

We are Asia's foremost integrated logistics company, providing end-to-end supply chain management services via physical and information technology networks. We focus on providing supply chain solutions to the fast moving consumer goods, healthcare, high tech, automotive, retail and chemical/industrial sectors. Through a strategic alliance with the world's leading logistics group, Kuehne & Nagel, we serve customers in the Asia-Pacific, Europe and the United States.

Operations Review

The Group's 61.55%-owned subsidiary SembCorp Logistics (SembLog) posted a strong growth of 193% in net earnings to S\$90.6 million. Excluding exceptional items, net earnings showed a healthy improvement of 35%. Profit After Tax and Minority Interest (PATMI) grew mainly due to its key earnings driver, its supply chain management operations.

SembLog's revenue rose 8% to S\$465.4 million driven by stronger supply chain management performance in Singapore and China which grew 10% and 14% respectively. Supply chain revenue contribution from other parts of Asia-Pacific registered a marked improvement of 67%, albeit from a low base, as a result of better performance in Australia and Taiwan. On the other hand, revenue from oil and gas logistics declined 6% primarily due to a lower jetty usage in the Singapore as foreign customers stayed away because of the severe acute respiratory syndrome (SARS) outbreak.

We began operations in one of the largest and most advanced logistics park in Shanghai in November 2003 to cope with increasing capacity demands. Located five

kilometres from the Baoshan Port, our new Shanghai Regional Distribution Centre comprises seven warehouses with 77,000 square metres storage space and 63,000 pallet positions. It also has temperature-controlled facilities, advanced ventilation systems and is able to support new technologies for different industry clusters. Besides being able to handle a wider range of products such as healthcare and pharmaceutical items which require more demanding storage conditions, the new logistics park also offers opportunities for productivity improvements.

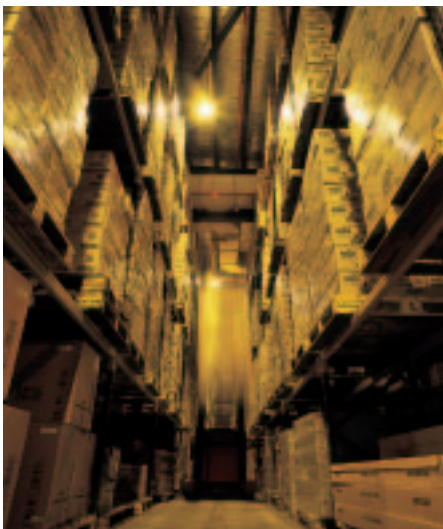
During the year, our operations in China also obtained the Class A Freight Forwarding Licence which will enable it to offer a comprehensive suite of freight forwarding and management services.

The global partnership with Kuehne & Nagel (KN) also made good progress as several joint accounts were secured including a Lead Logistics Provider contract for Siemens Xelibri. Going forward, SembLog and KN are working on joint marketing to accelerate the partnership's growth in the Asia-Pacific and are also pursuing a joint facility within the free trade zone of WaiGaoQiao in Shanghai.

As part of SembLog's strategy to expand its supply chain network in Asia, SembLog partnered Kukbo Transportation in a 51/49 joint venture, SembCorp Kukbo Logistics, to provide supply chain management services in South Korea. This business began operations in December 2003.

On December 31, 2003, the acquisition of Japanese distribution company, Footwork Express (Footwork), by the joint venture between SembLog (30.8%) and Orix Corporation (69.2%) was completed. The acquisition of Footwork marked an important milestone in SembLog's overseas expansion not only in terms of expected earnings contributions but also Footwork's nation-wide distribution network in the second most important economy in the world as well as Footwork's customer base of blue-chip Japanese companies, many of which have relocated their manufacturing activities to China where SembLog has substantial operations.

Anchored by our strong China operations and with networks in Hong Kong, Taiwan, South Korea and Japan in place, we see tremendous opportunities in the North Asia region both for intra-country logistics as well as cross-border supply chain management services.





Today, SembLog has one of the most extensive supply chain network in the Asia-Pacific region with an IT and physical fulfillment network that spans Singapore, China, Hong Kong, Japan, South Korea, Taiwan, India, Australia, Thailand, Sri Lanka, Malaysia, Myanmar and the United Arab Emirates.

Outlook

Supply chain management operations in Singapore are expected to continue to perform well with a steady baseload of long-term contracts from the public sector and strong commercial customer base. China is also expected to post good growth on the back of new accounts secured and increased volumes from existing customers, while the Indian operations are expected to perform better than it did in 2003.

North Asia will be the next driver of SembLog's supply chain management earnings. Besides intra-country logistics services, opportunities exist for cross-border supply chain management services. We also intend to capitalise on our customer knowledge and our network to offer customers regional supply chain solutions. This will enable us to optimise resources further and hence bring greater savings to our customers.

In the area of oil and gas logistics, improved contributions from overseas operations are expected as Thailand, China and Azerbaijan are expected to continue to perform well and contributions from the new offshore base in Batam, Indonesia are expected from the second half of 2004 onwards.

Key Facts

- Asia's leading integrated logistics service provider with an extensive IT and physical fulfillment network spanning Singapore, China, Hong Kong, Japan, South Korea, Taiwan, Australia, Thailand, Malaysia, India, Sri Lanka, Myanmar and the UAE
- In global partnership with the world's leading logistics group, Kuehne & Nagel, to provide end-to-end supply chain solutions on a global basis
- One of China's top supply chain management companies with an in-country distribution network that covers more than 850 locations, of which more than 75% can be reached within 48 hours
- One of India's top logistics company serving more than 500 cities
- Manages total warehouse space of more than 8 million square feet
- Operates Asia's premier offshore supply base – Singapore Offshore Petroleum Services (SOPS) in Singapore and regional bases in Azerbaijan, Indonesia and Thailand

Competitive Edge

- Unparalleled supply chain management network in the Asia-Pacific – both an IT and physical fulfillment network – covering Singapore, China, Hong Kong, Japan, South Korea, Taiwan, Australia, Thailand, Malaysia, India, Sri Lanka, Myanmar and the UAE
- Established track record and an in-depth knowledge of the business environment in Asia
- First mover advantage in China and India
- Extensive use of the latest advances in IT and enabling tools such as optimisation models, to create innovative supply chain solutions
- Globally positioned through strategic partnership with Kuehne & Nagel



Our Extensive Pan-Asian Supply Chain Network





Bringing Quantifiable Benefits to Our Customers

SembLog's subsidiary in China, ST-Anda Logistics (ST-Anda) has been serving Colgate-Palmolive (Colgate) since 1997. Starting with just one region, Guangzhou, ST-Anda today helps Colgate distribute its products to more than 400 cities throughout China.

We have also increased our service scope to Colgate from pure warehousing and distribution to all upstream and downstream distribution as well as value-added and export services. Included in the suite of services provided to Colgate are the importation and bonded warehousing of raw materials, repackaging and re-labelling of finished goods, product recalls, disposal of damaged goods, freight management for exports, etc.

By outsourcing its logistics requirements to ST-Andas, Colgate is able to quickly expand its market share within China without having to undertake costly investments in distribution centres, IT systems and other assets or deploy additional manpower and other resources. At the same time, it is able to lower its logistics cost through better-managed order cycles, reduced shipping errors, damage and pilferage.

Colgate is just one example of how SembLog helps its customers expand their operations in China and achieve market dominance in the shortest possible time. At the same time, SembLog also continuously introduces innovative solutions that embrace the latest technology to further improve the efficiency of its customers' supply chains.

With our IT and physical fulfillment network in China that now covers more than 850 cities and towns stretching from Harbin in the Northeast to Urumuqi in the West, SembLog's other customers are similarly leveraging its established operations and extensive network to reduce their total logistics cost, achieve greater market penetration and more optimal use of resources.

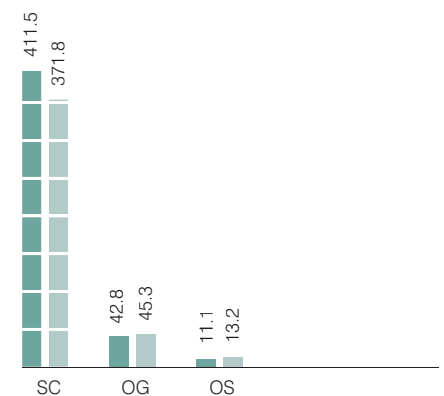
Besides China, customers who have operations in multiple Asian countries can capitalise on SembLog's Pan-Asia operations to optimise their operations on a regional basis to achieve greater efficiency in their supply chains.

(Above) SembLog's China operations.

	2003	2002
	S\$m	S\$m
Revenue	465.4	430.3
PATMI	90.6	30.9
SembCorp Industries' share of PATMI	55.9	18.4

Note: Figures are taken at SembCorp Logistics' Group Level

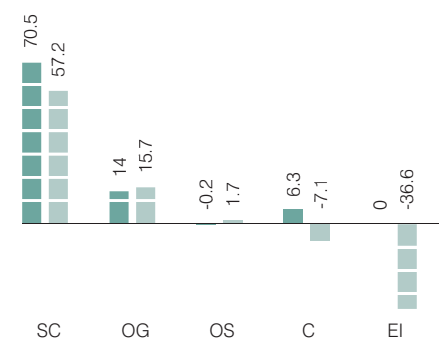
Turnover by Business (S\$m)



SC Supply Chain Management
OG Oil & Gas Logistics
OS Other Services

Note: Figures are taken at SembCorp Logistics' Group Level

PATMI by Business (S\$m)



SC Supply Chain Management
OG Oil & Gas Logistics
OS Other Services
C Corporate
EI Exceptional Items

Note: Figures are taken at SembCorp Logistics' Group Level