate swap contracts	226,643	95,259
Unfavourable fair value of interest rate swap contracts	4,282,992	7,922,318

The fair values of the interest rate swap contracts have been calculated using the rates quoted by the Company's bankers to determine the cost to the Company should these contracts be terminated at the balance sheet date.

At 31 December 2004, the fixed interest rates of the outstanding interest rate swap contracts vary from 2.55% to 3.3% (2003: 3.0% to 3.3%), while the floating interest rates are mainly linked to the London Interbank Offered Rates.

### 34. Holding and ultimate holding corporations

(a) The Company's immediate and ultimate holding corporation is China Ocean Shipping (Group) Company, registered in the People's Republic of China. The Company's previous immediate holding company is Cosco Holdings (Singapore) Pte Ltd, incorporated in Singapore.

**(b) Advance from ultimate holding corporation**

The advance from ultimate holding corporation of \$3,293,755 (2003: \$4,248,750) is unsecured, interest free and repayable on demand (note 21).

### 35. Related party transactions

(a) Other than as disclosed elsewhere in the financial statements, the Group had the following related party transactions with related corporations and related parties on terms agreed by the parties concerned:

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Subsidiaries:				
<b>Revenue</b>				
Sales to related corporations	13,476,312	12,466,762	–	–
Rental income received from related corporations	558,764	1,037,057	–	–
Rental income received from immediate holding corporation	–	167,694	–	–
Vessel rental income received from a related corporation	9,007,260	7,072,267	–	–
Service income received from a related corporation	436,142	501,751	–	–
Gain on sale of subsidiaries to immediate holding company	–	23,132	–	–
Consultancy fee received from related corporation	134,368	–	–	–

## 35. Related party transactions (continued)

	The Group		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Subsidiaries:				
<b>Expenditure</b>				
Purchases from related corporations	2,788,007	2,580,184	–	–
Rental paid to subsidiaries	–	–	502,597	497,286
Vessel rental paid to a related corporation	1,032,627	1,532,787	–	–
Management fee paid to related parties	357,544	326,989	–	–
Crew wages paid to related corporations	5,247,938	5,446,272	–	–
Loss on sale of subsidiaries/subsidiary to immediate holding company	–	–	–	1
Agency fees paid to related corporations	68,215	–	–	–
Ship construction costs paid to a related corporation	9,389,612	–	–	–
Associated companies:				
<b>Revenue</b>				
Sales to related corporations	14,137,823	6,869,631	–	–
<b>Expenditure</b>				
Management fee paid to a related corporation	4,983,984	1,220,370	–	–

(b) The related parties refer to corporations in which certain directors of subsidiaries have substantial financial interests.

## (c) Share options granted to key management

The aggregate number of share options granted to key management of the Group during the financial year was 7,590,000 (2003: 3,965,000). The share options were given on the same terms and conditions as those offered to other employees of the Company (note 27). The outstanding number of share options granted to key management of the Group at the end of financial year was 9,310,000 (2003: 5,165,000).

## (d) Key management's remuneration

The key management's remuneration includes fees, salary, bonus, commission and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Group and the Company, and where the Group or Company did not incur any costs, the value of the benefit. The key management's remuneration is as follows:

	The Group	
	2004	2003
	\$	\$
Key management of the Group:		
– directors of the Company	3,746,701	1,757,723
– directors of subsidiaries	1,869,150	1,540,211
	5,615,851	3,297,934

## (e) Loans to subsidiaries

The loans to subsidiaries amounting to \$Nil (2003:\$2,000,000), as set out in note 12, are unsecured, bear interest at the three-month deposit rate plus 1.5%.

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## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 36. Group segmental information

#### (a) Primary reporting format – business segments

	Shipping	Ship repairing and marine related activities	Rental of property and property trading	Investment holding	The Group
	\$	\$	\$	\$	\$
<b>Year ended 31 December 2004</b>					
Revenue	111,241,879	3,878,218	1,225,455	–	116,345,552
Segment result	51,913,182	205,415	41,290	(4,525,439)	47,634,448
Exceptional gain					448,307
Finance costs – net					(10,766,596)
Share of results of associated companies					36,433,865
Amortisation of goodwill on acquisition of an associated company					(578,154)
Profit before tax					73,171,870
Income tax expense					(6,142,167)
Group profit from ordinary activities					67,029,703
Minority interest					(830,616)
Net profit after tax and minority interests					66,199,087
Segment assets	364,755,588	7,101,613	45,402,971	43,630,634	460,890,806
Investments in associated companies					83,167,698
<b>Consolidated total assets</b>					<b>544,058,504</b>
Segment liabilities	50,211,952	1,346,348	445,730	4,187,311	56,191,341
Borrowings					162,402,917
Current income tax liabilities					1,670,470
Deferred income tax liabilities					229,906
<b>Consolidated total liabilities</b>					<b>220,494,634</b>
<b>Other segment items</b>					
Capital expenditure	14,565,283	57,994	8,010	38,043	14,669,330
Depreciation of property, plant and equipment	22,587,830	264,518	557,588	125,432	23,535,368
Depreciation of investment properties	–	–	113,550	–	113,550

The division of the Group's results, assets and liabilities into activities has been ascertained by reference to direct identification of assets, liabilities and revenue/cost centres.

## 36. Group segmental information (continued)

## (a) Primary reporting format – business segments (continued)

	Shipping	Ship repairing and marine related activities	Rental of property and property trading	Investment holding	The Group
	\$	\$	\$	\$	\$
<b>Year ended 31 December 2003</b>					
Revenue	86,278,152	2,839,015	2,825,113	–	91,942,280
Segment result	26,476,641	474,521	905,357	(4,347,821)	23,508,698
Exceptional gain					340,363
Finance costs – net					(10,781,180)
Share of results of associated companies					17,577,661
Amortisation of goodwill on acquisition of an associated company					(578,154)
Profit before tax					30,067,388
Income tax expense					(4,918,626)
Group profit from ordinary activities					25,148,762
Minority interest					(862,128)
Net profit after tax and minority interests					24,286,634
Segment assets	379,441,448	6,498,328	53,525,583	54,416,371	493,881,730
Investments in associated companies					69,809,936
Deferred income tax assets					201,001
<b>Consolidated total assets</b>					<b>563,892,667</b>
Segment liabilities	43,749,608	521,060	466,094	16,215,252	60,952,014
Borrowings					227,238,439
Current income tax liabilities					1,519,246
Deferred income tax liabilities					251,628
<b>Consolidated total liabilities</b>					<b>289,961,327</b>
<b>Other segment items</b>					
Capital expenditure	31,507,532	2,999	28,597	7,297	31,546,425
Depreciation of property, plant and equipment	22,452,610	269,059	617,284	122,635	23,461,588
Depreciation of investment properties	–	–	151,400	–	151,400

The division of the Group's results, assets and liabilities into activities has been ascertained by reference to direct identification of assets, liabilities and revenue/cost centres.

## Notes to the Financial Statements

For the financial year ended 31 December 2004

### 36. Group segmental information (continued)

#### (a) Primary reporting format – business segments (continued)

There are no sales or other transactions between the business segments. Segment assets consist primarily of trading properties, investment properties, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments in associated companies. Segment liabilities comprise operating liabilities and exclude items such as current and deferred tax liabilities, provision and borrowings. Capital expenditure comprises additions to property, plant and equipment.

#### (b) By geographical locations

The Company and its subsidiaries operate principally in Singapore and Malaysia except for the Group's shipping companies which cover the world's shipping routes. As such, it would not be meaningful to allocate revenue, total assets and capital expenditure to specific geographical segments for the Group's shipping activities.

### 37. Comparatives

Where necessary, comparatives have been adjusted to conform with changes in presentation in the current financial statements.

### 38. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Cosco Corporation (Singapore) Limited on 23 March 2005.

	Notes	2000	2001	2002	2003	2004
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>Income Statement</b>						
Turnover		161,931	152,145	102,441	91,942	116,346
Operating profit before taxation and extraordinary items		13,979	16,639	2,298	13,067	<b>37,316</b>
Share of (loss)/profit of associated companies before tax	1	(35)	(54)	4,178	17,000	<b>35,856</b>
		13,944	16,693	6,476	30,067	<b>73,172</b>
Income tax expense		(3,556)	(2,770)	(1,467)	(4,918)	<b>(6,142)</b>
Profit from ordinary activities after tax		10,388	13,923	5,009	25,149	<b>67,030</b>
Minority interest		(1,035)	(684)	(1,110)	(862)	<b>(831)</b>
Net profit for the financial year		9,353	13,239	3,899	24,287	<b>66,199</b>
Gross dividend		2,784	3,744	4,373	8,982	<b>21,703</b>
Net dividend		2,102	2,921	3,411	7,186	<b>21,703</b>
<b>Balance Sheet</b>						
Share Capital		111,360	111,485	124,945	179,648	<b>217,029</b>
Capital reserves		15,813	18,376	11,025	25,780	<b>(10,409)</b>
Retained earnings		31,749	47,395	48,373	65,866	<b>115,308</b>
Minority interest		3,911	3,429	2,553	2,637	<b>1,636</b>
		162,833	180,685	186,896	273,931	<b>323,564</b>
Deferred income tax assets		–	–	494	201	–
Property, plant and equipment		246,480	329,712	350,773	352,774	<b>321,294</b>
Investment properties		95,937	97,345	30,427	30,275	–
Investment in associated companies		886	928	28,229	69,810	<b>83,168</b>
Loan to related companies		22,011	23,419	22,791	–	–
Club memberships		676	355	358	437	<b>383</b>
Other investments		1,855	7,810	7,348	120	<b>120</b>
Deferred expenditure		–	1,314	–	–	<b>847</b>
Non-trade receivables		1,091	938	882	1,064	<b>830</b>
Net current assets/(liabilities)		(4,375)	(365)	32,812	7,917	<b>57,083</b>
Non-current liabilities		(201,728)	(280,771)	(287,218)	(188,667)	<b>(140,161)</b>
		162,833	180,685	186,896	273,931	<b>323,564</b>
<b>Ratio</b>						
Basic earning per share (cents)	2	1.41	1.98	0.53	2.70	<b>6.11</b>
Dividend per share – gross (%)		2.5	3.0	3.5	5.0	<b>10.0</b>
Dividend cover (times)	3	4.4	4.5	1.1	3.4	<b>3.1</b>
Net tangible assets per share (cents)		23.8	26.3	23.9	24.8	<b>29.3</b>
Gearing Ratio (Net of Cash)	4	1.5	1.7	1.6	0.5	<b>0.2</b>

**Notes**

- 1 The equity method of accounting has been applied as from 1979. The share of (loss)/profit of associated companies is net of amortisation of goodwill.
- 2 Earnings per share is calculated on the consolidated profit after tax, minority interest and preference dividend by the weighted average number of ordinary shares in issue during the year.
- 3 The dividend cover is calculated on the consolidated profit after tax and minority interest divided by the amount of equity dividend.
- 4 Gearing ratio is derived by taking total indebtedness (net of cash) over the shareholders' funds.
- 5 Basic earning per share and net tangible assets per share have been adjusted to account for the bonus shares issued in 2004.

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## Disclosure Requirements Under Listing Manual

### Authorised Share Capital

S\$250,000,000 comprising 1,250,000,000 ordinary shares of S\$0.20 each

Class of Shares : Ordinary Shares of S\$0.20 each, fully paid  
Voting Rights : One vote per share

### Substantial shareholders as at 9 March 2005 as shown in the Register of Substantial Shareholders

Name of Substantial Shareholder	Number of shares of \$0.20 each fully paid			
	Direct	Deemed	Total	%
China Ocean Shipping (Group) Company	597,282,744	–	597,282,744	55.04
Seletar Investments Pte Ltd	55,200,000	–	55,200,000	5.09
Temasek Holdings (Pte) Ltd	–	116,365,000	116,365,000	10.72

### SHAREHOLDERS DISTRIBUTION AS AT 9 MARCH 2005

Size of Holdings			No. of Holders	%	No. of Shares	%
1	–	999	135	2.69	51,748	0.01
1,000	–	10,000	2,984	59.55	16,281,161	1.50
10,001	–	1,000,000	1,865	37.22	84,210,115	7.76
1,000,001		and above	27	0.54	984,604,453	90.73
Grand Total			5,011	100.00	1,085,147,477	100.00

**20 LARGEST REGISTERED SHAREHOLDERS AS AT 9 MARCH 2005**

No.	Name of Shareholder	Shareholdings	%
1.	China Ocean Shipping (Group) Company	597,282,744	55.04
2.	DBS Nominees Pte Ltd	57,261,895	5.28
3.	Seletar Investments Pte Ltd	55,200,000	5.09
4.	Raffles Nominees Pte Ltd	47,354,772	4.36
5.	Citibank Nominees Singapore Pte Ltd	44,140,200	4.07
6.	SembCorp Marine Ltd	39,600,000	3.65
7.	DB Nominees (S) Pte Ltd	28,716,000	2.64
8.	HSBC (Singapore) Nominees Pte Ltd	24,713,318	2.28
9.	Morgan Stanley Asia (Singapore) Sec. Pte Ltd	24,393,303	2.25
10.	United Overseas Bank Nominees Pte Ltd	15,439,700	1.42
11.	Merrill Lynch (Singapore) Pte Ltd	9,302,720	0.86
12.	Hui Shune Ming @ Hui Shun Meng	5,380,000	0.49
13.	OCBC Securites Private Ltd	4,984,800	0.46
14.	Overseas Union Bank Nominees Pte Ltd	4,428,000	0.41
15.	Lee Fook Choy	3,500,000	0.32
16.	DBS Vickers Securities (S) Pte Ltd	2,843,600	0.26
17.	UOB Kay Hian Pte Ltd	2,469,400	0.23
18.	Citibank Consumer Nominees Pte Ltd	2,455,800	0.23
19.	Mark Bowden	2,400,000	0.22
20.	OCBC Nominees Singapore Private Limited	1,960,200	0.18
Total:		973,826,452	89.74

Based on information available to the Company as at 9 March 2005, approximately 34.24% of the issued ordinary shares of the Company are held in the hands of the public. This in compliance with Rule 723 of the Listing Manual of the SGX-ST.

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## Notice of Annual General Meeting

For the financial year ended 31 December 2004

### **COSCO CORPORATION (SINGAPORE) LIMITED**

(Incorporated in the Republic of Singapore)

Registration No. 196100159G

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at Pan Pacific Singapore, 7 Raffles Boulevard, Marina Square, Singapore 039595, Pacific Ballroom 3, Level 1, on Wednesday, 20 April 2005, at 11.00 a.m., to transact the following businesses:

#### **Ordinary Business**

1. To receive and adopt the Directors' Report and Audited Financial Statements for the financial year ended 31 December 2004 and the Auditors' Report thereon. (Resolution 1).
2. To declare a final dividend of S\$0.02 per ordinary share of S\$0.20 (one-tier tax) as recommended by the Directors. (Resolution 2)
3. To approve payment of Directors' Fees of S\$140,000 (2003: S\$140,000) for the year ended 31 December 2004. (Resolution 3)
4. To re-elect the following directors who are retiring under Article 98 of Articles of Association of the Company and has offered themselves for re-election:

- a) Mdm Sun Yueying (Resolution 4)

Note: Mdm Sun Yueying is a member of the Audit Committee. Mdm Sun will, upon re-election as a Director of the Company, remain to hold such office and will be considered by the Board of Directors to be non-independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

- b) Mdm Yao Hong (Resolution 5)

5. To consider and if thought fit, to pass the following Resolution:

"That pursuant to Section 153 (6) of the Companies Act, Cap. 50, Mr Tom Yee Lat Shing be and is hereby re-appointed as a Director of the Company to hold office until the next Annual General Meeting." (Resolution 6)

Note: Mr Tom Yee Lat Shing is Chairman of the Audit Committee and a member of the Nominating and Remuneration Committees and upon his re-appointment as a director, will continue to hold such office. Mr Tom Yee is considered by the Board of Directors to be independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

6. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 7)
7. To transact any other business which may properly be transacted at an Annual General Meeting.

**Special Business**

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:-

## 8. Authority to issue shares

“THAT the Directors be and are hereby authorised pursuant to the provisions of Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited to allot and issue shares and convertible securities of the Company on such terms and conditions and with such rights or restrictions as they may deem fit PROVIDED ALWAYS THAT the aggregate number of shares and convertible securities to be issued pursuant to this resolution shall not exceed fifty per centum (50%) of the issued share capital of the Company, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty per centum (20%) of the issued share capital of the Company and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting. For the purposes of this resolution, the percentage of issued share capital shall be based on the Company’s issued share capital at the time this resolution is passed after adjusting for:

- a) new shares arising from the conversion of convertible securities or employee share options on issue when this resolution is passed; and
- b) any subsequent consolidation or subdivision of shares.” (Resolution 8)

Note: Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors from the date of this meeting until the next Annual General Meeting or the date by which the next Annual General Meeting is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares and convertible securities in the Company. The number of shares and convertible securities that the Director may allot and issue under this resolution would not exceed fifty per centum (50%) of the issued capital of the Company at the time of the passing of this resolution. For issue of shares and convertible securities other than on a pro rata basis to all shareholders, the aggregate number of shares and convertible securities to be issued shall not exceed twenty per centum (20%) of the issued capital of the Company.

For the purposes of this resolution, the percentage of issued capital is based on the Company’s issued capital at the time this proposed Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of convertible securities, the exercise of share options or the vesting of shares awards outstanding or subsisting at the time when this proposed Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

## 9. Authority to allot and issue shares under the Cosco Group Employees’ Share Option Scheme 2002

“THAT pursuant to Section 161 of the Companies Act, Cap.50, the Directors be authorised and empowered to allot and issue shares in the capital of the Company to all the holders of options granted by the Company, whether granted during the subsistence of this authority or otherwise, under the Cosco Group Employees’ Share Option Scheme 2002 (the “Scheme”), upon the exercise of such options and in accordance with the terms and conditions of the Scheme, PROVIDED ALWAYS THAT the aggregate number of additional ordinary shares to be allotted and issued pursuant to the Scheme shall not exceed fifteen per centum (15%) of the issued share capital of the Company from time to time. (Resolution 9)

Note: Ordinary Resolution 9 proposed in item 9 above, if passed, will empower the Directors of the Company, from the date of this Meeting until the next Annual General Meeting, to allot and issue shares in the Company of up to a number not exceeding in total fifteen per centum (15%) of the issued share capital of the Company from time to time pursuant to the exercise of the options under the Scheme.

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## Notice of Annual General Meeting

For the financial year ended 31 December 2004

### 10. Proposed Renewal of Shareholders' Mandate for Recurrent Interested Persons Transactions

- (i) "THAT approval be and is hereby given for renewal of the mandate, for the purposes of Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited, for the Company, its subsidiaries and target associated companies or any of them to enter into any of the transactions falling within the types of Interested Person Transactions, particulars of which are set out in the Company's Appendix A of the Company's Addendum to Members dated 5 April 2005 (being an addendum to the Annual Report of the Company for the financial year ended 31 December 2004) ("the Addendum") with any party who is of the class of Interested Persons described in the Addendum provided that such transactions are made on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders and in accordance with the review procedures set out in the Addendum;
- (ii) THAT the Audit Committee of the Company be and is hereby authorised to take such actions as it deems proper in respect of such procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendment to Chapter 9 of the Listing Manual which may be prescribed by the SGX-ST from time to time; and
- (iii) THAT the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to this Resolution; and
- (iv) THAT such approval shall, unless earlier revoked or varied by the Company in general meeting, continue to be in force until the next Annual General Meeting of the Company is held or is required by law to be held, whichever is earlier." (Resolution 10)

Note: Resolution (10), if passed, will renew the General Mandate to allow the Company, its subsidiaries and target associated companies or any of them to enter into certain Recurrent Interested Person Transactions with person who are considered "Interested Persons" (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited).

The Company's Audit Committee has confirmed that the methods and procedures for determining the transaction prices have not changed since the last renewal of the Shareholders' Mandate on 20 April 2004 and that the said methods and procedures are sufficient to ensure that the Recurrent Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

By Order of the Board  
Lawrence Kwan  
Secretary  
Singapore, 5 April 2005

#### Note:

A member of the Company entitled to attend and vote at the above meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a member of this Company. The instrument appointing a proxy, together with the power of attorney (if any) under which it is signed or a notarially certified or office copy thereof must be lodged at the Registered Office of the Company at 9 Temasek Boulevard, #07-00 Suntec Tower Two, Singapore 038989, not less than 48 hours before the Meeting.

#### Closure of Books

**NOTICE IS HEREBY GIVEN** that the Transfer Books and the Register of Members of the Company will be closed from 16 June 2005 to 17 June 2005, both dates inclusive, for the preparation of dividend warrants for shareholders of ordinary shares registered in the books of the Company. Duly completed transfers received by the Share Registrar, KCS Corporate Services Pte. Ltd., 6 Battery Road, #39-01, Singapore 049909 up to 5.00 p.m. on 15 June 2005 will be registered before entitlements to the dividend are determined. The dividend, if approved at the Annual General Meeting, will be paid on 30 June 2005.

By Order of the Board  
Lawrence Kwan  
Secretary  
Singapore, 5 April 2005

# 119 Proxy Form For Annual General Meeting

**IMPORTANT:**

1. This Annual Report is also forwarded to investors who have used their CPF monies to buy shares in the Company at the request of their CPF Approved Nominees, and is sent solely for their information only.
2. The Proxy Form is, therefore, not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

**COSCO CORPORATION (SINGAPORE) LIMITED**  
(Incorporated in the Republic of Singapore)  
Registration No. 196100159G

I/We	(Name)
of	(Address)

being a member/members of COSCO CORPORATION (SINGAPORE) LIMITED hereby appoint:

<b>Name</b>		
<b>Address</b>		
<b>NRIC/Passport</b>	<b>Number Proportion of</b>	<b>Shareholdings (%)</b>

and/or (delete as appropriate)

<b>Name</b>		
<b>Address</b>		
<b>NRIC/Passport</b>	<b>Number Proportion of</b>	<b>Shareholdings (%)</b>

or failing him/her, the Chairman of the meeting as my/our proxy/proxies to attend and to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 20 April 2005, and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the resolutions to be proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the Meeting.

No. Resolutions	To be used on a show of hands		To be used in the event of a poll	
	For*	Against*	For**	Against**
<b>ORDINARY BUSINESS</b>				
1	To receive and consider the audited Financial Statements and Reports for the year ended 31 December 2004.			
2	To declare a final dividend of S\$0.02 per ordinary share of S\$0.20 (one-tier tax).			
3	To approve payment of Directors' Fees.			
4	To re-elect Mdm Sun Yueying, who is retiring under Article 98 of the Articles of Association of the Company.			
5	To re-elect Mdm Yao Hong, who is retiring under Article 98 of the Articles of Association of the Company.			
6	To re-elect Mr Tom Yee Lat Shing, who is retiring pursuant to Section 153(6) of the Companies Act, Cap. 50.			
7	To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration.			
<b>SPECIAL BUSINESS</b>				
8	To authorise Directors to issue shares pursuant to Section 161 of the Companies Act, Cap. 50			
9	To authorise Directors to issue shares pursuant to the Cosco Group Employees' Share Option Scheme 2002.			
10	To approve the renewal of Shareholders' Mandate for Recurrent Interested Persons Transactions.			

\* Please indicate your vote "For" or "Against" with a "\*" within the box provided.

\*\* If you wish to exercise all your votes "For" or "Against", please tick (•) within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2005.

Total number of Shares held

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\_\_\_\_\_  
Signature(s) of Member(s)/Common Seal

**IMPORTANT: PLEASE READ NOTES FOR PROXY FORM**

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## Notes For Proxy Form

### NOTES FOR PROXY FORM

1. A member entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote on his behalf.
2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his holding (expressed as a percentage of the whole) to be represented by each proxy.
3. A proxy need not be a member of the Company.
4. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number of shares is inserted, this form of proxy will be deemed to relate to all the shares held by the member.
5. The instrument appointing a proxy or proxies must be deposited at the Company's registered office at 9 Temasek Boulevard, #07-00 Suntec Tower 2, Singapore 038989 not less than 48 hours before the time set for the Meeting.
6. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or under the hand of its officer or attorney duly authorised.
7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
8. The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the meeting, as certified by The Central Depository (Pte) Limited to the Company.