

Directors' Report

Year ended December 31, 2002

Our report, together with the financial statements of the Group for the year ended December 31, 2002, were approved by the directors on February 10, 2003. Subsequent to that date and as further detailed in note 1(a) to the revised financial statements, the previous financial statements of the Group were revised to take into account the impairment loss recognised by an associate in respect of its investment in a subsidiary. The revised financial statements were authorised for issue by the Board of Directors on April 8, 2003. We are pleased to submit this annual report to the members of the Company together with the audited revised financial statements for the financial year ended December 31, 2002.

DIRECTORS

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

Peter Seah Lim Huat
Wong Kok Siew
Tay Siew Choon
Lua Cheng Eng
K Shanmugam
Lam Chuan Leong
Tetsuro Kawakami
Chumpol NaLamlieng
Goh Geok Ling
Richard Hale OBE
S Iswaran (Appointed on January 13, 2003)

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year have been those of an investment holding company, as well as the corporate headquarters which gives direction, provides management services and integrates the activities of its subsidiaries.

The subsidiaries were involved in five key businesses as follows:

(i) Utilities

Its principal activities are in power, gas, utilities and specialised chemical feedstock industries. It is the provider of utilities and terminal services on Jurong Island. It also invests in, manages and operates power generation plants in Singapore and in the region. It is also involved in engineering, construction and fabrication of offshore platforms, modules and floating production systems for oil and gas companies worldwide.

(ii) Environmental Engineering

The business provides integrated waste management services in the Asia-Pacific region. Its activities include waste collection and transportation, industrial cleaning, waste re-cycling and re-use, waste-to-energy incineration, landfilling and consultancy and engineering.

(iii) Engineering & Construction

It is an Engineering & Construction service provider with principal activities ranging from turnkey construction, design consultancy, infrastructure development, and project management. It is also involved in petrochemical, chemical and industrial process engineering and manufacturing of precast components.

(iv) Logistics

Its principal activities are in supply chain management and offshore logistics. It provides one-stop integrated logistics management services including automated warehouse and inventory management. The business operates offshore supply bases in Singapore, China and Thailand.

(v) Marine Engineering

This business focuses principally on ship repair, shipbuilding, specialised ship conversions and offshore structures.

In addition, the Group is involved in the following businesses (collectively referred to as "In Development"):

Minting

The minting business covers design and minting of circulation coins, production of commemorative issues, and sale of numismatic items.

Directors' Report

Year ended December 31, 2002

PRINCIPAL ACTIVITIES *(continued)*

Industrial Parks

It invests, owns, operates and manages five industrial parks in Riau Indonesia, China and Vietnam.

Internet Services Provider

It provides internet access and related on-line services.

Others

Other principal activities include trading of granite and the manufacturing of ready-mixed concrete, asphalt premix, graded stones and cement, investment in and management of development properties, hotels and resorts.

The food processing and distribution business was sold in December 2002. The business was involved in food importing, wholesale and retail distribution, processing and manufacture of food products, institutional catering, provision of abattoir and hog auctioning services.

Except for the disposal of food processing and distribution business, there have been no significant changes in the principal activities of the Company and the Group during the financial year.

ACQUISITIONS AND DISPOSALS OF INTERESTS IN SUBSIDIARIES

During the financial year, there were the following acquisitions, incorporations and disposals of subsidiaries:

	Equity interest acquired	Net tangible assets acquired	Consideration
	%	\$'000	\$'000
(a) ACQUISITIONS OF INTERESTS IN SUBSIDIARIES:			
The Company			
SembCorp Marine Ltd	0.71	6,572	8,760
Utilities			
SembCorp Air Products (Hyco) Pte Ltd	15.0	4,114	6,342
Environmental Engineering			
Singapore Environmental Management and Engineering Services Pte Ltd	40.0	400	400
SembVISY Recycling MRF Pte Ltd #	100.0	*	*
# Subsequent to the acquisition, the equity interest in SembVISY Recycling MRF Pte Ltd was diluted to 60% arising from the issuance of 4 new ordinary shares each to the Company and a minority shareholder.			
Logistics			
BaroMedical Services (Asia) Pte Ltd	8.5	379	408
SembCorp Logistics (Malaysia) Sdn Bhd	30.2	186	186
Marine Engineering			
JPL Concrete Products Pte Ltd	16.3	610	1,048
Jurong SML Pte Ltd (formerly known as Atlantis Shipyard Pte Ltd)	65.0	12,449	14,300
In Development			
S Daniels Plc @	67.5	24,667	45,200
Unitech Prefab Limited	39.7	2,986	4,480
Wuxi Garden City Mall Hotel Co., Ltd	25.0	*	*

@ Part of Singapore Food Industries Limited which was disposed of in December 2002.

(b) INCORPORATION OF SUBSIDIARIES:

	Place of incorporation	Effective interest held by the group
		%
Logistics		
SembCorp Logistics (Taiwan) Limited	Republic of China	31.43

Directors' Report

Year ended December 31, 2002

ACQUISITIONS AND DISPOSALS OF INTERESTS IN SUBSIDIARIES *(continued)*

(c) DISPOSAL OF INTERESTS IN SUBSIDIARIES:

	Equity interest disposed	Share of net tangible assets/ (liabilities) disposed	Consideration
	%	\$'000	\$'000
Marine Engineering			
JPL Industries Pte Ltd	9.7	1,603	1,440
In Development			
SembPark Midland Management Pte Ltd	81.0	(89)	*
Singapore Food Industries Limited and its subsidiaries	75.0	75,096	262,500
Wuxi Singapore Industrial Park Development Co., Ltd	22.0	*	*

* Amount was less than \$1,000.

(d) DILUTION OF INTERESTS IN SUBSIDIARIES:

The Group's effective interest in SembCorp Logistics Ltd was diluted from 61.70% to 61.62% following the issue of new shares by SembCorp Logistics Ltd.

(e) SUBSIDIARIES UNDER LIQUIDATION/DE-REGISTRATION:

(i) Under voluntary liquidation:

Contech-Meyer Development Pte Ltd
 Contech Remedial Engineering Pte Ltd
 Dilmun Navigation (Singapore) Pte Ltd
 Keleste (Singapore) Pte Ltd
 Lam Guan Development Pte Ltd
 PTA Industries Sdn Bhd
 Sembawang Alsawai ket Arabia Ltd
 Sembawang Development & Management Pte Ltd
 Sembwin Pte Ltd
 Semjom Agencies Pte Ltd
 Singapore Technologies Industrial B.V.
 SML Ocean Shipping (I) Pte Ltd
 Specon Builders Pte Ltd
 Tembeling Development Pte Ltd
 Vietnam Singapore International Marketing Pte Ltd
 Water Jet Netherlands Antilles N.V.
 Water Jet Shipping Corporation
 Wong Heng Engineering Pte Ltd

(ii) Under de-registration:

Brooktree Resources Limited
 Mandino Pte Ltd

Directors' Report

Year ended December 31, 2002

ACQUISITIONS AND DISPOSALS OF INTERESTS IN SUBSIDIARIES *(continued)*

(f) SUBSIDIARIES LIQUIDATED/DE-REGISTERED:

Air Tech Products Pte Ltd
 Enviro Consult Singapore Pte Ltd
 Inpact Enterprise Pte Ltd
 RDC Development Pte Ltd
 Seletaris Investments Limited
 Sembawang Chemicals Pte Ltd
 Sembawang Corporation Holdings Pte Ltd
 Sembawang Food Investment Pte Ltd
 Sembawang Industrial Manufacturing Pte Ltd
 Sembawang Reefer Lines (Bahamas) Ltd
 Sembawang Reefer Lines (Jambu) Pte Ltd
 Sembawang Repromac Pte Ltd
 Sembawang Services Pte Ltd
 Sembawang Shipyard (India) Pte Ltd
 Sembawang SMI Asia Pte Ltd
 Sembawang (UK) Ltd
 Spire Properties Pte Ltd
 Thomas Walk Properties Pte Ltd
 Unipacific Investments Corporation
 Ventura Development (DST) Pte Ltd
 Zippy Properties Pte Ltd

FINANCIAL RESULTS

The results of the Group and of the Company for the financial year are as follows:

	The Group	The Company
	\$'000	\$'000
Profit after taxation	247,512	50,773
Minority interests	(69,179)	–
Profit attributable to members of the Company	<u>178,333</u>	<u>50,773</u>

Directors' Report

Year ended December 31, 2002

TRANSFERS TO AND FROM RESERVES AND PROVISIONS

The following material transfers to and from reserves were made during the financial year:

	<u>The Group</u>	<u>The Company</u>
	\$'000	\$'000
Increase/(decrease) in reserves:		
Share Premium Account		
• Issue of shares under equity placement	285,203	285,203
• Issue of shares upon exercise of share options	627	627
Capital Reserves		
• Share of reserve of associates	35	–
• Realisation of capital reserve upon disposal of associates and changes in group structure	(7,718)	–
• Goodwill on acquisition of subsidiary previously written off against capital reserve	19,390	–
• Utilisation of premium on redemption of bonds	(222)	–
Currency Translation Reserve		
• Exchange differences on consolidation	870	–
• Exchange differences on net investments in foreign entities	(727)	–
• Realisation upon disposal of a subsidiary and an associate	649	–
Revenue Reserve		
• Profit for the year	178,333	50,773
• Realisation of capital reserve upon disposal of an associate	2,250	–
• Final dividend for the year 2001	(42,608)	(42,608)
• Effect of adopting new/revised Singapore Statements of Accounting Standard	(5,794)	–

Material movements in provisions (including allowance, impairment, depreciation and amortisation) are as set out in the notes to the accompanying financial statements.

ISSUES OF SHARES AND DEBENTURES

During the financial year, the Company issued the following ordinary shares of \$0.25 each fully paid for cash:

- 213,900,000 ordinary shares at a premium of \$1.37 per share and 106,950,000 warrants pursuant to a private placement. Proceeds from the share issue are to fund future investments and acquisitions to expand the Group's five key business areas, namely, utilities, engineering and construction, environmental engineering, logistics and marine engineering, and for general working capital purposes. The warrants carry the right to subscribe for 106,950,000 ordinary shares of \$0.25 per share at an exercise price of \$1.7334 over an exercisable period from February 28, 2002 to February 28, 2003.
- 618,608 ordinary shares at a premium upon the exercises of the options under the Company's Executives' Share Option Scheme.

Directors' Report

Year ended December 31, 2002

ISSUES OF SHARES AND DEBENTURES *(continued)*

There were the following changes to the share capital of the subsidiaries during the financial year:

Issue of Shares

Name of subsidiaries	Description of shares issued	Purpose of issue
SembCorp Air Products (Hyco) Pte Ltd	1,500,000 ordinary shares of \$1 each fully paid at par for cash	To provide additional working capital
SembVISY Recycling MRF Pte Ltd	8 ordinary shares of \$1 each fully paid at par for cash	To incorporate the company
SembCorp Engineers and Constructors Pte Ltd	Reclassification of its authorised share capital of \$200,000,000 divided into 200,000,000 ordinary shares of \$1 each to 190,000,000 ordinary shares of \$1 each and 1,000,000,000 redeemable preference shares of \$0.01 each	
	70,000,000 redeemable preference shares of \$0.01 each at a premium of \$0.99 each fully paid for cash	To provide additional working capital
SembCorp Logistics Ltd	1,165,024 ordinary shares of \$0.25 each at a premium fully paid for cash	Options exercised under Executives' Share Option Scheme
SembCorp Logistics (Taiwan) Limited	3,921,569 ordinary shares of NT\$10 each fully paid at par for cash	To incorporate the company and to provide initial working capital
SembCorp Zenecon Pte Ltd	1,470,000 ordinary shares of \$1 each fully paid at par for cash	To provide additional working capital
SembCorp Marine Ltd	8,181,000 ordinary shares of \$0.10 each at a premium fully paid for cash	Options exercised under the share option plan
JPL Industries Pte Ltd	1,048,000 ordinary shares of \$1 each fully paid at par for cash	To provide additional working capital
RDC Holdings Pte Ltd	10,000,000 ordinary shares of \$1 each fully paid at par for cash	To provide additional working capital
RDC International Pte Ltd	10,000,000 ordinary shares of par \$1 each fully paid at par for cash	To provide additional working capital
SembCorp Investment Ltd (formerly known as STIC Garden City Hotels Pte Ltd)	45,000,000 ordinary shares of \$1 each fully paid at par for cash	To provide funds for purchase of property, plant and equipment
SemBOCL Pte Ltd	1,093,400 ordinary shares of \$1 each fully paid at par for cash	To provide additional working capital

No debentures were issued by the Company or its subsidiaries during the year.

Capital Reduction

During the financial year, the issued and paid up share capital of a subsidiary, Singapore Precision Industries Pte Ltd, was reduced by \$13,000,000 to \$15,000,000 divided into 15,000,000 ordinary shares of \$1 each following a capital reduction exercise that was effected by a Special Resolution duly passed at an Extraordinary General Meeting of the subsidiary on March 4, 2002. This capital reduction was approved by the High Court of the Republic of Singapore on June 3, 2002.

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS

According to the register kept by the Company for the purposes of Section 164 of the Companies Act, Cap. 50 (the "Act"), particulars of interests of directors who held office at the end of the financial year in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Peter Seah Lim Huat						
SembCorp Industries Ltd	Options to subscribe for ordinary shares of \$0.25 each at – \$1.99 per share	27/6/2001 to 26/6/2005	140,000	140,000	–	–
	– \$1.55 per share	20/4/2002 to 19/4/2006	140,000	140,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2007	–	70,000	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2007	–	70,000	–	–
CapitaLand Limited	Ordinary shares of \$1.00 each	–	113,000	113,000	–	–
	Options to subscribe for ordinary shares of \$1.00 each at \$1.71 per share	11/5/2003 to 10/5/2007	–	90,000	–	–
Chartered Semiconductor Manufacturing Ltd	Options to subscribe for ordinary shares of \$0.26 each at – \$3.46 per share	22/2/2003 to 22/2/2007	–	23,443	–	–
	– \$1.86 per share	30/8/2003 to 30/8/2007	–	46,887	–	–
Singapore Technologies Engineering Ltd	Options to subscribe for ordinary shares of \$0.10 each at \$1.92 per share	13/8/2003 to 12/8/2007	–	89,000	–	–
StarHub Pte Ltd	Options to subscribe for ordinary shares of \$0.10 each at \$0.22 per share	30/11/2003 to 29/11/2010	–	150,000	–	–
STT Communications Ltd	Options to subscribe for ordinary shares of \$0.50 each at \$0.50 per share	29/6/2003 to 28/6/2012	–	8,000	–	–

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Peter Seah Lim Huat <i>(continued)</i>						
The Ascott Group Limited	Options to subscribe for ordinary shares of \$0.20 each at \$0.353 per share	4/5/2003 to 3/5/2007	–	12,000	–	–
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	–	3,310	3,360	–	–
Wong Kok Siew						
SembCorp Industries Ltd	Ordinary shares of \$0.25 each	–	236,446	636,446	–	–
	Options to subscribe for ordinary shares of \$0.25 each at – \$2.26 per share	20/5/2001 to 19/5/2009	500,000	500,000	–	–
	– \$1.99 per share	27/6/2001 to 26/6/2010	500,000	500,000	–	–
	– \$1.55 per share	20/4/2002 to 19/4/2011	500,000	500,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2012	–	400,000	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2012	–	400,000	–	–
	Conditional award of 280,000 performance shares to be delivered after 2002 (Note 1a)	–	Up to 560,000	Up to 560,000	–	–
	Conditional award of 300,000 performance shares to be delivered after 2003 (Note 1b)	–	Up to 600,000	Up to 600,000	–	–
	Conditional award of 400,000 performance shares to be delivered after 2004 (Note 1c)	–	–	Up to 800,000	–	–

Note 1: The actual number delivered will depend on the achievement of set targets over a 3-year period as indicated below. Achievement of targets below 80% level will mean no performance shares will be delivered, while achievement up to 200% will mean up to twice the number of conditional performance shares awarded could be delivered.

- (a) Period from 2000 to 2002
- (b) Period from 2001 to 2003
- (c) Period from 2002 to 2004

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Wong Kok Siew <i>(continued)</i>						
SembCorp Industries Ltd	Conditional award of 1,000,000 restricted shares	–	–	800,000 (Note 2)	–	–
SembCorp Logistics Ltd	Options to subscribe for ordinary shares of \$0.25 each at – \$2.50375 per share	29/6/2001 to 28/6/2005	80,000	80,000	–	–
	– \$1.8375 per share	16/5/2002 to 15/5/2006	120,000	120,000	–	–
	– \$2.01 per share	28/2/2003 to 27/2/2007	–	200,000	–	–
SembCorp Marine Ltd	Ordinary shares of \$0.10 each	–	–	75,000	–	–
	Options to subscribe for ordinary shares of \$0.10 each at – \$0.70 per share	8/9/2001 to 7/9/2005	300,000	225,000	–	–
	– \$0.66 per share	28/9/2002 to 27/9/2006	250,000	250,000	–	–
	– \$0.90 per share	8/11/2003 to 7/11/2007	–	250,000	–	–

Note 2: 1,000,000 SembCorp Industries Shares are comprised in conditional awards of restricted stocks granted to Wong Kok Siew pursuant to the SembCorp Industries Restricted Stock Plan subject to completion of the vesting period referred to below and Wong Kok Siew continuing to be in the employment of the SembCorp Industries Group at the time of the vesting. Of the 1,000,000 SembCorp Industries Shares:

- (i) 200,000 SembCorp Industries Shares were awarded on August 20, 2002;
- (ii) 200,000 SembCorp Industries Shares will vest on August 20, 2003;
- (iii) 200,000 SembCorp Industries Shares will vest on August 20, 2004;
- (iv) 200,000 SembCorp Industries Shares will vest on August 20, 2005; and
- (v) 200,000 SembCorp Industries Shares will vest on August 20, 2006;

If Wong Kok Siew ceases to be in the employment of the SembCorp Industries Group before the completion of each vesting date, his awards of all SembCorp Industries Shares not vested will lapse with immediate effect and become null and void but he will be entitled to retain all SembCorp Industries Shares which have vested on or before the date of his cessation of employment.

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS (continued)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Wong Kok Siew (continued)						
Raffles Holdings Limited	Ordinary shares of \$0.50 each	–	10,000	10,000	–	–
Singapore Food Industries Limited	Ordinary shares of \$0.05 each	–	80,000	80,000	–	–
	Options to subscribe for ordinary shares of \$0.05 each at					
	– \$0.78 per share	30/10/2001 to 29/10/2009	100,000	100,000	–	–
	– \$0.55 per share	24/8/2001 to 23/8/2005	200,000	200,000	–	–
	– \$0.69 per share	28/7/2002 to 27/7/2006	120,000	120,000	–	–
	– \$0.78 per share	9/8/2003 to 8/8/2007	–	120,000	–	–
Singapore Technologies Engineering Ltd	Ordinary shares of \$0.10 each	–	5,137	5,137	–	–
ST Assembly Test Services Ltd	Ordinary shares of \$0.25 each	–	2,000	2,000	–	–
Vertex Venture Holdings Ltd	Ordinary shares of \$0.20 each	–	2,635	– (Note 3)	–	–
Pacific Internet Ltd	Options to subscribe for ordinary shares of \$2.00 each at					
	– US\$32.48 per share	10/11/2000 to 9/11/2004	8,000	8,000	–	–
	– US\$25.60 per share	25/4/2001 to 24/4/2005	6,000	6,000	–	–
	– US\$3.60 per share	10/1/2002 to 9/1/2006	6,000	6,000	–	–
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	–	3,110	3,420	–	–

Note 3: On September 20, 2002, The Development Bank of Singapore Ltd announced, for and on behalf of Ellensburg Holdings Pte. Ltd. ("Offeror"), a wholly-owned subsidiary of Singapore Technologies Pte Ltd that the Offeror intends to make a voluntary conditional cash offer ("Offer") for all the issued ordinary shares of \$0.20 each ("Shares") in the capital of Vertex Venture Holdings Ltd ("VWH"). The Offer became unconditional in all respects on October 23, 2002 and closed at 3.30 p.m. on November 22, 2002. On December 9, 2002, the Offeror exercised its right of compulsory acquisition to acquire the Shares of the VWH shareholders who had not accepted the Offer or had failed or refused to accept the Offer by 3.30 p.m. on November 22, 2002. VWH was delisted from the Official List of the Singapore Exchange Securities Trading Limited on December 12, 2002.

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Tay Siew Choon						
SembCorp Industries Ltd	Ordinary shares of \$0.25 each	–	54,598	54,598	–	–
	Options to subscribe for ordinary shares of \$0.25 each at – \$2.535 per share	11/4/1999 to 10/4/2002	144,611	–	–	–
	– \$1.294 per share	22/4/2000 to 20/4/2003	224,295	224,295	–	–
	– \$2.26 per share	20/5/2001 to 19/5/2009	500,000	500,000	–	–
	– \$1.99 per share	27/6/2001 to 26/6/2010	500,000	500,000	–	–
	– \$1.55 per share	20/4/2002 to 19/4/2006	50,000	50,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2007	–	25,000	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2007	–	25,000	–	–
SembCorp Logistics Ltd	Options to subscribe for ordinary shares of \$0.25 each at \$2.50375 per share	29/6/2001 to 28/9/2002	60,000	–	–	–
CapitaLand Limited	Options to subscribe for ordinary shares of \$1.00 each at – \$2.54 per share	12/6/2001 to 12/6/2005	53,850	53,850	–	–
	– \$2.50 per share	19/6/2002 to 18/6/2006	50,000	50,000	–	–
	– \$1.71 per share	11/5/2003 to 10/5/2007	–	40,000	–	–

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Tay Siew Choon <i>(continued)</i>						
Chartered Semiconductor Manufacturing Ltd	Options to subscribe for ordinary shares of \$0.26 each at – \$4.26 per share #	15/8/2002 to 15/8/2006	23,443#	23,443	–	–
	– \$3.46 per share	22/2/2003 to 22/2/2007	–	29,304	–	–
	– \$3.88 per share	1/5/2003 to 1/5/2007	–	234,439	–	–
	– \$1.86 per share	30/8/2003 to 30/8/2007	–	46,887	–	–
Raffles Holdings Limited	Ordinary shares of \$0.50 each	–	10,000	10,000	–	–
Singapore Computer Systems Limited	Ordinary shares of \$0.25 each	–	371,000	571,000	–	–
	Options to subscribe for ordinary shares of \$0.25 each at – \$2.20 per share	19/10/2001 to 18/10/2005	80,000	80,000	–	–
	– \$2.08 per share	15/3/2002 to 14/3/2006	100,000	100,000	–	–
	– \$1.55 per share	8/3/2003 to 7/3/2007	–	75,000	–	–
	Conditional award of 600,000 restricted shares	–	–	600,000 (Note 4)	–	–

The number of shares and exercise price have been adjusted for the effect of rights issue during the financial year.

Note 4: 600,000 Singapore Computer Systems Limited ordinary shares of \$0.25 each ("SCS shares") are conditional awards of restricted stocks granted to Tay Siew Choon pursuant to the Green Dot Capital Restricted Stock Plan, with the following vesting period:

- (i) 200,000 SCS shares will vest on June 30, 2003;
- (ii) 200,000 SCS shares will vest on June 30, 2004; and
- (iii) 200,000 SCS shares will vest on June 30, 2005;

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Tay Siew Choon <i>(continued)</i>						
Singapore Food Industries Limited	Ordinary shares of \$0.05 each	–	270,000	520,000	–	–
	Options to subscribe for ordinary shares of \$0.05 each at – \$0.78 per share	30/10/2001 to 29/10/2004	200,000	–	–	–
	– \$0.55 per share	24/8/2001 to 23/8/2005	200,000	150,000	–	–
SNP Corporation Ltd	Options to subscribe for ordinary shares of \$0.50 each at – \$0.50 per share	23/4/2002 to 22/4/2011	20,000	20,000	–	–
	– \$0.71 per share	17/4/2003 to 16/4/2007	–	50,000	–	–
ST Assembly Test Services Ltd	Ordinary shares of \$0.25 each	–	4,000	4,000	–	–
STT Communications Ltd	Options to subscribe for ordinary shares of \$0.50 each at – \$1.42 per share	19/9/2001 to 18/9/2010	100,000	100,000	–	–
	– \$0.92 per share	28/4/2002 to 27/4/2011	15,000	15,000	–	–
	– \$0.50 per share	24/11/2002 to 23/11/2011	30,000	30,000	–	–
	– \$0.50 per share	29/6/2003 to 28/6/2012	–	80,000	–	–
The Ascott Group Limited	Options to subscribe for ordinary shares of \$0.20 each at – \$0.37 per share	20/12/2001 to 19/12/2010	10,000	10,000	–	–
	– \$0.32 per share	29/6/2002 to 28/6/2011	12,000	12,000	–	–
	– \$0.353 per share	4/5/2003 to 3/5/2012	–	12,000	–	–
Vertex Investment (II) Ltd	Ordinary shares of US\$1.00 each	–	–	–	2	2

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS (continued)

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Tay Siew Choon (continued)						
Vertex Technology Fund Ltd	Ordinary shares of US\$1.00 each	–	–	–	20	20
Vertex Technology Fund (II) Ltd	Ordinary shares of US\$1.00 each	–	–	–	500	500
	Redeemable preference shares of US\$0.01 each	–	–	–	500	500
Vertex Venture Holdings Ltd	Ordinary shares of \$0.20 each	–	71,208	– (Note 3)	–	–
Pacific Internet Ltd	Options to subscribe for ordinary shares of \$2.00 each at US\$32.48 per share	10/11/2000 to 9/11/2004	8,000	8,000	–	–
SMRT Corporation Ltd	Ordinary shares of \$0.10 each	–	–	–	30,000	30,000
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	–	3,110	3,220	–	–
Lua Cheng Eng						
SembCorp Industries Ltd	Options to subscribe for ordinary shares of \$0.25 each at – \$1.99 per share	27/6/2001 to 26/6/2005	70,000	70,000	–	–
	– \$1.55 per share	20/4/2002 to 19/4/2006	140,000	140,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2007	–	70,000	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2007	–	70,000	–	–

Note 3: On September 20, 2002, The Development Bank of Singapore Ltd announced, for and on behalf of Ellensburg Holdings Pte. Ltd. ("Offeror"), a wholly-owned subsidiary of Singapore Technologies Pte Ltd that the Offeror intends to make a voluntary conditional cash offer ("Offer") for all the issued ordinary shares of \$0.20 each ("Shares") in the capital of Vertex Venture Holdings Ltd ("VVH"). The Offer became unconditional in all respects on October 23, 2002 and closed at 3.30 p.m. on November 22, 2002. On December 9, 2002, the Offeror exercised its right of compulsory acquisition to acquire the Shares of the VVH shareholders who had not accepted the Offer or had failed or refused to accept the Offer by 3.30 p.m. on November 22, 2002. VVH was delisted from the Official List of the Singapore Exchange Securities Trading Limited on December 12, 2002.

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Lua Cheng Eng <i>(continued)</i>						
SembCorp Marine Ltd	Options to subscribe for ordinary shares of \$0.10 each at – \$0.70 per share	8/9/2001 to 7/9/2005	150,000	75,000	–	–
	– \$0.66 per share	28/9/2002 to 27/9/2006	130,000	97,500	–	–
	– \$0.90 per share	8/11/2003 to 7/11/2007	–	130,000	–	–
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	–	3,080	3,480	–	–
K Shanmugam						
SembCorp Industries Ltd	Options to subscribe for ordinary shares of \$0.25 each at – \$1.99 per share	27/6/2001 to 26/6/2005	70,000	70,000	–	–
	– \$1.55 per share	20/4/2002 to 19/4/2006	70,000	70,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2007	–	35,000	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2007	–	35,000	–	–
Chartered Semiconductor Manufacturing Ltd	Ordinary shares of \$0.26 each	–	90,000	200,000	–	–
Vertex Technology Fund (II) Ltd	Ordinary shares of US\$1.00 each	–	10	10	–	–
	Redeemable preference shares of US\$0.01 each	–	10	10	–	–
Singapore Airlines Ltd	Ordinary shares of \$0.50 each	–	9,000	–	–	–
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	–	3,240	3,360	–	–

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Lam Chuan Leong						
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	–	3,640	3,760	–	–
Tetsuro Kawakami						
SembCorp Industries Ltd	Ordinary shares of \$0.25 each	–	–	–	10,000	10,000
	Options to subscribe for ordinary shares of \$0.25 each at – \$1.99 per share	27/6/2001 to 26/6/2005	35,000	35,000	–	–
	– \$1.55 per share	20/4/2002 to 19/4/2006	35,000	35,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2007	–	17,500	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2007	–	17,500	–	–
Chumpol NaLamlieng						
SembCorp Industries Ltd	Options to subscribe for ordinary shares of \$0.25 each at – \$1.99 per share	27/6/2001 to 26/6/2005	30,000	30,000	–	–
	– \$1.55 per share	20/4/2002 to 19/4/2006	35,000	35,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2007	–	17,500	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2007	–	17,500	–	–
Singapore Telecommunications Ltd	Options to subscribe for ordinary shares of \$0.15 each at \$1.42 per share	8/9/2003 to 9/9/2007	–	60,000	–	–

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Goh Geok Ling						
SembCorp Industries Ltd	Ordinary shares of \$0.25 each	–	125,000	140,000	–	–
	Options to subscribe for ordinary shares of \$0.25 each at – \$1.99 per share	27/6/2001 to 26/6/2005	30,000	30,000	–	–
	– \$1.55 per share	20/4/2002 to 19/4/2006	50,000	50,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2007	–	25,000	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2007	–	25,000	–	–
CapitaLand Limited	Ordinary shares of \$1.00 each	–	12,000	12,000	–	–
Chartered Semiconductor Manufacturing Ltd	American depository shares	–	2,500	2,500	–	–
Raffles Holdings Limited	Ordinary shares of \$0.50 each	–	100,000	100,000	–	–
Singapore Technologies Engineering Ltd	Ordinary shares of \$0.10 each	–	55,000	55,000	–	–
ST Assembly Test Services Ltd	Ordinary shares of \$0.25 each	–	3,000	3,000	–	–
	American depository shares	–	2,700	2,700	–	–
Vertex Venture Holdings Ltd	Ordinary shares of \$0.20 each	–	22,772	– (Note 3)	–	–
Singapore Airport Terminal Services Ltd	Ordinary shares of \$0.10 each	–	10,000	10,000	–	–

Note 3: On September 20, 2002, The Development Bank of Singapore Ltd announced, for and on behalf of Ellensburg Holdings Pte. Ltd. ("Offeror"), a wholly-owned subsidiary of Singapore Technologies Pte Ltd that the Offeror intends to make a voluntary conditional cash offer ("Offer") for all the issued ordinary shares of \$0.20 each ("Shares") in the capital of Vertex Venture Holdings Ltd ("VVH"). The Offer became unconditional in all respects on October 23, 2002 and closed at 3.30 p.m. on November 22, 2002. On December 9, 2002, the Offeror exercised its right of compulsory acquisition to acquire the Shares of the VVH shareholders who had not accepted the Offer or had failed or refused to accept the Offer by 3.30 p.m. on November 22, 2002. VVH was delisted from the Official List of the Singapore Exchange Securities Trading Limited on December 12, 2002.

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Goh Geok Ling <i>(continued)</i>						
Singapore Food Industries Limited	Ordinary shares of \$0.05 each	–	–	–	100,000	100,000
Singapore Telecommunications Ltd	Ordinary shares of \$0.15 each	–	33,180	33,280	–	–
Richard Hale OBE						
SembCorp Industries Ltd	Options to subscribe for ordinary shares of \$0.25 each at – \$1.55 per share	20/4/2002 to 19/4/2006	70,000	70,000	–	–
	– \$1.59 per share	8/5/2003 to 7/5/2007	–	35,000	–	–
	– \$0.98 per share	18/10/2003 to 17/10/2007	–	35,000	–	–
CapitaLand Limited	Options to subscribe for ordinary shares of \$1.00 each at – \$2.54 per share	13/6/2001 to 11/6/2005	53,850	53,850	–	–
	– \$2.50 per share	18/6/2002 to 18/6/2006	30,000	30,000	–	–
	– \$1.71 per share	11/5/2003 to 10/5/2007	–	15,000	–	–
Raffles Holdings Limited	Ordinary shares of \$0.50 each	–	5,000	5,000	–	–
SNP Corporation Ltd	Ordinary shares of \$0.50 each	–	38,000	138,000	–	–
	Options to subscribe for ordinary shares of \$0.50 each at – \$0.50 per share	14/4/2000 to 31/10/2003	100,000	–	–	–
	– \$1.39 per share	30/3/2001 to 31/10/2003	100,000	100,000	–	–

Directors' Report

Year ended December 31, 2002

DIRECTORS' INTERESTS *(continued)*

Name of director and corporation in which interests held	Description of interests	Exercise period	Shareholdings registered in the name of director, spouse or infant children		Other shareholdings in which the director is deemed to have an interest	
			At beginning of the year	At end of the year	At beginning of the year	At end of the year
Richard Hale OBE <i>(continued)</i>						
The Ascott Group Limited	Options to subscribe for ordinary shares of \$0.20 each at – \$0.37 per share	20/12/2001 to 19/12/2005	150,000	150,000	–	–
	– \$0.32 per share	18/2/2002 to 18/2/2006	150,000	150,000	–	–
	– \$0.353 per share	4/5/2003 to 3/5/2007	–	150,000	–	–
Singapore Airlines Ltd	Ordinary shares of \$0.50 each	–	1,000	1,000	–	–

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning or at the end of the financial year.

There were no changes in the above-mentioned direct and deemed interests of the directors in the Company and related corporations between the end of the financial year and January 21, 2003.

Except as disclosed under the "Share Options" and "Share-Based Incentives" sections of this report, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects 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.

Since the end of the last 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 except as follows:

- (i) SembCorp Engineers and Constructors Pte Ltd ("SECPL") has entered into various design contracts with its associate, ST Architects & Engineers Pte Ltd ("STAE"), in which Mr Wong Kok Siew, a director of the Company, is a shareholder by virtue of his professional capacity under the Professional Engineers Act, Chapter 253; and
- (ii) The Group has paid professional fees to a firm in which Mr K Shanmugam, a director of the Company, is a member as disclosed in the financial statements.

However, both Mr Wong Kok Siew and Mr K Shanmugam have not received or become entitled to receive any benefits arising from these transactions other than those to which they are ordinarily entitled as a shareholder of STAE and as member of the firm respectively.

DIVIDENDS

Since the end of the last financial year, the Company paid a first and final dividend of \$37,603,000 in respect of the previous financial year, as proposed in the directors' report of that year. In addition, the Company paid a net dividend of \$5,005,000 in respect of the previous year due to the issue of shares under the private placement and options which were exercised after the final dividend was proposed and which qualified for such dividend.

No dividend has been paid in respect of the year under review and the directors now recommend a net final dividend of \$63,912,000 to be paid in respect of the financial year under review.

BAD AND DOUBTFUL DEBTS

Before the profit and loss account and the balance sheet of the Company were made out, the directors took reasonable steps to ascertain what action had been taken in relation to writing off bad debts and providing for doubtful debts of the Company. The directors have satisfied themselves that all known bad debts have been written off and that adequate provision has been made for doubtful debts.

Directors' Report

Year ended December 31, 2002

BAD AND DOUBTFUL DEBTS *(continued)*

At the date of this report, the directors are not aware of any circumstances which would render any amounts written off for bad debts or provided for doubtful debts in the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the profit and loss account and the balance sheet of the Company were made out, the directors took reasonable steps to ensure that current assets of the Company which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values and that adequate provision has been made for the diminution in value of such current assets.

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report which would render the values attributable to current assets in the Group misleading.

CHARGES AND CONTINGENT LIABILITIES

Since the end of the financial year:

- (i) no charge on the assets of the Group or of the Company has arisen which secures the liabilities of any other person; and
- (ii) no contingent liability of the Group or of the Company has arisen.

ABILITY TO MEET OBLIGATIONS

No contingent liability or other liability of the Group or of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

OTHER CIRCUMSTANCES AFFECTING THE FINANCIAL STATEMENTS

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render misleading any amount stated in the financial statements of the Group or of the Company.

UNUSUAL ITEMS

Except for the exceptional items and effect of changes in accounting policies as set out in note 31(e) and 35 to the financial statements respectively, in the opinion of the directors, no item, transaction or event of a material and unusual nature has substantially affected the results of the operations of the Group, or of the Company, during the financial year.

In the opinion of the directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SHARE OPTIONS

(a) SembCorp Industries Share Option Plan

The SembCorp Industries Share Option Plan (the "Option Plan") was approved and adopted at the Company's Extraordinary General Meeting held on June 3, 2000. The Option Plan is administered by the Executives' Share Option Scheme Committee ("ESOSC") which comprises the following members:

Peter Seah Lim Huat
Goh Geok Ling
K Shanmugam

Other information regarding the Option Plan is as follows:

- (i) The exercise price of the options can be set at a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant.
- (ii) The options can be exercised 12 months after the grant for market price options and 24 months for discounted options.
- (iii) The options granted expire after 5 years for non-executive directors and 10 years for the executives of Group and parent Group.

Directors' Report

Year ended December 31, 2002

SHARE OPTIONS *(continued)*

(a) SembCorp Industries Share Option Plan *(continued)*

At the end of the financial year, details of the options granted under the Option Plan on unissued shares of \$0.25 each of the Company are as follows:

SembCorp Industries Ltd

Ordinary shares of \$0.25 each

Date of grant of options	Exercise price per share	Options outstanding at 1/1/2002	Options granted	Options exercised	Options cancelled/lapsed/not accepted	Options outstanding at 31/12/2002	Number of options holders/ (including number of directors) at 31/12/2002	Exercise period
10/4/1997	\$2.535	4,051,725	–	–	(4,051,725)	–	–	11/4/1999 to 10/4/2002
21/4/1998	\$1.294	2,722,516	–	(455,960)	(110,450)	2,156,106	148 (1)	22/4/2000 to 20/4/2003
8/5/1997	\$2.623	2,339,667	–	–	(2,339,667)	–	–	9/5/1999 to 7/5/2002
12/5/1998	\$1.172	948,169	–	(160,648)	(45,776)	741,745	28 (–)	13/5/2000 to 11/5/2003
19/5/1999	\$2.260	597,527	–	–	(99,559)	497,968	41 (–)	20/5/2001 to 19/5/2004
15/9/1999	\$2.120	14,000	–	–	–	14,000	1 (–)	16/9/2001 to 15/9/2004
26/6/2000	\$1.990	740,000	–	–	(6,000)	734,000	17 (6)	27/6/2001 to 26/6/2005
26/6/2000	\$1.990	12,020,900	–	–	(721,300)	11,299,600	948 (2)	27/6/2001 to 26/6/2010
24/7/2000	\$2.262	7,035,203	–	–	(224,983)	6,810,220	368 (2)	20/5/2001 to 19/5/2009
24/7/2000	\$2.120	224,451	–	–	(19,996)	204,455	17 (–)	16/9/2001 to 15/9/2009
19/4/2001	\$1.550	783,000	–	–	(6,000)	777,000	14 (8)	20/4/2002 to 19/4/2006
19/4/2001	\$1.550	14,462,200	–	(2,000)	(970,000)	13,490,200	1,648 (1)	20/4/2002 to 19/4/2011
7/5/2002	\$1.590	–	448,000	–	(43,000)	405,000	14 (8)	8/5/2003 to 7/5/2007
7/5/2002	\$1.590	–	9,329,250	–	(1,446,750)	7,882,500	1,837 (1)	8/5/2003 to 7/5/2012
17/10/2002	\$0.980	–	398,000	–	(37,000)	361,000	15 (8)	18/10/2003 to 17/10/2007
17/10/2002	\$0.980	–	9,084,250	–	(1,491,250)	7,593,000	1,593 (1)	18/10/2003 to 17/10/2012
		<u>45,939,358</u>	<u>19,259,500</u>	<u>(618,608)</u>	<u>(11,613,456)</u>	<u>52,966,794</u>		

Directors' Report

Year ended December 31, 2002

SHARE OPTIONS *(continued)*

(a) SembCorp Industries Share Option Plan *(continued)*

The fair values of options of the Company granted at the date of the grant are estimated using the Black-Scholes Option-pricing model on the basis of the following assumptions on dividend yield, risk-free interest rate, expected volatility and expected lives, as follows:

Option period (both dates inclusive)	Number of unissued ordinary shares	Exercise Price	Fair Value of Options	Dividend Yield %	Risk-free Interest Rate %	Expected Volatility %	Expected Lives (years)
8/5/2003 to 7/5/2007	405,000	\$1.59	\$0.344	1.94	3.857	33.54	3
8/5/2003 to 7/5/2012	7,882,500	\$1.59	\$0.344	1.94	3.857	33.54	3
18/10/2003 to 17/10/2007	361,000	\$0.98	\$0.273	2.83	3.337	36.91	3
18/10/2003 to 17/10/2012	7,593,000	\$0.98	\$0.273	2.83	3.337	36.91	3

The details of options of the Company granted and exercised since commencement of the Scheme were as follows:

Option participants	Options granted during the year (1)	Aggregate Options granted (2)	Aggregate options cancelled/ lapsed/ not accepted (3)	Aggregate options exercised (4)	Aggregate options outstanding (5)
Directors of the Company					
Peter Seah Lim Huat	140,000	420,000	–	–	420,000
Wong Kok Siew	800,000	2,800,000	(500,000)	–	2,300,000
Tay Siew Choon	50,000	2,079,578	(755,283)	–	1,324,295
Lua Cheng Eng	140,000	350,000	–	–	350,000
K Shanmugam	70,000	210,000	–	–	210,000
Lam Chuan Leong	70,000	140,000	(140,000)	–	–
Tetsuro Kawakami	35,000	105,000	–	–	105,000
Chumpol NaLamlieng	35,000	100,000	–	–	100,000
Goh Geok Ling	50,000	130,000	–	–	130,000
Richard Hale OBE	70,000	140,000	–	–	140,000
Other Executives					
Group	17,671,500	93,350,144	(39,668,616)	(6,409,029)	47,272,499
Parent Group	78,000	266,000	(11,000)	–	255,000
Former Directors of the Company					
	50,000	360,000	–	–	360,000
	19,259,500	100,450,722	(41,074,899)	(6,409,029)	52,966,794

(1) Options granted during the financial year under review.

(2) Aggregate options granted since commencement of the Plan to the end of financial year under review.

(3) Aggregate options lapsed or not accepted since commencement of the Plan to end of financial year under review.

(4) Aggregate options exercised since commencement of the Plan to end of financial year under review.

(5) Aggregate options outstanding as at end of the financial year under review.

Since the commencement of the Option Plan, no options have been granted to the controlling shareholders of the Company or their associates. No participant under the Option Plan has been granted 5% or more of the total options available.

The options granted by the Company do not entitle the holders of the options, by virtue of such holdings, to any right to participate in any share issue of any other company.

Directors' Report

Year ended December 31, 2002

SHARE OPTIONS *(continued)*

(b) Share Options of the Subsidiaries

As at year-end, the details of share options of the subsidiaries are as follows:

SembCorp Logistics Ltd

Ordinary shares of \$0.25 each

Date of grant of options	Exercise price per share	Options outstanding at 1/1/2002	Options granted	Options exercised	Options cancelled/lapsed/not accepted	Options outstanding at 31/12/2002	Number of options holders/ (including number of SCI directors) at 31/12/2002	Exercise period
12/5/1997	\$1.0325	405,720	–	(402,464)	(3,256)	–	–	13/5/1998 to 12/5/2002
12/4/1999	\$0.99	436,000	–	(227,000)	–	209,000	10 (–)	13/4/2000 to 4/9/2009
3/9/1999	\$1.4375	520,000	–	–	–	520,000	1 (–)	4/9/2000 to 3/9/2009
6/3/2000	\$2.2625	6,544,000	–	–	(128,000)	6,416,000	119 (–)	7/3/2001 to 6/3/2010
28/6/2000	\$2.5038	7,321,480	–	–	–	7,321,480	970 (1)	29/6/2001 to 28/6/2010
15/5/2001	\$1.8375	6,897,680	–	(535,560)	–	6,362,120	840 (1)	16/5/2002 to 15/5/2011
18/10/2001	\$1.49	763,000	–	–	–	763,000	28 (–)	18/10/2002 to 17/10/2011
27/2/2002	\$2.01	–	7,579,000	–	–	7,579,000	1,133 (1)	28/2/2003 to 27/2/2012
27/9/2002	\$1.60	–	1,119,000	–	–	1,119,000	59 (–)	27/9/2003 to 26/2/2012
		<u>22,887,880</u>	<u>8,698,000</u>	<u>(1,165,024)</u>	<u>(131,256)</u>	<u>30,289,600</u>		

SembCorp Marine Ltd

Ordinary shares of \$0.10 each

27/4/1998	\$0.79	4,660,000	–	(3,270,000)	(10,000)	1,380,000	23 (–)	27/4/2000 to 26/4/2003
10/3/1999	\$0.65	929,000	–	(405,000)	(30,000)	494,000	17 (–)	10/3/2001 to 9/3/2004
8/9/2000	\$0.70	14,933,000	–	(3,502,000)	(431,000)	11,000,000	741 (2)	8/9/2001 to 7/9/2010
27/9/2001	\$0.66	13,885,000	–	(1,004,000)	(511,000)	12,370,000	900 (2)	28/9/2002 to 27/9/2011
7/11/2002	\$0.90	–	15,611,000	–	(10,000)	15,601,000	1,117 (2)	8/11/2003 to 7/11/2012
		<u>34,407,000</u>	<u>15,611,000</u>	<u>(8,181,000)</u>	<u>(992,000)</u>	<u>40,845,000</u>		

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options as at the end of the financial year.

Directors' Report

Year ended December 31, 2002

SHARE OPTIONS *(continued)*

(b) Share Options of the Subsidiaries *(continued)*

The fair values of options of the subsidiaries granted at the date of the grant are estimated using the Black-Scholes Option-pricing model on the basis of the following assumptions on dividend yield, risk-free interest rate, expected volatility and expected lives, as follows:

Option period (both dates inclusive)	Number of unissued ordinary shares	Exercise Price	Fair Value of options	Dividend yield %	Risk-free interest rate %	Expected volatility %	Expected lives (years)
SembCorp							
Logistics Ltd							
28/2/2003 to 27/2/2012	7,579,000	\$2.01	\$0.722	0.65	3.85	49.79	3
27/9/2003 to 26/2/2012	1,119,000	\$1.60	\$0.557	0.76	3.36	42.08	3
SembCorp Marine Ltd							
8/11/2003 to 7/11/2012	15,601,000	\$0.90	\$0.200	3.89	3.42	40.15	2.5

(c) Proforma Financial Effect under United States Financial Accounting Standard No. 123

Strictly for information purposes only, the proforma consolidated profit after taxation and minority interests and the earnings per share would have been as follows had the Company accounted for the fair value of the options granted under United States Financial Accounting Standard No. 123:

	2002 \$'000
Profit after taxation and minority interests:	
– As reported	178,333
– Proforma	168,620
Earnings per share (in cents):	
– As reported	9.89
– Proforma	9.35
Diluted earnings per share (in cents):	
– As reported	9.88
– Proforma	9.34

These proforma amounts may not be representative of future disclosures as the estimated fair value of share options are only determined in respect of options granted since the financial year ended December 31, 1999 and which is amortised over the vesting period.

Directors' Report

Year ended December 31, 2002

SHARE-BASED INCENTIVES

(a) Performance Share Plan

The SembCorp Industries Performance Share Plan (the "Performance Plan") was approved at the Company's Extraordinary General Meeting held on June 3, 2000. The Performance Plan was established with the objective of motivating senior executives to strive for superior performance and sustaining long-term growth for the Company. The Performance Plan is administered by the Executives' Share Option Scheme Committee ("ESOSC").

Under the Performance Plan, the awards, which are granted conditional on performance targets set based on medium-term corporate objectives at the start of each rolling three-year performance qualifying period. The final number of shares given will depend on the level of achievement of those targets over the three-year performance period. A specific number of performance shares shall be released by the ESOSC to the recipient at the end of the performance period provided the minimum level of targets achieved is not less than 80% of the targets set.

Recipients who do not meet at least 80% of the targets set at the end of the performance period will not be entitled to the performance shares. If the achievement of the targets exceeds 100%, more performance shares than the original award could be delivered up to a maximum of 200% of the original award.

The details of performance shares of the Company awarded since commencement of the Performance Plan were as follows:

	Conditional shares awarded during the year	Aggregate conditional shares awarded	Aggregate conditional shares lapsed	Aggregate conditional shares outstanding
Performance shares participants	(1)	(2)	(3)	(4)
Directors of the Company				
Wong Kok Siew	400,000	980,000	–	980,000
Key Executives of the Group	530,000	1,340,000	370,000	970,000
	930,000	2,320,000	370,000	1,950,000

(1) Conditional shares awarded during the financial year under review.

(2) Aggregate conditional shares awarded since commencement of the Performance Plan to the end of financial year under review.

(3) Aggregate conditional shares lapsed since commencement of the Performance Plan to the end of financial year under review.

(4) Aggregate conditional shares outstanding as at end of the financial year under review.

(b) Restricted Stock Plan

The SembCorp Industries Restricted Stock Plan (the "Restricted Plan") was approved at the Company's Extraordinary General Meeting held on June 3, 2000. The Restricted Plan is administered by the ESOSC.

Under the Restricted Plan, awards granted vest only after the satisfactory completion of time-based service conditions or where the award is performance-related, after a further period of service beyond the performance target completion date (performance-based restricted awards). No minimum vesting period is prescribed under the Restricted Plan and the length of the vesting period in respect of each award will be determined on a case-by-case basis. Performance-based restricted awards differ from awards granted under the Performance Plan in that an extended vesting period is imposed beyond the performance target completion date.

During the financial year, Wong Kok Siew, a key executive and also an executive director of the Board, was awarded 1,000,000 shares under the Restricted Plan which will be vested over a period of 5 years. An award of 200,000 restricted stocks were vested and issued to him during the year.

Directors' Report

Year ended December 31, 2002

AUDIT COMMITTEE

The members of the Audit Committee at the date of this report are as follows:

Lua Cheng Eng (Chairman)
K Shanmugam
Richard Hale OBE

The principal responsibility of the Committee is to assist the Board of Directors in the identification and monitoring of areas of significant business risks including the following:

- the effectiveness of the management of financial business risks and the reliability of management reporting;
- compliance with laws and regulations, particularly those of the Companies Act, Chapter 50 and the Singapore Exchange Listing Manual;
- the appropriateness of half year and full year announcements and reports;
- the effectiveness and efficiency of internal and external audits; and
- interested person transactions.

Specific functions of the Committee include reviewing the scope of work of the internal and external auditors, and receiving and considering the reports of the internal and the external auditors. The Committee also recommends the appointment of the external auditors and reviews the level of audit fees.

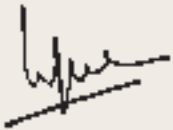
In addition, the Audit Committee has, in accordance with Chapter 9A of the Singapore Exchange Listing Manual, reviewed the requirements for approval and disclosure of interested person transactions, reviewed the internal procedures set up by the Company to identify and report and where necessary, seek approval for interested person transactions and, with the assistance of the internal auditors, reviewed interested person transactions.

The Audit Committee has recommended to the Board of Directors that the auditors, KPMG, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

AUDITORS

The auditors, KPMG, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors



Peter Seah Lim Huat
Chairman



Wong Kok Siew
Deputy Chairman & CEO

Singapore
April 8, 2003