

**FIRST** IN A NEW ERA  
Annual Report 2005/06

SIA ENGINEERING COMPANY

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Amidst the usual maintenance buzz in the hangars, a renewed spirit of work dynamism was injected in FY2005/06 as the Company embraced new leading-edge technologies to launch new service offerings – A380, B777-300ER and B747-400 Passenger to Freighter conversion. Indeed, we are taking off into a new era of aviation technology.

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## MISSION STATEMENT

SIA ENGINEERING COMPANY  
IS ENGAGED IN PROVIDING  
AVIATION ENGINEERING SERVICES  
OF THE HIGHEST QUALITY,  
AT COMPETITIVE PRICES FOR  
CUSTOMERS AND A PROFIT  
TO THE COMPANY.



## CORPORATE PROFILE

As a leading maintenance, repair and overhaul (MRO) company with a reputation for technical and operational excellence, SIA Engineering Company offers TOTAL SUPPORT solutions to an expanding client base of international air carriers.

Coupled with the specialised expertise that it has developed over the years, SIA Engineering Company offers its customers a high level of service and commitment, as well as faster turnaround and better cost efficiencies.

The Company also actively seeks alliances and partnerships with industry specialists and original equipment manufacturers to extend the breadth and depth of its services in Singapore and beyond.

Certified a "People Developer" by Spring Singapore, SIA Engineering Company places a very high priority on attracting, developing, motivating and retaining its human capital. The Company holds certifications from 23 airworthiness authorities worldwide, such as Civil Aviation Authority of Singapore, Federal Aviation Administration and European Aviation Safety Agency.

## FIRST IN A NEW ERA

The arrival of the revolutionary Airbus A380, the world's largest commercial airliner, signals the dawn of a new era in global air travel. SIA Engineering Company has been gearing up to be the first in the world to service this most advanced aircraft. The Company will also be among the first to service one of Boeing's latest aircraft, B777-300ER, and to undertake B747 Passenger to Freighter conversions.





First to Fly A380

SINGAPORE AIRLINES

AIRBUS A380

A380

FIRST IN A NEW ERA



FY2005/06 was a year of breakthroughs for SIA Engineering Company.

It was the year that the Company raised its technological bar and leaped to greater heights in the MRO industry.

SIA Engineering Company embraced the challenge to be the first in the world to service the most technologically advanced aircraft, the Airbus A380, as well as one of Boeing's latest aircraft types, the Boeing B777-300ER. It also geared itself to be among the first to carry out B747-400 Passenger-to-Freighter conversion.



#### A NEW CHALLENGE – FIRST TO SERVICE THE AIRBUS A380

The arrival of the revolutionary Airbus A380, the world's largest commercial airliner, signals the dawn of a new era in global air travel. Always at the forefront of aviation technologies, SIA Engineering Company is the first MRO organisation in the world to service this most advanced aircraft.

The A380 is the first commercial airliner to feature a carbon fibre central wingbox. Its fin box, rudder, elevators, upper-deck floor beams and rear pressure bulkhead are also made from carbon fibre reinforced plastic (CFRP), which makes them extremely strong, durable and lightweight. Up to 40% of the A380's structure and components is manufactured using carbon

composites and advanced metal materials. A notable innovation on the A380 is the use of GLARE. It is an extremely tough laminate constructed from alternate layers of aluminium and strong fiberglass, used in the upper fuselage shell of the aircraft. Laser beam welding replaces the traditional riveting techniques to attach the stringers of the lower fuselage shell.

Powered by the world's most advanced engines, this technology-laden aviation marvel will also lift the MRO business to a higher technology platform. The launch of the A380 by Singapore Airlines (SIA) in late 2006 gives SIA Engineering Company the distinct, enviable edge to be the pioneer to acquire the new capabilities in servicing this aircraft.

#### GETTING READY

Our preparation work for this new aircraft began as early as 2004 after SIA announced its order. As an engineering partner to our major customer, we ensure that our licensed aircraft engineers, technicians and workshop personnel will be well-equipped and trained to handle the world's largest, most-advanced commercial airliner when it enters into service.

Tripartite efforts were synergised in the preparation for A380 entry-into-service (EIS). There was immense coordination among Airbus, SIA and SIA Engineering Company to ensure a smooth A380 EIS. Multiple committees were formed in each of the organisation to ensure that all aspects of the A380 EIS are well taken care of.

Airbus initiated the Airbus A380 EIS Customer Focus Groups (CFG) in which airline customers come together to give feedback on what they hope to have on the A380. Airbus also shared on how they could provide support. Our Company's Productivity and Engineering Training (PET) Division and SIA's Engineering Division (SIAED), overseeing the needs of Flight Operations, Maintenance and Cabin Crew in the A380 project, have been participating actively in the Training CFG to define the training requirements. SIA Engineering Company also participated in other CFGs like the Towing CFG and the Network Server System/Onboard Information System CFG in which technical and information systems requirements of the A380 were discussed.

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Airbus also organised other meetings that include Technical Progress Reviews, Maintainability Reviews and Maturity Workshops. These meetings discussed the possible technical and engineering issues that might arise with the new aircraft. The discussion areas include towing, ground handling, maintenance training, aircraft recovery, network server systems, and aircraft and cabin systems.

Working groups were then developed to tackle the issues raised. During working group meetings, Airbus would introduce its tooling and equipment requirements, maintenance schedule, new technologies, maintenance training policy, course structure, training media, course development and delivery timeline. SIA Engineering Company, together with SIAED, has been working very closely with Airbus in the working groups to resolve potential EIS issues. This is especially crucial as we will be the first to service the A380.



In addition to active participation in Airbus' initiatives, we are also highly involved in the A380 EIS Engineering Steering Committee set up by SIAED, as well as the various Working Groups formed from the Steering Committee. The Steering Committee and Working Groups identify and resolve A380 EIS issues pertaining specifically to the airline and SIA Engineering Company. Over bilateral meetings with the aircraft manufacturer and the airline, issues such as ground support equipment tooling, training curriculum, schedule and quality-monitoring programme were mapped.

In SIA Engineering Company, we also set up an Airbus A380 Readiness Committee. The committee handles the complex network of preparation work to be done for the A380 EIS among the different divisions. The areas of readiness to be worked on include Line Maintenance readiness, airframe services readiness, Line/Base/Workshops tooling, A380 training, MRO network for A380 capability and hangar facilities. Target timelines are in place to ensure that we are on track to service the A380 when it starts flying. We also participated in the Initial Provisioning meetings on toolings and ground support equipment with Airbus and Rolls-Royce.

The Company also facilitated an A380 seminar on New Training Concepts in July 2004. Airbus presented the concepts to participants from our operational and support divisions, as well as SIAED and CAAS.

In the midst of working with the aircraft manufacturer and the airline, we also played an active role in the discussions with CAAS on the ramp handling of the A380 at Changi Airport. This was especially so when the A380 came to Changi for its test flight in November 2005 and for the Asian Aerospace in February 2006. Our Company's PET Division also held meetings with CAAS in 2004 and 2005 to map out the requirements for A380 training, in view of the new SAR-66 licensing regulations introduced by CAAS in early 2006. After successfully completing the EASA approved training conducted by Airbus in 2006, the A380 engineers will be licensed by CAAS under the new SAR-66 regulations. This license will allow our engineers to certify the A380.

#### TRAINING AND INTERNAL PREPARATION FOR A380

In August 2004, the Company's PET Division worked with Line Maintenance, Base Maintenance, Quality and Human Resource divisions, to select suitable Licensed Aircraft Engineers for A380 training. This was done through a stringent selection exercise. A training needs analysis was also conducted throughout the Company.

The A380 training was organised in three phases – the first two were held in Singapore in the Company, while the third phase was conducted at the Airbus Training Centre in Toulouse, France. This involved visits to the aircraft production areas and task-based training using synthetic training devices called

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the Maintenance/Flight Training Devices (MFTD). MFTD incorporates training software similar to the Full Flight Simulator and allows interactive task training in and around a virtual aircraft – operating aircraft system controls from the cockpit, performing servicing routines, and identifying aircraft and engine components. This complements the practical training on the actual aircraft.

The first phase of the training commenced in December 2005. It focused on familiarisation with the aircraft's fully integrated, high-technology systems and troubleshooting techniques. A total of 112 staff has been trained in phase one of the A380 training programme and another 96 will commence their training in September 2006.



The arrival of the A380 will also push our component capabilities up several notches. Thus far, we have firmed up several capabilities to support and maintain the A380. We are also actively evaluating more than 900 components for tools and equipment readiness. Besides enhancing our component capabilities in preparation for this revolutionary aircraft, we have embarked on a series of training programmes for our staff in specialty areas of thermoplastics, airframe composite repair, hydraulics, flight controls, landing gear and simulators.

As a significant portion of the A380 fuselage is made up of composite materials, specialised diagnostic equipment and techniques are required to scan for structural integrity and strength in the material. Hence, we have upgraded and expanded our composite testing capabilities in the Non-Destructive Test Unit. Operations staff from both the Composite and Sheet Metal workshops will be trained on GLARE, thermoplastic, welded panels, as well as the A380 Selectively Strippable Paint System.

To provide the best technical attention to A380, new Service Bulletins from Airbus and vendors are also constantly reviewed.

Engineers were trained overseas and locally to certify the new aircraft types and equipment purchased. A total of 208 licensed aircraft maintenance engineers, technicians and engineering support personnel from SIA Engineering Company, SIA Engineering Division and CAAS are expected to be trained up in a series of courses from December 2005 to February 2007.

In addition, we are looking at constructing an A380-sized hangar to handle the 'C' checks that will come in a year or two, and the heavier 'D' checks a few years later. A total of about \$60 million has been planned for investment in the hangar, equipment and training.

#### **A NEW PRODUCT IN THE HANGARS – B777-300 EXTENDED RANGE**

Another new aircraft coming into our hangar this year is the Boeing B777-300 Extended Range (ER).

As the name suggests, the B777-300ER encompasses an extension of the B777 family's span of capabilities. Together with a design that reduces drag and aircraft weight, the B777-300ER's twin-engine efficiency and reliability will further increase the standard of the long-range market. The aircraft can carry 365 passengers up to 7,880 nautical miles (14,594 kilometers).

As the Company has been maintaining the B777 series of aircraft, the primary focus in the training of the Extended Range model would be the new GE90-115B engine. Training was coordinated with Boeing and General Electric to support the Extended Twin Engine Operations (ETOPS) EIS readiness for B777-300ER.

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In September 2005, a training conference was held to finalise the training curriculum. It was decided that the theory would be conducted in Singapore, while the practical module will be conducted in the United States. A total of 230 engineers and support staff from the Company will be trained to handle the B777-300ER.

#### A NEW BUSINESS – B747-400 FREIGHTER CONVERSIONS

The Boeing B747-400 aircraft once dominated the skies as the largest commercial airliner capable of carrying the most passengers across long distances of near to 14,000 kilometres.



It is commonly known as the Jumbo Jet and is one of the most recognisable modern airliner for the past 35 years since its first commercial flight in 1970. The B747-400 is the first to adopt a two-deck configuration and is characterised by the hump – a highly recognisable icon of modern-day air travel.

Now, the B747-400 has taken a new twist in air transport. Besides being a passenger plane, it is increasingly seen as a valuable freighter, carving a niche for itself in air cargo transport.

The global air cargo industry is one of the fastest growing segments of the aviation market. The Boeing World Air Cargo Forecast 2004/05 projected that the air cargo industry would grow at an average annual rate of 6.2 percent, significantly higher than the projected passenger traffic rates. Cargo traffic growth of more than 7% is projected for Asian routes – the largest increase in the world over the next 20 years. (Boeing press release, 22 March 2006)

The B747-400 freighter is the largest commercial cargo transport in service now. No other cargo airplanes can match its lowest ton-mile cost in the industry. With its ability to carry 113,000 kg of cargo up to 8,240 km, the B747-400 freighter carries twice as much cargo at double the distance as compared to the leading freighter of its competitors.

SIA Engineering Company, having an extensive track record in servicing the B747-400 passenger airplane, will be among the first MROs in the world to establish the capability of converting these passenger planes into freighters.

Implementing a Passenger-to-Freighter (PTF) conversion is far more than manual labour on the aircraft. Engineers and technicians are to possess not only technical skills, but also analytical skills to interpret aircraft drawings and to have a good grasp of production knowledge.

Knowledge transfer is underway with Boeing conducting a series of training programmes for us. These cover enhanced practical skills, documentation, engineering and work process planning. A total of 156 engineers and technicians have been trained so far.

Our PET Division has also recommended a series of special skills required for PTF by tapping on our experience and expertise gained from the maintenance of B747-400. With regular consultation and train-the-trainers sessions conducted by Boeing in its Everett plant in the USA, PET has further developed a series of training modules. These focused on enhanced mechanical structures and practical avionics skills. SIA Engineering Company will be fully geared up to meet the first challenge come this August 2006 when the first PTF commences.



## **CHAIRMAN'S STATEMENT**

With our readiness to handle newer aircraft types giving us “first-mover” advantage, SIA Engineering Company is ready to face new challenges. Indeed, 2006 will be a milestone year as the Group prepares for the arrival of the world's biggest commercial airliner, the Airbus A380. This aircraft marvel will usher in a new era in global air travel. Steadfast in staying at the forefront of aviation technology, SIA Engineering Company is set to be the first in the world to service this technologically revolutionary aircraft.

Dear Shareholders,

A new era dawns for the aviation maintenance, repair and overhaul (MRO) industry in the Asia-Pacific. Growth for the MRO industry has been gaining momentum as the industry recovers from the crises of recent years. Resilient economic recovery in the region, together with the fast-growing aviation sectors of China, India and the Middle East, will spearhead growth in the Asia-Pacific. MRO output is expected to climb in tandem with expanding airline networks, increasing air liberalisation and growth of low-cost carriers.

#### A NEW ERA FOR MRO

In 2005, international passenger traffic in Asia grew 7.6 per cent and freight traffic rose by 3.2 per cent. These are expected to grow annually by 6.8 and 8.5 per cent respectively right up to 2009, outstripping the global forecasts of 5.6 and 6.3 per cent for the same period. Indeed, about a third of the new aircraft orders clinched by Airbus and Boeing last year were from Asia.

Much of this growth in aircraft orders stems from consumers demanding safer, more comfortable air transportation, and airlines renewing fleets to leverage on technological advances and higher fuel efficiency.

With our readiness to handle newer aircraft types giving us “first-mover” advantage, SIA Engineering Company is ready to face new challenges. Indeed, 2006 will be a milestone year as the Group prepares for the arrival of the world’s biggest commercial airliner, the Airbus A380. This aircraft marvel will

usher in a new era in global air travel. Steadfast in staying at the forefront of aviation technology, SIA Engineering Company is set to be the first in the world to service this technologically revolutionary aircraft.

#### OUR PERFORMANCE IN FY2005/06

During FY2005/06, the Group’s revenue gained 18.8% to \$959.1 million, boosted by higher airframe and component overhaul workload, more flights handled by line maintenance, and growth in fleet management work.

Group expenditure increased 16.7% to \$824.4 million, in line with the higher volume of workload, which resulted in higher subcontract, material and overtime costs.

As a result, the Group posted a net profit of \$230.6 million, an improvement of 35.3% over the previous year.

In FY2005/06, with flight movements at Changi Airport continuing to rise, our line maintenance revenue increased by 8.4% to \$300.8 million.

Revenue from airframe and component overhaul improved by 22.7% to \$612.4 million due to a pick up in workload in Base Maintenance and our 22 Workshops. The commissioning of two new hangars in 2005 provided the increased capacity to take on more heavy maintenance work. Fleet management work, a fast-growing new business segment, contributed \$45.9 million in revenue, a rise of 48.5 per cent from the previous year.

Our 15 joint ventures and associated companies operating in Singapore and overseas performed well and contributed \$105.6 million or 40.1% of the Group's pre-tax profits.

#### DIVIDENDS

The Directors have recommended a special dividend of 20 cents per share and an ordinary dividend of 6 cents per share, which together with the interim dividend of 4 cents per share paid earlier, bring the total dividend for FY2005/06 to 30 cents per share. This translates to a gross dividend yield of 9.6 per cent (based on the closing price of \$3.12 on 31 March 2006), resulting in a payout ratio of 134.7 per cent for this year.

#### BUSINESS OUTLOOK

With the strengthening of the aviation hub at Changi, the Company and its 13 local subsidiaries, joint ventures and associates, which are forged with the world's leading original equipment manufacturers, would benefit from the robust growth in the Singapore aerospace environment.

All said and done, we cannot rest on our laurels, as the path ahead is not without challenges. With the bright prospects of the Asia-Pacific aviation market beckoning global players, we are seeing the emergence of financially strong new entrants, armed with high aspirations. Airlines, confronted with soaring fuel prices and high operating costs, are constantly seeking lower-cost solutions. To meet the intensifying competition, it is critical that we restructure our costs and raise productivity significantly.

#### STAFF COMMUNICATION

The Company places a high emphasis on staff communication. We have communicated the challenges ahead and sought the partnership of our people to remain resilient and strong. Appropriate responses to these challenges will involve change on the part of staff and management, which may be painful in the short term, but inevitable for the long-term viability of the Company and the employability of our people.

#### AWARD

We are pleased to be named "The Best-Managed Large Cap Firm in Singapore" in 2006 by the Hong Kong-based financial publication *Asiamoney*, following its annual poll of a wide spectrum of companies in Asia, involving investors and analysts in the region. It is a testimony of the commitment and diligence of our people to adopt best practices in financial discipline and corporate governance.

#### ACKNOWLEDGEMENTS

On 31 December 2005, former Chairman, Mr Koh Boon Hwee, retired from the Board as Director and Chairman. The Group is deeply grateful to Mr Koh for his outstanding leadership and guidance, especially in steering the Group through the unprecedented industry crises of recent years.

The Board would also like to express its appreciation to Mr Chew Leng Seng, who stepped down as Director on 25 July 2005 and Mr Wong Ngit Liong, who will be leaving the Board at the close of the Company's AGM on 21 July 2006.





The Board extends a warm welcome to Mr Koh Kheng Siong, who joined the Board on 1 September 2005.

Finally, I would like to thank my colleagues on the Board for their relentless commitment and support, and our management, staff and unions for their hard work and dedication.

Stephen Lee Ching Yen  
Chairman

## STATISTICAL HIGHLIGHTS

	2005-06	2004-05 (Restated*)	% Change
<b>FINANCIAL STATISTICS <sup>R1</sup></b>			
<b>Group (\$ million)</b>			
Revenue	959.1	807.5	+18.8
Expenditure	824.4	706.7	+16.7
Operating profit	134.7	100.8	+33.6
Exceptional item	-	9.0	-
Profit before taxation	263.3	194.3	+35.5
Profit attributable to equity holders of the Company	230.6	170.4	+35.3
Share capital	163.1	101.8	+60.2
Reserves			
General reserve	885.5	741.0	+19.5
Share-based compensation reserve	11.9	5.6	+112.5
Foreign currency translation reserve	(21.7)	(15.5)	+40.0
Share premium	-	25.6	-
Equity attributable to equity holders of the Company	1,038.8	858.5	+21.0
Return on shareholders' funds (%) <sup>R2</sup>	24.3	19.1	+5.2points
Total assets	1,327.6	1,100.4	+20.6
Net liquid assets <sup>R3</sup>	497.6	325.2	+53.0
Value added	670.8	577.0	+16.3
<b>Per Share Data (cents)</b>			
Earnings before tax	25.6	19.2	+33.3
Earnings after tax – basic <sup>R4</sup>	22.5	16.9	+33.2
– diluted <sup>R5</sup>	22.1	16.7	+32.3
Net asset value <sup>R6</sup>	100.2	84.4	+18.7
<b>Dividends (cents per share)</b>			
Interim dividend	4.0	3.0	+33.3
Proposed final dividend – ordinary	6.0	4.5	+33.3
– special	20.0	-	-
<b>Company (\$ million)</b>			
Revenue	940.0	802.8	+17.1
Expenditure	806.1	702.7	+14.7
Operating profit	133.9	100.1	+33.8
Exceptional item	-	9.3	-
Profit before taxation	219.7	150.5	+46.0
Profit after taxation	189.3	131.7	+43.7
Value added	615.5	532.4	+15.6
<b>PRODUCTIVITY AND EMPLOYEE DATA</b>			
<b>Employee Productivity - Company</b>			
Average number of employees	4,789	4,525	+5.8
Revenue per employee (\$)	196,281	177,404	+10.6
Value added per employee (\$)	128,522	117,652	+9.2
<b>Employee Productivity - Group</b>			
Average number of employees	5,133	4,663	+10.1
Revenue per employee (\$)	186,857	173,173	+7.9
Value added per employee (\$)	130,690	123,751	+5.6

**Notes:**

R1 SIA Engineering Company's financial year is from 1 April to 31 March. Throughout this report, all financial figures are in Singapore dollars, unless stated otherwise.

R2 Return on shareholders' funds is profit attributable to equity holders of the Company expressed as a percentage of the average equity attributable to equity holders of the Company.

R3 Net liquid assets is derived by offsetting current loans against liquid assets.

R4 Earnings after tax per share (basic) is computed by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

R5 Earnings after tax per share (diluted) is computed by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue after adjusting for the dilutive effect on the exercise of all outstanding share options granted to employees.

R6 Net asset value per share is computed by dividing the equity attributable to equity holders of the Company by the number of ordinary shares in issue at 31 March.

\* The comparative figures for the financial year ended 31 March 2005 have been restated to take into account the retrospective adjustments relating to FRS 102 – Share-based Payment.

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## CORPORATE CALENDAR

<b>11 May 2005</b>	Announcement of FY2004/05 results
<b>12 May 2005</b>	Analyst/media briefing on FY2004/05 results
<b>10 Jun 2005</b>	Despatch of FY2004/05 Summary Financial Statement to shareholders
<b>1 Jul 2005</b>	Despatch of FY2004/05 Annual Report to shareholders
<b>25 Jul 2005</b>	23rd Annual General Meeting & Extraordinary General Meeting
<b>29 Jul 2005</b>	Announcement of FY2005/06 first quarter results
<b>10 Aug 2005</b>	Payment of FY2004/05 final dividend
<b>27 Oct 2005</b>	Announcement of FY2005/06 second quarter results
<b>28 Oct 2005</b>	Analyst/media briefing on FY2005/06 second quarter results
<b>2 Feb 2006</b>	Announcement of FY2005/06 third quarter results
<b>9 May 2006</b>	Announcement of FY2005/06 results
<b>10 May 2006</b>	Analyst/media briefing on FY2005/06 results
<b>12 Jun 2006</b>	Despatch of FY2005/06 Summary Financial Statement to shareholders
<b>29 Jun 2006</b>	Despatch of FY2005/06 Annual Report to shareholders
<b>21 Jul 2006</b>	24th Annual General Meeting & Extraordinary General Meeting
<b>1 Aug 2006</b>	Announcement of FY2006/07 first quarter results
<b>8 Aug 2006</b>	Payment of FY2005/06 final and special dividends

## BOARD OF DIRECTORS



MR STEPHEN LEE CHING YEN  
(Chairman from 1 January 2006)



MR KOH BOON HWEE  
(Chairman until 31 December 2005)



MR CHEW CHOON SENG  
Deputy Chairman

MR WONG NANG JANG



LT GEN (RET)  
BEY SOO KHIANG



MR WONG NGIT LIONG



DR THIO SU MIEN



MR CHEW LENG SENG  
(until 25 July 2005)



DR N VARAPRASAD



MR TAN BIAN EE



MR KOH KHENG SIONG  
(from 1 September 2005)

**MR STEPHEN LEE CHING YEN**  
**Chairman (from 1 January 2006)**

Mr Lee was appointed a Director of SIA Engineering Company on 1 December 2005 and Chairman with effect from 1 January 2006.

He is the Managing Director of both Great Malaysia Textile Manufacturing Company Private Limited and Shanghai Commercial & Savings Bank (Taiwan).

He is also Chairman of Singapore Airlines as well as the Singapore Business Federation. Mr Lee serves as a Director on the Boards of Shanghai Commercial Bank Limited (Hong Kong), Fraser & Neave Limited, Singapore Labour Foundation and Kidney Dialysis Foundation.

Previously, Mr Lee was the Chairman of PSA International, the President of the Singapore National Employers' Federation since 1988 and a Council Member of the Singapore National Wages Council.

He was a Nominated Member of Parliament from 1994 till 1997 and was awarded the Public Service Star in the National Day Awards in 1998.

Mr Stephen Lee graduated from Northwestern University, Illinois, USA in 1973 with a Master of Business Administration.

**MR KOH BOON HWEE**  
**Chairman (until 31 December 2005)**

Mr Koh was appointed Chairman of SIA Engineering Company with effect from 22 May 2003 until his retirement from the Board on 31 December 2005.

He is the Executive Director of MediaRing Limited, and Chairman and CEO of Sunningdale Tech Ltd (formerly known as Tech Group Asia Limited). Mr Koh was formerly Managing Director of Hewlett Packard in Singapore from 1985-1990 and Executive Chairman of the Wuthelam Group from 1991-2000.

Mr Koh currently serves as the Chairman of DBS Group. He is also a Director of Temasek Holdings (Pte) Ltd, Chairman of the Board of Trustees of Nanyang Technological University, Director of Agilent Technologies Inc, AAC Technologies Holdings Ltd and Four Soft Ltd. He also serves on the boards of several private companies, including Infiniti Solutions Private Limited and 800Buy.com Ltd. He is a Council Member of the Singapore Business Federation.

He was previously the Chairman of Singapore Airlines (2001-2005), Chairman of Singapore Telecommunications Ltd and its predecessor organisation (1986-2001),

and served on the Boards of Innovalues Precision Ltd, Norelco UMS Holdings Ltd, QAD Inc, USA, BroadVision, USA and Intelsat Ltd, Bermuda, among others.

Mr Koh holds a degree in Mechanical Engineering (First Class Honours) from the Imperial College of Science and Technology, University of London, and a Master of Business Administration degree (Distinction) from the Harvard Business School.

**MR CHEW CHOON SENG**  
**Deputy Chairman**

Mr Chew was appointed a Director and Deputy Chairman of SIA Engineering Company with effect from 22 May 2003.

Mr Chew is the CEO and a Director of Singapore Airlines, which he joined in 1972. He is the Chairman of Singapore Aircraft Leasing Enterprise, the Deputy Chairman of Singapore Airport Terminal Services Limited and a Director of the Singapore Exchange.

He graduated with a first degree in Mechanical Engineering from the University of Singapore, and a Masters in Operations Research and Management Studies from Imperial College, University of London.

**LT-GEN (RET) BEY SOO KHIANG**

Lt-Gen (Ret) Bey was appointed a Director of SIA Engineering Company on 1 March 2000.

He is the Senior Executive Vice-President (Operations & Services) of Singapore Airlines (SIA) from 19 April 2004. He was Senior Executive Vice-President (Technical and Human Resources) on 1 April 2002 and Executive Vice-President (Technical) on 1 July 2000. Prior to joining SIA, he was the Chief of Defence Force in the Ministry of Defence from 1995 to 2000 and the Chief of Air Force from 1992 to 1995.

Lt-Gen (Ret) Bey is also the Chairman of SilkAir (Singapore) Private Limited, Singapore Flying College Pte Ltd and SIA Properties (Pte) Ltd and is a Director in All Good Gifts Ministries Ltd.

He was previously the Chairman of SATS Airport Services, a Director of Virgin Atlantic Limited, Virgin Atlantic Airways Limited and Virgin Travel Group Limited.

Lt-Gen (Ret) Bey graduated with a Bachelor of Arts (First Class Honours) degree in Engineering and has a Master of Arts degree in Engineering from the University of Cambridge. In 1988, he

earned a Master of Public Administration degree from Harvard University. Prior to assuming his appointment in SIA, Lt-Gen (Ret) Bey attended the Advanced Management Programme at the Harvard Business School in Spring 2000.

**MR CHEW LENG SENG**  
**Deputy Chairman (until 25 July 2005)**

Mr Chew was on the Board of SIA Engineering until 25 July 2005.

He was Executive Vice President (Technical) of Singapore Airlines prior to his appointment as CEO of SIA Engineering Company on 1 April 2000. On 1 May 2001, Mr Chew retired as the Company's CEO.

### MR KOH KHENG SIONG (from 1 September 2005)

Mr Koh was appointed a Director of SIA Engineering Company on 1 September 2005.

He is also a non-executive, independent Director of SMRT Corporation Ltd. Mr Koh held a number of senior management positions in Singapore and the U.S.A. during his career in ExxonMobil, and was Financial Controller of ExxonMobil Asia Pacific Pte Ltd prior to his retirement in August 2005. He also held the positions of Manager, Financial Planning and Operations, and Manager, Downstream Financial Reporting in Exxon Company International, U.S.A. He was previously Treasurer, Esso Singapore Pte Ltd.

Mr Koh has an Honours degree in Economics from the University of London. He subsequently earned a Master of Business Administration degree in Finance from the University of Chicago Graduate School of Business.

### DR N VARAPRASAD

Dr Varapasad was appointed a Director of SIA Engineering Company on 1 March 2000.

He is the Chief Executive of the National Library Board, Singapore. Prior to that, he was Deputy President of the National University of Singapore and Principal/CEO of Temasek Polytechnic. He also sits on the Singapore Advisory Council of the Singapore HR Institute.

Dr Varapasad currently serves on the Health Promotion Board and chairs its Audit Committee. He also serves on the Civil Service College Board of Directors as well as on the Board of Trustees of SIM University.

He has previously served on various statutory boards as well as professional and social organisations.

Dr Varapasad graduated with a Bachelor of Engineering (1st class Honours) in Mechanical Engineering from the University of Canterbury (NZ), earned a Master in Engineering (First Class) from the University of Auckland and a PhD in Transport Studies from the Cranfield Institute of Technology, UK. He attended the Stanford Executive Programme in 1998.

He received the Public Administration Award (Gold) in 1996.

### MR TAN BIAN EE

Mr Tan was appointed a Director of SIA Engineering Company with effect from 15 April 2004.

He is the President (Asia) of Avago Technologies and President of Avago Technologies' Electronic Components Business Unit (ECBU) and Worldwide Order Fulfillment Operations.

Mr Tan was a Director of Singapore Workforce Development Agency under the Singapore Ministry of Manpower from 2004 to 2005. He is also a council member in the Industrial Coordination Council under the Ministry of International Trade & Industry of Malaysia since 2000. He was also the Northern Region Chairman for Young Enterprise (2003-2004), a community educational programme under the auspices of the American Malaysian Chamber of Commerce and a founder member of Penang Skills Development Corporation.

Mr Tan holds a Diploma in Medical Laboratory Technology and Management Studies, as well as a Master of Business Administration degree (Distinction) from the Golden Gate University.

He was awarded the Pingat Kelakuan Tertinggi (Exemplary Leadership Award), Darjah Johan Negeri (DJN – Second Highest State Award) and the Darjah Setia Pangkuan Negeri which carries the title Dato' (DSPN) in 1991, 1995 and 1999 respectively from the State Government of Penang, Malaysia.



**DR THIO SU MIEN**

Dr Thio was appointed to the Board of Directors of SIA Engineering Company Limited in 2000.

Dr Thio is an Advocate and Solicitor of the Supreme Court of Singapore and is currently a Senior Executive Director of TSMP Law Corporation.

She also holds various directorships including MobileOne Limited, Manulife (Singapore) Pte Ltd and Jasper Investments Limited.

Previously Dean of the Faculty of Law at the University of Singapore, Dr Thio held various positions in professional bodies and institutions, and sat on the boards of subsidiaries of multinational corporations in Singapore. She served on the Board of Legal Education; chaired one of the Disciplinary Committees set up by the Chief Justice; was an Accredited Arbitrator at the Singapore International Arbitration Centre; and served as Judge and Senior Vice-President of the World Bank Administrative Tribunal. She was also a member of the Asian Development Bank Administrative Tribunal.

**MR WONG NANG JANG**

Mr Wong was appointed a Director of SIA Engineering Company on 24 March 2000.

He is the Chairman for SIA Engineering Company's audit committee. Mr Wong is also the Chairman of WBL Corporation Limited, Banking Computer Services Private Limited and BCS Information Systems Pte Ltd.

He also holds directorships in Oversea-Chinese Banking Corporation Limited, Bank of Singapore Limited, PacificMas Berhad and Singapore Symphonia Company Ltd.

Mr Wong graduated from the University of Singapore with an Honours degree in Economics.

**MR WONG NGIT LIONG**

Mr Wong was appointed a Director of SIA Engineering Company on 1 March 2000.

He is the Chairman & CEO of Venture Group. Mr Wong is also a Director of DBS Bank Ltd, DBS Group Holdings Ltd and Royal Philips Electronics. He is also the Chairman of the National University of Singapore Board of Trustees.

He was previously on the Boards of Singapore Exchange Limited, the Economic Development Board and International Enterprise Singapore.

Mr Wong graduated with a First Class Honours degree in Electrical Engineering from the University of Malaya and earned a Master of Science Electrical Engineering degree from the University of California at Berkeley, where he was a Fulbright Scholar. He gained an additional Master of Business Administration degree from McGill University under the Canadian Commonwealth Fellowship.

## CORPORATE DATA

### BOARD OF DIRECTORS

#### Chairman

Stephen Lee Ching Yen  
(from 1 January 2006)  
Koh Boon Hwee  
(until 31 December 2005)

#### Deputy Chairman

Chew Choon Seng

#### Directors

Bey Soo Khiang  
Chew Leng Seng  
(until 25 July 2005)  
Koh Kheng Siong  
(from 1 September 2005)  
N Varaprasad  
Tan Bian Ee  
Thio Su Mien  
Wong Nang Jang  
Wong Ngit Liong

#### Company Secretary

Devika Rani Davar

### AUDIT COMMITTEE

#### Chairman

Wong Nang Jang

#### Members

Koh Kheng Siong  
N Varaprasad  
Tan Bian Ee  
Thio Su Mien  
Chew Leng Seng  
(until 25 July 2005)

### NOMINATING COMMITTEE

#### Chairman

Wong Ngit Liong

### Members

Chew Choon Seng  
Tan Bian Ee  
Wong Nang Jang

### COMPENSATION & HR COMMITTEE

#### Chairman

N Varaprasad

#### Members

Chew Choon Seng  
Wong Ngit Liong

### BOARD COMMITTEE

#### Members

Bey Soo Khiang  
Chew Choon Seng  
Chew Leng Seng  
(until 25 July 2005)

#### Alternate

Thio Su Mien

### REGISTRAR

M&C Services Pte Ltd  
138 Robinson Road  
#17-00  
The Corporate Office  
Singapore 068906

### AUDITORS

Ernst & Young  
Certified Public Accountants  
10 Collyer Quay  
#21-01 Ocean Building  
Singapore 049315

### Audit Partner

Mak Keat Meng  
(with effect from financial year beginning 1  
April 2005)

## EXECUTIVE MANAGEMENT



**WILLAM TAN SENG KOON**  
President &  
Chief Executive Officer



**OH WEE KHOON**  
Senior Vice President  
(Aircraft Services and  
Business Development)



**PNG KIM CHIANG**  
Senior Vice President  
(Commercial)



**JACK KOH**  
Senior Vice President  
(Line Maintenance and  
Materials)



**CHAN SENG YONG**  
Senior Vice President  
(Services)

## EXECUTIVE MANAGEMENT

**President & Chief Executive Officer**  
William Tan Seng Koon

**Senior Vice President (Aircraft Services  
& Business Development)**  
Oh Wee Khoon

**Senior Vice President (Commercial)**  
Png Kim Chiang

**Senior Vice President (Line  
Maintenance & Materials)**  
Jack Koh

**Senior Vice President (Services)**  
Chan Seng Yong

**Chief Financial Officer**  
Kwok Puay Nee

## REGISTERED OFFICE

SIA Engineering Company Limited  
31 Airline Road  
Singapore 819831  
E-mail: [siaec@singaporeair.com.sg](mailto:siaec@singaporeair.com.sg)  
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## Contact Persons

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Company Secretary/Vice-President  
Corporate  
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Fax : (65) 6546 0679

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Senior Manager Public Affairs  
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## THE GLOBAL MRO INDUSTRY REPORT

The global MRO industry radiated growth in 2005 as the airline industry continued its recovery. High fuel prices continue to push airlines to adopt advanced aircraft that give higher fuel efficiencies. The MRO industry will need to be constantly upgraded to support the newest fleets.





## THE GLOBAL MRO INDUSTRY REPORT

The global MRO industry basked in sunnier climes as it radiated steady growth in 2005. The recovery in the airline industry that built up during 2004 continued its momentum in 2005 at an encouraging pace.

Passenger and freight traffic, as well as worldwide aircraft sales, improved as confidence in the industry returned. The regional economy also performed well. However, the triple threat of high fuel costs, terrorism and Avian Flu continue to loom overhead.

#### **A RECORD YEAR FOR PASSENGERS; STRONG FREIGHT GROWTH**

2005 proved to be a resilient year as passengers returned to the skies, airlines expanded their fleets and freight traffic steadily rebounded.

In the year of 2005, international and domestic passenger traffic handled in worldwide airports broke the 4 billion mark<sup>1</sup>. US Federal Aviation Administration (FAA) stated that for the first time, passenger numbers exceeded pre-September 11 levels by 5.9%<sup>2</sup>.

For international passenger traffic, the International Air Transport Association (IATA) statistics showed that there was a 7.6% increase globally. While this is lower than the 15.3% achieved in 2004, it remains above the historical growth rate of 6%. Load factors also improved year on year by 0.9% to 75.1%.



<sup>1</sup> Airports Council International, February 2006

<sup>2</sup> Business Times, 6 March 2006

Middle East led the way of international passenger traffic increase with a 13.1% jump, followed by Latin America, which grew by 11.4%. In the Asia-Pacific region, it raised by 6.3% with Europe, Africa and North America achieving respective increases of 6.4%, 9.9% and 8.9%.

The transportation of cargo by scheduled airfreight carriers improved by 3.2% in 2005 to nearly 40 million tonnes. Some regions fared better than others, with Middle East registering the highest growth of 14.6%, followed by Asia Pacific at 4.2% and North America at 0.4%<sup>3</sup>.

Despite this growth, the airline industry as a whole lost US\$6 billion in 2005. US airlines haemorrhaged US\$10 billion, while European carriers made a profit of US\$1.3 billion and Asian carriers pushed earnings up to US\$1.5 billion in the

black. The impact of low-cost carriers has helped in part to maintain this steady improvement in performance in spite of the cost pressures relating to fuel. With fuel prices reaching an all-time high, it was estimated that for the period 2000 to 2005, the industry reached about US\$40 billion in losses<sup>4</sup>.

#### A GLOBAL AIRCRAFT MARKET

Airlines' active move to upgrade their fleet to win consumers, coupled with buoyant leasing and replacement markets, have caused the demand for newer and more advanced aircraft to grow continually. The two largest aircraft manufacturers in the world, Airbus and

Boeing, both posted record numbers of orders. Leading players in the MRO industry are also gearing up in terms of technical capability to take delivery of the next generation Airbus A380 and Boeing 787 into its hangers.

Airbus recorded net orders of 1,055 in 2005, worth almost US\$96 billion<sup>5</sup>, while Boeing reported net orders of 1,031 for the same period. Many of these orders were from Asia and the Middle East, with a significant proportion coming from China and India as deregulation takes effect. The introduction of low cost carriers also boosts access to air travel in these burgeoning economies.



<sup>3</sup> IATA International Air Traffic Statistics, January 2006

<sup>4</sup> Business Times, 6 March 2006

<sup>5</sup> Airbus Annual Review 2005

## THE GLOBAL MRO INDUSTRY REPORT



Industry forecasts suggest that demand in the next 20 years will be around 20,000 airliners and this will be worth approximately US\$2 trillion in sales. In addition to this figure, the global cargo fleet is expected to add a further 2,900 freighters to its ranks and many of these will be sourced via conversions of Passenger-to-Freighter (PTF) aircraft<sup>6</sup>.

#### TECHNOLOGY AND FUEL ECONOMY

IATA data suggests that the rise in oil prices and additional premiums for jet fuel have increased the cost of fuel for the airline industry to US\$97 billion in 2005; a rise of US\$53 billion from 2003.

Airlines, constantly faced with high fuel prices and the limit of jet fuel production, will now look to aircraft with the most advanced technology to give them fuel

efficiency gains. Today's aircraft are 70% more fuel-efficient than they were 40 years ago. Next generation aircraft, such as the Airbus A380 and Boeing 787, have been designed to give efficiency gains which translate into usage of less than 3 litres per 100-passenger kilometre. This is 0.5 litres lesser than other aircraft and hence gives cost savings for the airlines. MRO companies will need to constantly upgrade themselves and be at the forefront of aviation technology to support the airlines' newest fleet.

Other technological advances are the PW6000 engines, which will be a big leap forward for the MRO industry. According to Pratt and Whitney, the new engine has four fewer MRO stages and 900 fewer blades. It is designed to reduce maintenance costs by as much as 30% as blades can account for up to 60% of costs on a typical overhaul.

#### AIR TRAFFIC EXPANDS AT CHANGI AIRPORT

The award winning Changi Airport plays a crucial role in Singapore's aviation hub. In 2005, the airport handled a record 32.4 million passengers and 1.83 million tonnes of air cargo. It now has 83 airlines operating over 4,000 weekly scheduled flights to 180 cities in 57 countries, a growth of approximately 7% from 2004<sup>7</sup>.

The new terminal for budget carriers opened in March 2006 and Terminal 3 will commence operation in 2008. Both these additions will further enhance Singapore's role as a leading aerospace hub in the region.

#### THE MRO INDUSTRY IN SINGAPORE – A GLOBAL AEROSPACE HUB

Singapore's aerospace industry hit a total output record of S\$5.2 billion, a 17% increase from 2004, after a 15.4% rise from 2003. MRO contributes 90% to the total output. The last 15 years have seen the aerospace industry produce a compounded annual growth rate of more than 12%.

Singapore's Logistics and Transport Engineering sector is a vital part of the nation's economy and the island-nation has strategically positioned itself as a leading global aviation hub in Asia. The Singapore Aerospace Hub is currently

<sup>6</sup> Airbus 'Annual Review 2005' & Boeing 'Current Market Outlook 2005'

<sup>7</sup> Civil Aviation Authority - [www.caas.gov.sg](http://www.caas.gov.sg)



one of the most comprehensive aerospace MRO hubs in the Asia-Pacific, offering a full range of MRO services, including airframe maintenance, engine overhaul, engine component repair, structural system repair and avionics system repair. In 2005, Singapore's share of the Asia market and global market stands at approximately 25% and 6% respectively<sup>8</sup>.

Singapore has been successful in differentiating itself in terms of technical know-how and engineering capability, hence attracting companies to set up and

expand operations here. There are over 100 aerospace companies set up in Singapore, including established multinational corporations such as Honeywell, Messier-Dowty, Hamilton Sundstrand, Parker Aerospace and JAMCO Japan<sup>9</sup>, and they employ over 14,000 people .

Matsushita Avionics Systems and Boeing pursue high-level engineering and design activities here and Singapore is a regional base for the world's top three aero-engine makers – Rolls-Royce, Pratt & Whitney and GE Aviation Services. Singapore

also serves as the regional headquarters for FAA and IATA, among others.

Rolls-Royce opened a regional procurement centre in Singapore in January 2006. They backed up their choice by stating that Singapore has well-developed aerospace infrastructure, skills and access to key markets and customers.

<sup>8</sup> EDB Website - [www.edb.gov.sg](http://www.edb.gov.sg)

<sup>9</sup> The Straits Times, 20 February 2006



## THE GLOBAL MRO INDUSTRY REPORT

In February 2006, SIA Engineering Company and Parker Hannifin Corporation opened ACE Services, a joint venture for the repair and overhaul of hydraulic components capable of supporting the next generation of commercial aircraft, namely the Airbus A380 and Boeing 787 Dreamliner.

Also in February 2006, Alteon, a unit of Boeing, announced a S\$100M investment in a pilot training centre. In order to meet the demand for qualified personnel, the centre will be training more than 6,000 pilots and flight attendants, and will be one of 21 such centres worldwide<sup>10</sup>.

In 2006, SIA Engineering Company will be among the first in the world to undertake Passenger-To-Freighter (PTF) conversions on B747-400. The growth in freight traffic and the need for more efficient freighters is driving demand for such conversions. On average, about

110 aircraft per annum will be needed to be converted into freighters for the next 20 years so as to keep up with such demand<sup>11</sup>. SIA Engineering Company's newly opened hangar facilities are well placed to capture the growing PTF conversion business.

#### STRIVING FOR EXCELLENCE

Besides attracting aerospace manufacturing projects, Singapore is further developing two other areas, research and development (R&D) and education and training.

A recent survey of the MRO industry in Singapore conducted by Aerostrategy Management Consulting revealed that approximately 16,200 new employees need to be introduced into the workforce by 2014, in order for the aerospace industry to grow at the predicted annual rate of 5.9%.

To address this issue, Singapore's Nanyang Technological University (NTU) has introduced an undergraduate programme in Aerospace Engineering. In addition, in the first quarter of 2006, the Institute of Technical Education launched a National Institute of Technical Education Certificate (NITEC) in Aircraft Maintenance (Mechanical). These programmes augment the diploma in aerospace engineering programmes offered by Singapore Polytechnic and Ngee Ann Polytechnic. Also launched was the Career Transition Scheme sponsored by the Economic Development Board and Civil Aviation Authority of Singapore. The Scheme facilitates the training and transition of existing Republic of Singapore Air Force (RSAF) technicians into the commercial aerospace industry.

<sup>10</sup> Dow Jones Newswires - February 2006

<sup>11</sup> [www.boeing.com/commercial/cargo/index/html](http://www.boeing.com/commercial/cargo/index/html)



Training the aerospace industry workforce in Singapore to meet the needs and challenges of the global aviation industry is key to maintaining a competitive advantage and encouraging inward investment. Companies such as Boeing, Rolls-Royce and Thales also recognised the advantages of a global R&D programme and using lower-cost talent. Each company has entered into partnerships with Singapore institutions to research areas such as advanced materials, repair technologies and predictive maintenance.

#### OUTLOOK FOR THE MRO AND AIRLINE INDUSTRY

Over the next five years, Asia-Pacific has the strongest regional growth forecast, with an annual average growth rate (AAGR) of 6.7% for passenger traffic and 8.5% for freight growth. This compares favourably with the five-year forecasts for global traffic, which shows an AAGR of 5.6% for passengers and 6.3% for freight<sup>13</sup>. It is projected that Asian carriers would increase their 2005 profit of US\$1.5 billion to US\$2 billion in 2006.

As a result of this expected increase in traffic, Asia's MRO industry is set for a new burst of growth. Within the next ten years, the MRO industry in Asia is expected to reach \$12.2 billion and this will account for approximately 24% of the global market<sup>14</sup>.



There will be more competition as outsourced contracts continue to grow in complexity and size. Some low-cost carriers require total support from simple checks to more thorough D checks. The trend is to develop technological capability rather than simply rely on low labour costs. India and China, as well as Dubai in the Middle East, are ramping up MRO capability as a result. The ability to offer competitive pricing, high quality and total solutions across the full spectrum of the MRO value chain – airframes, engines and components, on the latest generation of aircraft/engines, will be a key success factor for MRO players.



<sup>12</sup> IATA Global Press Briefing - December 2005

<sup>13</sup> IATA Passenger and Freight Forecast 2005 - 2009

<sup>14</sup> Industry Prospects - [www.aviationnow.com](http://www.aviationnow.com)

## OPERATIONS REVIEW

Increased number of flights operating through Changi, additional capacity from two new hangars and growth in Fleet Management Programme contributed to the Company's excellent report card in FY2005/06.





## OPERATIONS REVIEW

SIA Engineering Company has been leveraging on its unique competitive advantage of early access to the most modern aircraft technologies, such as the B777, the A340-500 and the A380.

Our capabilities in the latest aircraft types enable us to offer comprehensive services in our core activities – Line Maintenance, Airframe Maintenance, Component Overhaul, Engine Overhaul, Conversions and Modifications.

In addition, the Company provides total support services to customers through its Fleet Management Programme. Combining our capabilities in the different core activities and our holistic approach to servicing airline customers,

we are well positioned to optimise cost efficiencies and deliver the fastest turnaround times.

**LINE MAINTENANCE**

The Line Maintenance team of licensed aircraft engineers and technicians provide aircraft certification and ground handling services. We ensure high despatch reliability for aircraft on transit or night-stop at Changi Airport and we serve an international client base of more than 60 airlines in Singapore Changi Airport.

During the year in review, Line Maintenance serviced a total of 85,959 flights, a 9.4% rise from the previous year. Its revenue rose by 8.4% to \$300.8 million.

We benefited from the surge in arrivals and departures through Singapore Changi Airport. Changi achieved a record 4,000 weekly scheduled flights during the Northern Winter Season from 30 October 2005 to 25 March 2006. This is an increase of about 100 flights compared to the same period a year ago. A total of 83 airlines now operate into Singapore, which is another record high for Changi.

With the increasing number of flights operating through Changi and the development of a hub for low-cost carriers in Singapore, SIA Engineering Company strives to look for even more innovative ways to improve its operating efficiencies.

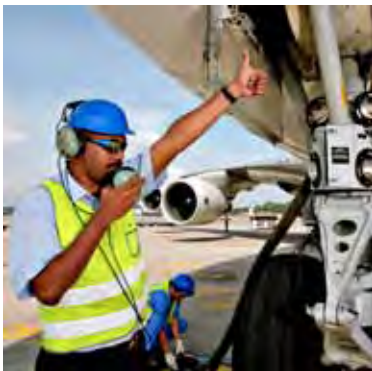
We implemented a computerised system for manpower allocation, known as the Dynamic Resource Assignment Module (DRAM) in August 2005. With DRAM, Line Maintenance is able to present the flight and manpower allocation plan on a central display system called the Flight and Resource Information Display System (FRIDS). This gives everyone, including units in different locations, clear visibility of resource allocation. It helps us to effectively pre-plan our resources and efficiently reallocate manpower when the need arises.

Besides improving operating efficiencies, we are also adding new products initiatives, which includes increasing



preventive maintenance on advanced cabin management systems and feature-laden seat modules. This is of utmost importance with the growing emphasis on cabin comfort and systems. New-generation aircraft such as the A380 also boasts of greater comfort and interactive inflight entertainment for passengers in its cabins. Hence, our preventive maintenance services would offer airline customers a higher level of technical expertise to ensure smooth functioning of their cabin systems.

During the year in review, Line Maintenance secured six new customers. They are Jet Airways, Air Sahara,

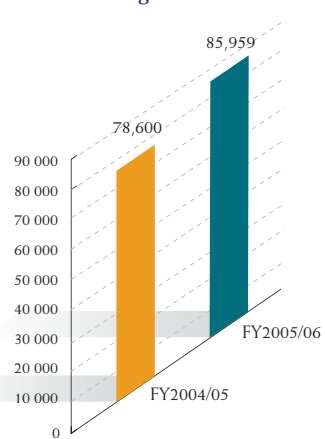


Shenzhen Airlines, Royal Khmer, Atlas Air and South Pacific Islands Airways.

In addition, Line Maintenance provided support services such as light maintenance, aircraft certification and defect rectifications to our overseas Fleet Management customers, including Dragonair from Hong Kong and Go Air from India.

SIA Engineering Company has three Line Maintenance joint ventures overseas, covering 21 airports. They are Aviation Partnership (Philippines) Corporation in the Philippines, PT. JAS Aero-Engineering Services in Indonesia and Pan Asia Pacific Aviation Services in Hong Kong.

Number of Flights Served



## OPERATIONS REVIEW

**AIRFRAME MAINTENANCE**

All aircraft have to undergo scheduled checks to maintain their airworthiness certifications with international regulatory bodies such as the Civil Aviation Authority of Singapore (CAAS), the Federal Aviation Administration from United States (FAA) and European Aviation Safety Agency from the European Union (EASA).

Scheduled A to D checks are carried out by our Base Maintenance Division at the five hangars in Changi. Base Maintenance also provides airframe structural repair and modification, cabin overhaul and refurbishment, and retrofitting of major avionics systems. In addition, we deliver essential engineering services, such as emergency aircraft-on-ground (AOG) support at airports around the world.

During the year, our relentless pursuit in offering total support solutions brought in 11 new contracts from new and long term customers such as Northwest Airlines, Dubai Air Wing, Air India, Martinair, Asiana Airlines, Atlas Air, Garuda Indonesia, Air Canada, Japan Airlines, Iberworld and Air Atlanta Icelandic. Other long-standing customers including Polar Air and Federal Express continued to make SIA Engineering Company their preferred MRO partner for their scheduled maintenance checks and major rectification works.

Our 9th operational line in Hangar 5 opened in June 2005, bringing the overall hangar capacity to 43,200 square metres.

We performed a record 47 D checks in FY2005/06. This is attributable to the additional capacity from the two new hangars commissioned in January and June 2005.

Each hangar has its specialised functions:

- Hangar 1 – B747 heavy maintenance and modifications
- Hangar 2 – Airbus and narrow-bodied Boeing aircraft heavy maintenance
- Hangar 3 – B777 heavy maintenance
- Hangar 4 – B747 Passenger-to-Freighter (PTF) conversions
- Hangar 5 – B747 heavy maintenance and modifications

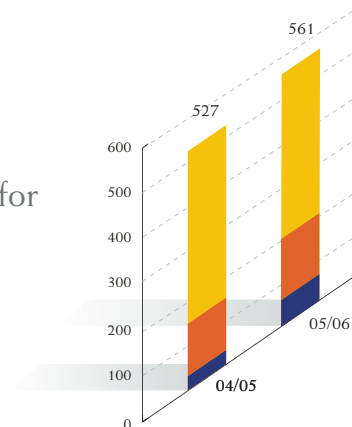






In FY2005/06, Airframe Maintenance and Component Overhaul achieved a revenue of \$612.4M, accounting for 64% of the Group's revenue.

Number of Checks Performed



	04/05	05/06
<b>A Checks</b>		
- required after every 2,400 flying hours (about 4 months)*	382	388
<b>C Checks</b>		
- required after every 7,500 flying hours (about 1 year)*	118	126
<b>D Checks</b>		
- required after every 37,500 flying hours (about 5 years)*	27	47

\* for a typical Boeing aircraft

## OPERATIONS REVIEW

## COMPONENT OVERHAUL

Our 22 in-house workshops are equipped with state-of-the-art equipment to repair and overhaul more than 11,000 components. We have the ability to overhaul up to 90% of B747-400 aircraft components in our workshops. This makes us one of the few MRO companies in the world with the highest in-house component overhaul capability for B747-400 aircraft.

Besides overhaul, our workshops provide inspection, repair, modification and testing services for various modern commercial airliners.

In FY2005/06, the Workshop Division was reorganised and renamed as the Component Services Division. Four business units were being set up:

1. Avionics Component Services (ACS)
2. Mechanical Component Services (MCS)
3. Aircraft Maintenance Services (AMS)
4. Interior Maintenance Services (IMS)

This is part of an exercise to further enhance efficiency and quicken customer response times.

We have also merged our Hydraulics shop with our newest joint venture Aerospace Component Engineering Services (ACE Services) during the year in review. ACE Services provides



maintenance, repair and overhaul services of hydro-mechanical equipment for aircraft such as the Boeing B747-400 and B777, and the Airbus A320, A330 and A340. It is the first non-original equipment manufacturer hydraulic service centre in the world capable of handling hydraulic pressures of up to 5,000 psi, enabling it to support the state-of-the-art Airbus A380 and new Boeing 787 Dreamliner.

SIA Engineering Company has six component overhaul joint ventures based in Singapore to reduce turnaround time. They are ACE Services, Fuel Accessory Service Technologies, International Aerospace Tubes - Asia, Messier Services Asia, Goodrich Aerostructures Service Center-Asia and Singapore JAMCO.

## ENGINE OVERHAUL

The engine is one of the most complex and critical part of an aircraft. It is therefore strategic that nine of our 19 joint ventures are forged with the world's leading engine and engine component makers, such as Rolls-Royce and Pratt & Whitney.

Six of the nine engine and engine component overhaul joint ventures are based in Singapore. They are Asian Surface Technologies, Combustor Airmotive Services, Eagle Services Asia, International Engine Component Overhaul, Singapore Aero Engine Services Limited and Turbine Coating Services. The three based overseas are Asian Compressor Technology Services in Taiwan, Hong Kong Aero Engine Services Limited in Hong Kong and PWA International in Ireland.

## CONVERSIONS & MODIFICATIONS

This year, SIA Engineering Company will be among the first MRO in the world to convert B747-400 passenger aircraft into freighters. To date, we have orders for a total of seven B747-400 conversions.

Passenger-to-Freighter (PTF) conversion is different from the usual heavy maintenance work handled by Base Maintenance. It involves the removal of the entire interior including seats and galleys. In addition, the existing floor structures must be replaced with a new floor design to take on heavier cargo loads. All windows are plugged, obsolete aircraft systems are removed and cargo door and cargo loading systems are installed. Heavy maintenance rectification and modifications are usually performed on the aircraft during a PTF conversion programme as well.

PTF conversions require engineers and technicians to interpret detailed aircraft drawings and possess production knowledge. As such, SIA Engineering is partnering Boeing in training our technical teams in the lead-up to our first PTF conversion project commencing in August 2006.

Our foray into the major modifications market such as PTF will also help us to attract post-modification maintenance work and cabin refurbishment.

To venture into aircraft modifications work, we formed a joint venture with JAMCO America and JAMCO

Corporation called JAMCO Aero Design & Engineering Pte Ltd (JADE) in 2004. JADE provides turnkey aircraft interior modifications work for our customers and this enables us to tap the growing aircraft cabin retrofit and reconfiguration market.

JADE was awarded the Design Organisation Approver (DOA) by CAAS in April 2006. With this status, JADE can perform design changes related to cabin interior for commercial aircraft, including the application of Supplemental Type Certificate from CAAS. JADE's customers include EVA Air and Guggenheim Aviation Partners.

## FLEET MANAGEMENT PROGRAMME

Fleet Management Programme (FMP) is a relatively new and fast-growing sector of our business. It is an all-encompassing programme that provides both fleet and inventory technical management services to our customers.

In fleet technical management, we plan and manage maintenance and modification programmes. We also oversee aircraft operations on a 24 by 7 basis to ensure high despatch reliability for the customer's fleet. Additionally, the performance of the aircraft, systems and engines are closely monitored so that predictive maintenance is carried out to ensure minimum technical delays.

Under inventory technical management, our team manages aircraft spares pooling and support. This includes sourcing,

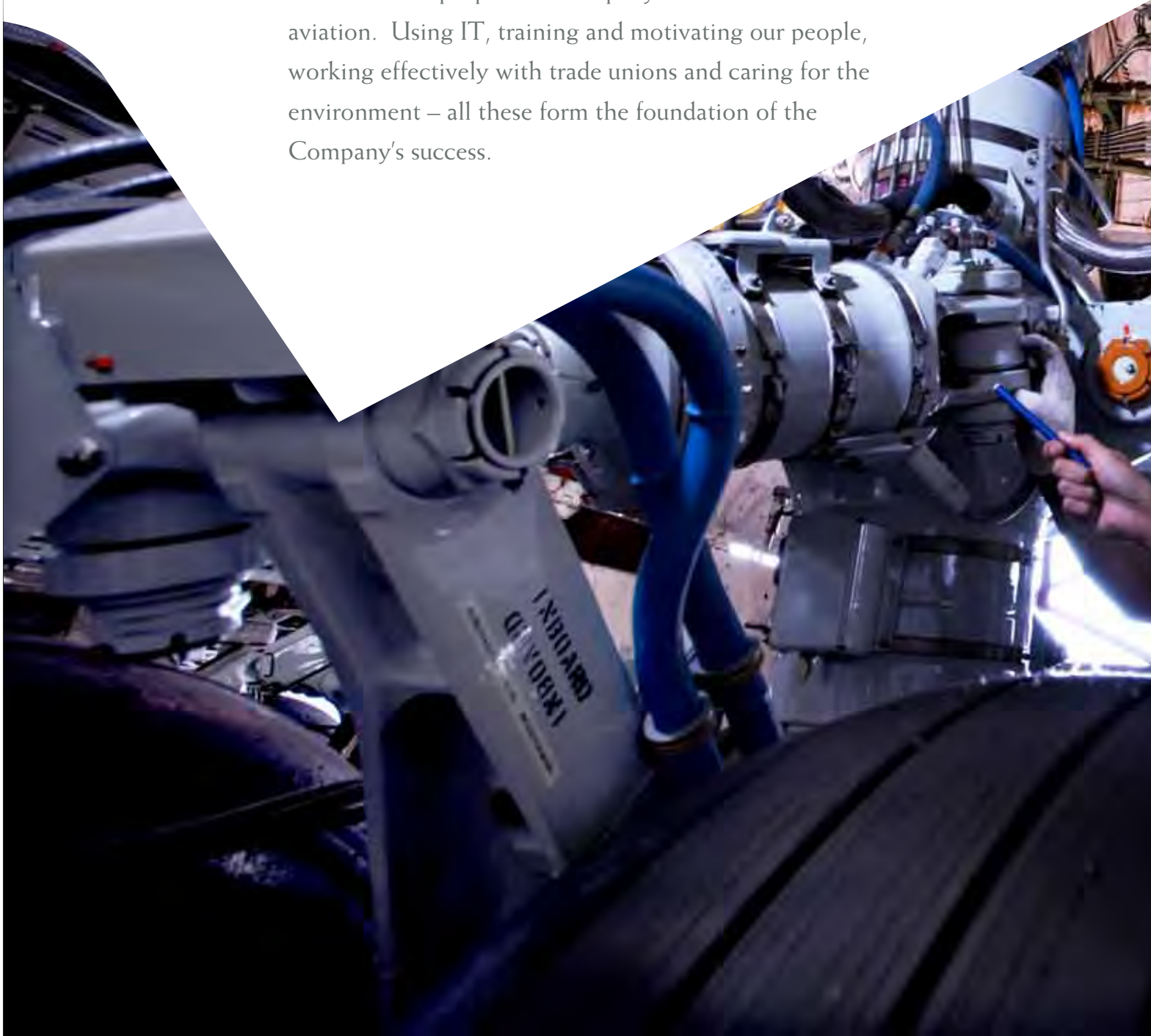
repair and overhaul of components, supply of consumables and all associated logistics to support our customers. We ensure the highest possible spares fulfillment to meet our customers' requirements on a 24 by 7 basis. Through our proven capabilities in inventory and supply chain management, we provide our customers an integrated total solution that satisfies their operational needs, hence enabling them to focus on their core airline business. In addition, we also provide turnkey solutions to assist start-up airlines in their entry-into-service preparation. This includes establishment of infrastructure such as warehousing, provisioning of on-site spares, and all other necessary logistical set-up.

In the year under review, we extended our FMP contract with Hong Kong based Dragonair with the addition of five B747-400. GO Air, a new carrier based in Mumbai, was added to our growing customer base. We will be managing GO Air's fleet of nine A320s. The total value of the two new contracts is \$132 million.

We now offer FMP services to seven airlines, namely Dragonair, SilkAir, Air Pacific, Air Atlanta Icelandic, Tiger Airways, Cebu Pacific Air and GO Air. We cover a fleet of 36 aircraft, comprising B747, A319 and A320.

## SUPPORT INFRASTRUCTURE

Our support infrastructure continues to strengthen to ensure efficiencies and smooth operations. The internal synergy plays a crucial role to propel the Company forward into the new era in aviation. Using IT, training and motivating our people, working effectively with trade unions and caring for the environment – all these form the foundation of the Company's success.





## SUPPORT INFRASTRUCTURE

**INFORMATION TECHNOLOGY**

The implementation of the SAP system in December 2004 has since provided SIA Engineering Company management with close visibility of operational status, such as material consumption and manhour expended against maintenance work done. Through SAP, the billing progress upon job completion can be also tracked closely. We will be embarking on the SAP system upgrade in early 2007 to keep ourselves abreast with software technological advancement.

The new IT system, Dynamic Resource Assignment Module (DRAM) that was implemented in Line Maintenance in August 2005, has enabled Line Maintenance Division to be more efficient and provided better control over deployment of manpower resources to customer flights.

In late 2006, A380 and B777-300ER will enter into service. In these two new aircraft types, E-logbooks that are integrated with the aircraft wireless data transmission system onboard will replace the hardcopy logbooks. With the E-logbook, aircraft and cabin defects can be transmitted to the ground stations in real time. We have been working closely with SIA for the required IT set-up to facilitate such information transmission. With this capability, our engineers and technicians at ground stations would be able to analyse and troubleshoot defects in advance. This will help them to be better prepared for aircraft defects resolution and spares requirements.

## HUMAN RESOURCES

As a leader in the global MRO industry, SIA Engineering Company continually upgrades the skills of its licensed aircraft engineers, technicians and support teams to stay abreast of the latest technological advances in the aviation industry. We build a dynamic corporate culture where our people are constantly developing new skills.

As a People Developer certified by Spring Singapore since 1999, we are always

implementing initiatives to encourage technical, administrative and management staff to upgrade their skills. During 2005, 4,895 training man-days were devoted to the area of management skills development and 46,455 training man-days were spent on technical training programmes.

Engineering training programmes take place throughout the year at our Engineering Training Department (ETD). ETD is well-equipped with facilities such as specialised classrooms, modern training

aids, computer-based instruction and other resources to handle in-house training schemes for aircraft engineers and technicians, covering ab-initio to aircraft type training.

In FY2005/06, the Group invested a total of \$9 million in training and developing its people. Each staff in the Company received an average of 73 training hours.



## SUPPORT INFRASTRUCTURE

**NEW RECRUITMENT INITIATIVES**

In the financial year under review, SIA Engineering Company implemented three new recruitment initiatives.

**1) Accelerated Training Schemes**

Two new Apprentice Aircraft Maintenance Engineer (AAME) schemes were launched in 2005 – a 2½ year accelerated scheme for graduates with a Diploma in Aeronautical Engineering and a 2-year programme for ex-RSAF technicians. The two new schemes helped to expand our pool of technical staff at

an accelerated rate and improved our cost efficiencies.

The 2½ year AAME scheme for graduates with a Diploma in Aeronautical Engineering was launched in June 2005. The first batch commenced their training in July 2005. The scheme for ex-RSAF Senior Technicians was launched in December 2005 and the first batch started training in March 2006. The AAME scheme for ex-RSAF Senior Technicians is supported by the Association of Aerospace Industries (Singapore) (AAIS) scholarship programme.





## 2) Attachment Programmes

The Training and Attachment Programme (TAP) is an initiative by the Economic Development Board (EDB) to support companies in training engineers and professionals in new technologies and capabilities.

A total of six TAP trainees commenced their training programme with us in 2005. Upon completion of the TAP programme, they will join the respective divisions to serve a two-year bond.

## 3) Study Grant Scheme

The SIA Engineering Company Study Grant Scheme was launched in January 2005 to attract outstanding polytechnic students in Aeronautical Engineering course to join the Company's pool of Licensed Aircraft Engineers via the accelerated AAME scheme. In 2005, eight students were awarded these grants.

The study grant scheme reinforces the standards and quality of the AAME cohort as the grants are only awarded to outstanding students from qualifying polytechnics.

## INDUSTRIAL RELATIONS

At SIA Engineering Company we strive to maintain a healthy relationship with the three unions that represent our employees. Regular dialogue is a key feature of this relationship. Communication sessions are held regularly with the unions.



## EMPLOYEE COMMUNICATION

Communicating with our employees is a critical component of maintaining a cohesive and inclusive workforce.

Besides our bi-monthly Company publication, Precision, which provides useful information to our staff, we undertook an Organisation Climate Survey (OCS) in May 2005 and a Managers' Perception Survey (MPS) in October 2005. The objective of both surveys was to seek useful feedback from our employees and management staff, on various areas relating to the work environment. This has resulted in various initiatives to enhance employee engagement in the organisation.

## ENHANCED HR SYSTEM

In FY2005/06, the SAP Enterprise Portal 6 (EP6) was launched. The new e-portal allows greater flexibility and self-management by employees with regard to Company benefits and entitlements. Its new design layout and interface ensures a user-friendly approach and easy navigation of the system.

## SUPPORT INFRASTRUCTURE

## QUALITY, SAFETY &amp; SECURITY

In the last financial year, we underwent 92 internal audits and 107 external audits. Constant review of our work procedures ensures that a high standard of service is maintained. As a testament to the Company's high quality of work, we currently hold regulatory approvals from 23 national aviation authorities and 20 airlines (as of April 2006). These include the FAA, EASA, Japan Civil Aviation Bureau (JCAB), Emirates Airlines and Qantas Airways.

Over the past years, our safety record has improved significantly through various safety programmes, such as ESTHER 2 (Enhanced Safety Through Human Error Reduction). The programme focuses on behavioral-based safety as well as safety leadership, with Shell's "Winning Hearts and Minds" safety initiatives as the foundation. Training for management and staff were conducted from June 2005 to March 2006. About 650 staff had been trained on the tools and methods.

In addition, to achieve zero accident, it is essential to develop a safety culture in the Company. The Occupational Health & Safety (OHS) management system was implemented in December 2001. It was certified to OHSAS 18001 specification, which is an internationally



accepted standard for occupational safety and health, in April 2002. The main objective of the OHS management system is to integrate safety awareness into our daily work and improve the Company's performance. The management system provided a systematic and cost effective way of managing occupational safety and health risk, reducing accidents, as well as introducing a safety culture. With the OHS management system in place, our work environment is continually reviewed.

As a result of the Company's conscientious efforts to improve safety in the workplace, our reportable accident rate was significantly reduced by 50% from the previous year. The Company also achieved zero reportable accident for the month of November 2005. In addition, Workshops Division attained an impressive milestone by having two million man-hours with zero reportable accidents. Strong support from management and staff in implementing the various safety initiatives made these achievements possible.

Besides safety measures, security measures were also heightened. The Company's security system was enhanced with new features. These include improved CCTV network, electro-magnetic time-lock doors, "smart" card for hangar access, security turnstiles, speed gates and rising kerbs. The Quality and Safety Division has also undertaken the in-house manufacture of the "smart" hangar passes.

#### ENVIRONMENT MANAGEMENT

SIA Engineering Company implemented ISO14001 Environmental Management System in 1997. ISO14001 is an internationally recognised environmental management system that is focused on continual improvement of environmental performance. It uses environmental audits, action programmes, targets and reviews to propel a company's environmental performance forward. The main focus over the past 12 months has been the revision to the

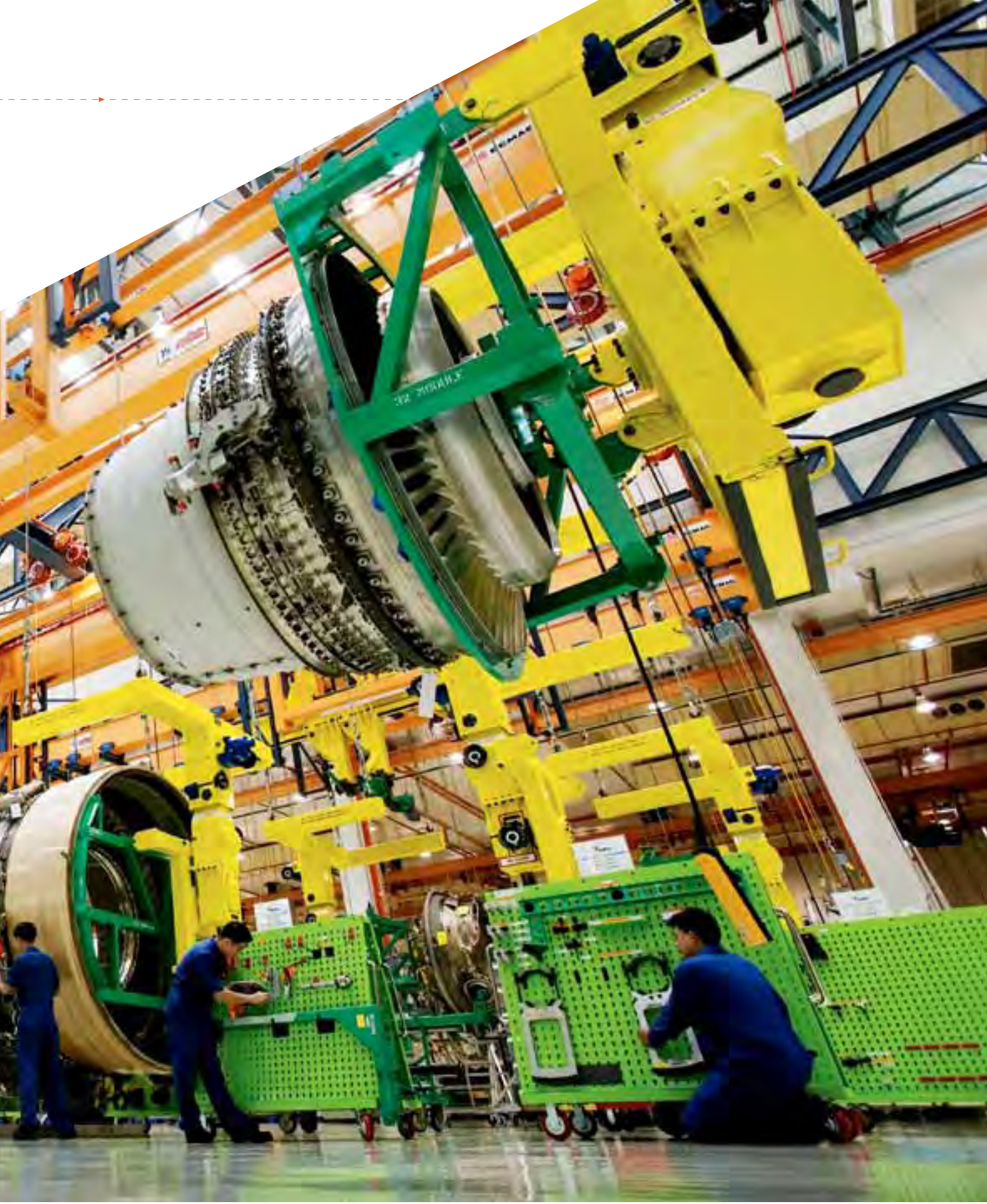
ISO14001:2004 standard. Environmental action programmes set up include segregation, collection and disposal of fuel and toxic wastes, monitoring of trade effluent discharge to public sewers, and feasibility study on building of new effluent treatment plant. Base Maintenance has standardised the bins for the segregation of wastes at the Temporary Oil Storage Areas (TOSA) and will be building a new effluent treatment plant for Hangar 2.



## JOINT VENTURES

Our 19 strategic joint ventures with world-renowned engine makers, equipment manufacturers and OEMs in Singapore and overseas enable us to continually sharpen our technological edge. They also contribute strong earnings to the Group.





## JOINT VENTURES

## JOINT VENTURES BASED IN SINGAPORE

**Aerospace Component Engineering Services Pte Ltd**

**SIA Engineering Company: 51%**  
**Parker Aerospace Group: 49%**

Incorporated on 22 April 2005, Aerospace Component Engineering Services Pte Ltd (ACE Services) is the first facility in the region to provide original equipment MRO support of Parker's components and systems. The joint venture provides maintenance, repair and overhaul services for hydro-mechanical equipment on Airbus A320, A330 and A340, and Boeing B747-400 and B777.

ACE Services is equipped with state-of-the-art facilities capable of handling hydraulic pressures of up to 5,000 psi. This enables it to repair hydro-mechanical components of new generation aircraft, such as the Airbus A380 and Boeing 787 Dreamliner.

**Asian Surface Technologies Pte Ltd**

**SIA Engineering Company: 29%**  
**Praxair Surface Technologies: 51%**  
**Pratt & Whitney (United Technologies Group): 20%**

Asian Surface Technologies Pte Ltd (AST) repairs and overhauls fan blades for JT9D and PW4000 series engines. It also provides thermal coating and finishing services for aerospace and industrial engineering products in the Asia-Pacific region.



AST uses cutting-edge technology, such as Praxair's proprietary D-gun processes, for its coating services. It has approvals from CAAS in Singapore, Federal Aviation Administration (FAA) in the U.S. and European Aviation Safety Agency (EASA) in Europe. AST is AS9100 registered, Nadcap accredited, and is an approved source for all major aviation Original Equipment Manufacturers (OEMs).

**Combustor Airmotive Services Pte Ltd**

**SIA Engineering Company: 49%**  
**Pratt & Whitney (United Technologies Group): 51%**

Combustor Airmotive Services Pte Ltd (CAS) is a world-class combustor and fuel nozzle repair and overhaul centre. Its capabilities include complete overhaul, repair and modification of PW4000, JT9D, JT8D, V2500, CFM56 and CF6 combustion chambers, fuel nozzles and PW4000 Low Pressure Turbine (LPT) duct assemblies. In 2005, CAS added PW4000 High Pressure Turbine (HPT) Stage 1 repair to its capability list. Its



extensive capabilities have enabled CAS to provide its customers with high quality repairs, fast turnaround times and competitive pricing.

The entire workforce, from shop-floor technicians to engineers and management team, has helped to ensure the successful rollout of the Achieving Competitive Excellence (ACE) Strategies and Tools for all key processes. ACE has greatly contributed to the success of the organisation and the improvements have propelled CAS to become a world-class repair and overhaul centre.

Much emphasis has also been given to the health and welfare of its employees. In 2005, CAS received a Singapore Health Award Silver Level from Singapore Health Promotion Board for its company-wide health programme efforts.

**Eagle Services Asia Pte Ltd**  
**SIA Engineering Company: 49%**  
**Pratt & Whitney (United Technologies Group): 51%**

Eagle Services Asia Pte Ltd (ESA) combines the technology of a world-renowned OEM with the extensive capabilities of an airline-linked MRO company. ESA repairs and overhauls large commercial engines built by Pratt & Whitney (JT9D and PW4000), CFM International (CFM56-5C) and International Aero Engines (V2500-A5). ESA's competitive advantage is enhanced

by Singapore's position as a regional hub for MRO services, as well as its access to Pratt & Whitney's full range of expertise.

Employing approximately 850 staff at its 3 million square feet facility, ESA operates two engine test cells with engines test capability of up to 75,000 pound thrust. In the relentless pursuit of enhancing its competitiveness and service offerings, ESA maintains a strong focus on improving its capabilities through its Achieving Competitive Excellence (ACE) programme.

ESA is the only engine overhaul centre in Pratt & Whitney to be awarded the United Technologies Corporation (UTC) ACE Site Silver. Other awards that ESA has won include Helping Employees Achieve Lifetime Health (H.E.A.L.T.H) Bronze Award, UTC Environmental Award for Natural

Resource Conservation Award for reducing energy consumption and Improvement Team Award at the National Innovation and Quality Circle Convention.

**Fuel Accessory Service Technologies Pte Ltd**  
**SIA Engineering Company: 49%**  
**Hamilton Sundstrand (United Technologies Group): 51%**

Fuel Accessory Service Technologies Pte Ltd (FAST) was set up to provide the best quality jet fuel control and engine accessory repair services to airlines and other customers in the Asia-Pacific region.

FAST's state-of-the-art facility offers complete repair, overhaul and modification capabilities for a wide range of Hamilton Sundstrand and other OEM fuel components installed on large commercial engines and auxiliary power units. Supported by a team of OEM-trained technicians and engineers, FAST is Hamilton Sundstrand's appointed repair station in the Asia-Pacific for APS3200 APU fuel accessories.

FAST entered into a Maintenance Service Agreement with Parker Aerospace during the year in review to include warranty repairs of Parker's proprietary fuel components in the Asia-Pacific region. The agreement marked a significant milestone for FAST as it enabled the company to enhance its value-add to customers.



## JOINT VENTURES

### Goodrich Aerostructures Service Center - Asia Pte Ltd

**SIA Engineering Company: 40%**  
**Goodrich Aerostructures Group: 60%**

Goodrich Aerostructures Service Center - Asia Pte Ltd (GASCA), formerly known as Rohr Aero Services Asia (RASA), specialises in the maintenance, repair and overhaul of both nacelle system components and airframe composite components for airlines in the Asia-Pacific region.

Operating out of its state-of-the-art facility in Changi North, GASCA's capability extends to virtually all commercial aircraft models today and serves more than 62 airline customers in the Asia-Pacific region. A significant milestone for GASCA was the development and implementation of a supply chain management programme with Boeing, involving nacelle systems designed and manufactured by Boeing. Leveraging on this, it signed a unique repair support agreement with Hurel Hispano to service the A340-500/600 nacelle system, which can later be expanded to include the A380 aircraft.

### International Aerospace Tubes-Asia Pte Ltd

**SIA Engineering Company: 33.33%**  
**International Aerospace Tubes (a joint venture between Tube Processing Company and Pratt & Whitney): 66.67%**

International Aerospace Tubes-Asia Pte Ltd (IAT-Asia) was incorporated in

February 2002 and specialises in the repair of aircraft and engine tubes, ducts and manifolds for customers in the Asia-Pacific region.

IAT-Asia has approvals from CAAS, FAA, EASA, General Administration of Civil Aviation of China (CAAC) and Department of Civil Aviation Malaysia (DCA Malaysia) for the repair of aircraft metal conduits.

The range of repair capabilities include various modular tubes on the PW4000-94"/100"/112", JT9D-7R4 and V2500-A1/A5/D5, engine diffuser case, intermediate case and turbine exhaust case, as well as tubes from other OEMs, such as Boeing, Goodrich and Rolls-Royce. Repair capabilities for CFM56 and CF6 engine tubes will be added in September 2006.

### International Engine Component Overhaul Pte Ltd

**SIA Engineering Company: 50%**  
**Rolls-Royce: 50%**

International Engine Component Overhaul Pte Ltd (IECO) focuses on the repair and overhaul of engine components, such as nozzle guide vanes and compressor stators. IECO, an OEM-linked shop with access to Rolls-Royce's repair schemes, sales network and resources, has strong links to airlines through SIA Engineering Company. IECO has continuously improved its product repair processes for faster



turnaround times and more efficient use of resources and materials.

IECO is currently developing repair capabilities for Trent 500, as well as the Trent 900 engines that will power the A380 aircraft.

IECO achieved the Gold standard for the Rolls-Royce Component Refurbishment Centre of Excellence (CoE) for both the compressor stator and the nozzle guide vane cells in November 2005. The Gold CoE accreditation testifies that IECO has achieved world-class performance through the implementation of best practices and aggressive improvement plans. IECO's ultimate aim is to deliver excellent service to all stakeholders.



### JAMCO Aero Design Engineering Pte Ltd

**SIA Engineering Company: 45%**

**JAMCO America: 50%**

**JAMCO Corporation: 5%**

JAMCO Aero Design Engineering Pte Ltd (JADE) provides total solutions in areas like aircraft cabin modifications, configuration retrofit and programme integration. It also provides consultation to airlines in the Asia-Pacific region.

Together with JAMCO America, JADE provides solutions and services to Singapore Airlines, SIA Engineering Company, Thai Airways International, JAMCO America and Singapore JAMCO. JADE also works on getting regulatory design approvals and technical

solutions for product improvements; development of technical specifications; equipment selection; interior arrangement layout (Lay Out Passenger Accommodations - "LOPAS"); preliminary structural and electrical analysis; supplier management for technical integration; supply of aircraft modification kits and/or materials; and on-site engineering and certification liaison support.

With the technological know-how and extensive experience of JAMCO America in cabin design, coupled with the high quality standards of SIA Engineering Company, JADE is poised to be the Centre of Excellence for aircraft interior work in the Asia-Pacific region.

### Messier Services Asia Pte Ltd

**SIA Engineering Company: 40%**

**Messier Services Pte Ltd (a subsidiary of SAFRAN Group): 60%**

Messier Services Asia Pte Ltd (MSA) operates one of the most comprehensive landing gear repair and overhaul facilities in the world. It is also the largest in the Asia-Pacific. MSA houses a Landing Gear Service Centre that has repair and overhaul capabilities for the entire range of Boeing and Airbus airliners as well as many regional and commuter aircraft. It also owns a Component & Accessory Service Centre that provides component overhaul services to support a wide range of commercial aircraft.

With sophisticated engineering workshops, state-of-the-art technology, highly-skilled technical personnel, an experienced management team and a dedication to total quality, MSA has obtained official endorsements from a large number of national and international airworthiness authorities. In addition, MSA has won many accolades and commendations from its customers for its dedication to excellence in customer service, quality, reliability and competitive pricing.



## JOINT VENTURES

During the financial year, MSA entered into a long term agreement with Boeing on spares support. Being the only site in Asia to have the Approved Supplier Status accredited by Boeing, MSA is able to carry out the overhaul of landing gears and components on Boeing's wide range of aircraft. For the Boeing B777 landing gear overhaul market, besides fully supporting Singapore Airlines' requirements, MSA also won contracts from Malaysian Airlines and Thai Airways to provide landing gear exchange overhaul for their B777 fleets.

MSA's facility extension aims to complete in October 2006 and when ready, it will be able to fully support the Airbus A380.

**Singapore Aero Engine Services Pte Ltd**  
**SIA Engineering Company: 50%**  
**Rolls-Royce: 30%**  
**Hong Kong Aero Engine Services Ltd (HAESL): 20%**

Singapore Aero Engine Services Pte Ltd (SAESL) is Rolls-Royce's Centre of Excellence in the Asia-Pacific for the repair and overhaul of Rolls-Royce Trent engines. Its excellent state-of-the-art facilities have consistently been showcased as a model of operating efficiency and productivity in the Singapore MRO industry.

SAESL commenced operations in early 2002 and aims to reach a capacity of 200 engines annually within the next few years. It has a turnaround time of 59

days for a full engine overhaul. SAESL plans to increase its engine overhaul capabilities to include the Trent 900, which powers the A380 aircraft. In December 2005, SAESL commissioned a high-tech fan blade repair and overhaul cell for the Trent 800. SAESL was also certified to perform the repair of Trent 500 fan blades in May 2006.

In November 2005, SAESL and HAESL signed a three-year maintenance agreement worth US\$600 million with Emirates. More recently, the Ministry of Manpower awarded the Occupational Health Best Practices Excellence Awards to SAESL.

**Singapore JAMCO Pte Ltd**  
**SIA Engineering Company: 65%**  
**JAMCO Corporation: 30%**  
**Itochu Singapore: 5%**

Singapore JAMCO Pte Ltd, with its facility located in the Loyang aviation hub, specialises in the design, manufacture, maintenance and repair of aircraft interior furnishings and equipment. Products designed and manufactured by the company include galley complexes, closets, cabin partitions, meal carts and service trolleys.

The company's maintenance and repair services include galley repairs and modifications, galley equipment repairs, overhead bin repairs, seat repairs and modifications, upholstery work and Aircraft Unit Loading Devices (AULD)

repairs, as well as cabin maintenance services at Changi Airport. Singapore JAMCO has the expertise to service a wide spectrum of airline customers and MRO companies on a wide range of cabin-related work due to its link to JAMCO Corporation, a renowned aircraft interior design and manufacturing company.

Singapore JAMCO is aggressively growing its engineering capability to meet the rising demands of the cabin retrofit market.

The company is currently in discussions with several OEMs to provide maintenance support for the A380 aircraft when it enters commercial service.





**Turbine Coating Services Pte Ltd**  
**SIA Engineering Company: 24.5%**  
**Pratt & Whitney (United Technologies Group): 51%**  
**Singapore Technologies Aerospace: 24.5%**

Turbine Coating Services Pte Ltd (TCS) focuses on acquiring new technologies and providing quality service to keep ahead of its competitors. Apart from possessing the Electron Beam Physical Vapour Deposition coating technology, TCS has also obtained the export license from the US government for advanced technology, giving TCS the new capability on 1/2K thermal barrier coating.

TCS core business is in PW4000 high-pressure turbine blade repairs, with commercial airlines and MRO providers as their customers. In 2005, TCS delivered in excess of 20,000 parts, gaining the reputation to be highly reliable in providing quality service and achieving delivery turnaround time of less than 35 days.

## JOINT VENTURES BASED OVERSEAS

### TAIWAN

**Asian Compressor Technology Services**  
**SIA Engineering Company: 24.5%**  
**Pratt & Whitney (United Technologies Group): 51%**  
**China Airlines: 24.5%**

Asian Compressor Technology Services (ACTS) specialises in the repair and overhaul of High Pressure Compressor (HPC) stators and shrouds. These are used in a variety of large commercial engines. With ACTS' prior experience in repairing PW4000 94" and 100" HPC stators, it has expanded its product range to include PW4000 94", 100" and 112" variable vane inner shrouds (VVIS), PW2000/F117 VVIS, PW4000 100" and 112" honeycomb shroud guides, PW4000 HPC outer air seals, as well as CF6 and CFM56 shroud and seal repairs. Recently, it also developed repairs for PW2000/F117 LPC stators and initiated repair development work in support of the Taiwan Air Force (Republic of China Air Force).

ACTS received ISO 9002 certification in 1998 and became an ISO14000 certified shop at the end of 2003. Other Air Agency Certifications acquired include authorisations from the FAA, EASA, Civil Aeronautics Administration, General Administration of Civil Aviation of China (CAAC), CAAS and Department of Civil Aviation Malaysia

(DCA Malaysia). ACTS was also awarded the Achieving Competitive Excellence (ACE) gold award by the United Technologies Corporation/ Pratt & Whitney (UTC/P&W) ACE assessment team following their site visit this year.

### THE PHILIPPINES

**Aviation Partnership (Philippines) Corporation**  
**SIA Engineering Company: 51%**  
**Cebu Pacific Air: 49%**

Aviation Partnership (Philippines) Corporation (A+ Philippines) is SIA Engineering Company's third line maintenance joint venture outside Singapore. The joint venture provides line maintenance, light aircraft checks and technical ramp handling to Cebu Pacific Air and third-party airline customers at three major international airports, namely, Manila, Cebu and Davao, as well as up to 11 domestic airports in the Philippines.

A+ Philippines was formed on 24 May 2005 and became operational on 1 July 2005. It has accreditations from Republic of Philippines Air Transport Office (ATO) to serve Cebu Pacific Air. On 29 August 2005, the ATO approved A+ Philippines' application for Airbus Goodrich Wheel Repair and Overhaul capability.

## JOINT VENTURES

**HONG KONG****Hong Kong Aero Engine Services Limited**

**SIA Engineering Company: 10%**  
**Hong Kong Aero Engine Company (HAECO): 45%**  
**Rolls-Royce: 45%**

Hong Kong Aero Engine Services Limited (HAESL) is an engine repair and overhaul facility equipped with full capabilities in the repair and overhaul of Rolls-Royce Trent and RB211 series engines. Located in Tseung Kwan O Industrial Estate in Hong Kong, this joint venture leverages on Rolls-Royce's strength as an OEM and HAECO's more than 20 years of expertise on Rolls-Royce engines, in offering high quality and comprehensive services to their customers.

HAESL possesses significant component repair capability for both in-house and third party work. In 2005, two of HAESL's component repair centres achieved gold accreditation under the Rolls-Royce Centre of Excellence (CoE) Programme.

**Pan Asia Pacific Aviation Services**

**SIA Engineering Company: 47.06%**  
**Malaysian Airline System: 23.53%**  
**PT Garuda Indonesia: 17.65%**  
**Royal Brunei Airlines: 11.76%**

Pan Asia Pacific Aviation Services (PAPAS) has been our line maintenance joint venture based in Hong Kong since 1998. With accreditation from major airworthiness authorities, including CAAS, EASA and Civil Aviation Department of Hong Kong (HKCAD),

PAPAS offers a full suite of line maintenance services at four airports in China. Our services include aircraft certification, defect rectification, technical ramp handling, aircraft interior and exterior cleaning, as well as aircraft monthly checks.

PAPAS continues to explore new opportunities to enhance its service offerings both within and outside Hong Kong.

**INDONESIA****PT JAS Aero-Engineering Services**

**SIA Engineering Company: 49%**  
**Cardig International: 51%**

Having commenced operations on 1 December 2003, PT JAS Aero-Engineering Services (PT JAE) provides aircraft line maintenance release certification, technical ramp handling services and ground support equipment at 10 major Indonesian airports, including Cengkareng (Jakarta), Surabaya, Denpasar (Bali) and Medan. PT JAE is our second joint venture to offer line maintenance services outside Singapore and has a combined clientele base of more than 28 international airlines and cargo operators, including SIA, SilkAir, SIA Cargo, EVA Air, Royal Brunei Airlines, Lufthansa, Gulf Air, Qatar Airways, Emirates, Kuwait Airways, FedEx, Cathay Pacific, Saudia, Yemenia and Qantas.

PT JAE, an Associate Member of International Airlines Technical Pool (IATP) since 2004, has been providing premium quality line maintenance services to IATP member airlines under the IATP international requirements, as well as the International Air Transport Association Standard Ground Handling Agreement (IATA SGHA).

The company has acquired several international aviation authorities and customer airlines approvals and aims to obtain the 145 approvals from EASA and 145 Repair Station Approvals from Federal Aviation Regulations (FAR) in the near future.

PT JAE has expanded its services beyond normal line maintenance activities to include 500-hour maintenance checks and cabin sweeps. In addition, the company is looking to provide additional services like aircraft exterior cleaning, and cabin and cargo deep cleaning for aircraft on overnight stops.

PT JAE' technical staff are trained at internationally approved aviation and customer airline training schools, including SIA Engineering Company, Emirates, Kuwait Airways, Gulf Air, EVA Air and Royal Brunei Training Schools. They are competent in servicing A320, A330, A340 series and B777. Currently, plans are underway to train staff to handle B777-300ER/GE90-115 and B737NG.



## IRELAND

### PWA International

**SIA Engineering Company: 49%**  
**Pratt & Whitney (United Technologies Group): 51%**

PWA International (PWAI) specialises in the overhaul and repair of large commercial jet engine cases. Based in Dublin, PWAI is committed to provide its customers with customised and dependable solutions. It strives to offer the highest level of quality, with competitive turnaround times and pricing through a combination of continuous improvement, value-added approach, modern technology and a highly motivated workforce.

PWAI takes pride in its ability to offer unique repairs for all JT9D, PW2000, PW4000 and V2500 engine cases.



## CORPORATE GOVERNANCE

SIA Engineering Company Limited (“the Company”) has in place structures and corporate governance processes aimed at achieving sustained value creation for the benefit of shareholders. In essence, these structures and processes reflect the principles and spirit of the Code of Corporate Governance (the “Code”) established by the Singapore Corporate Governance Committee.

### THE BOARD, ITS CONDUCT OF AFFAIRS, COMPOSITION AND BALANCE

(Principles 1, 2, 3, 6 and 10)

During FY05/06, Koh Kheng Siong and Stephen Lee Ching Yen were appointed as Directors on 1 September 2005 and 1 December 2005 respectively. Koh Boon Hwee stepped down as Chairman and Director on 31 December 2005, and Stephen Lee Ching Yen was elected as Chairman on 1 January 2006.

The Board consists of nine non-executive Directors who have a broad range of experience in the fields of business, aviation, finance, legal, management, industrial relations and education. The Board comprises six independent Directors: Wong Nang Jang, N Varaprasad, Wong Ngit Liong, Thio Su Mien, Tan Bian Ee and Koh Kheng Siong. The remaining three Directors, with aviation industry background, are: Stephen Lee Ching Yen, Chew Choon Seng and Bey Soo Khiang.

In line with both Principle 4 of the Code and Article 83 of the Company’s Articles of Association, the nearest one third of the Board is retired each year. Retiring Directors are usually those who have been longest in office since their last election, and are eligible for re-election under Article 84. Directors appointed subsequent to the last Annual General Meeting (“AGM”) are also retired and are eligible for re-election at the next AGM, in accordance with Article 90.

At the 24th AGM to be held on 21 July 2006, Bey Soo Khiang, Thio Su Mien and Wong Ngit Liong will retire under Article 83, and Stephen Lee Ching Yen and Koh Kheng Siong will retire under Article 90. Save for Wong Ngit Liong, who will relinquish his directorship at the close of the 2006 AGM, Bey Soo Khiang, Thio Su Mien, Stephen Lee Ching Yen and Koh Kheng Siong will offer themselves for re-election pursuant to Articles 84 and 90 respectively.

The Board provides entrepreneurial and strategic stewardship to the Management of the Company and confers with them regularly. With a focus on good corporate governance, strategic growth and prudent financial management, the Board reviews and approves major transactions of the Company. Detailed papers are submitted by the Management to the Board in a timely manner, providing information on the background and justifications for each proposal or mandate sought, including where applicable, relevant budgets, forecasts and projections. Information papers are also submitted to the Board to inform them of material developments or issues being dealt with by the Management. Monthly management accounts of the Company are also circulated for information.

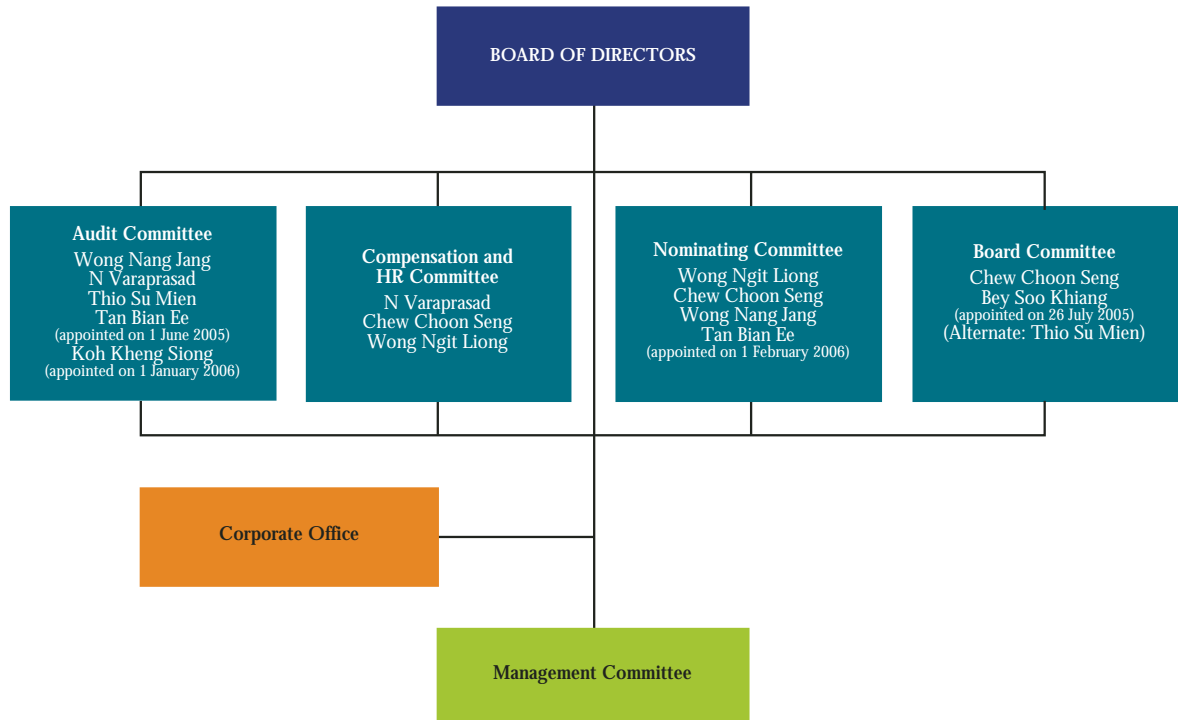
The Board meets at least 4 times a year to review and approve, inter alia, the quarterly financial results of the Company. Matters requiring the Board’s attention between meetings are dealt with by circulation. The Board also meets informally, in the absence of Management, prior to each Board Meeting.

Newly appointed Directors are briefed by the Management to familiarise them on the Company’s business and strategic directions, and are given a tour of key facilities. Directors are, from time to time, updated at Board meetings on relevant new laws, regulations and changing commercial risks. As part of

ongoing training of Directors, the Company organises presentations or seminars by external advisers on changes to laws and regulations.

The contributions of the Directors are especially visible in the four Board Committees, for which each Director is carefully chosen to serve in an area of his/her core competencies. These are the Audit Committee, Compensation and HR Committee,

Nominating Committee and Board Committee. At all times, the Board has independent access to the Chief Executive Officer, other members of Senior Management and the Company Secretary. Board procedures also enable Directors, either individually or as a group, to seek independent professional advice at the Company's expense, if necessary, in furtherance of their duties. The processes described above are represented in the diagram as follows:



## CORPORATE GOVERNANCE

Name	MAIN BOARD			AUDIT COMMITTEE		NOMINATING COMMITTEE		COMPENSATION AND HR COMMITTEE		BOARD COMMITTEE	
	Status	Position	Att.	Position	Att.	Position	Att.	Position	Att.	Position	Att.
<b>Stephen Lee Ching Yen</b> (first appointed on 1 Dec 2005)	Non-Independent	Chairman (from 1 Jan 2006)	1/1								
<b>Chew Choon Seng</b> (last re-appointed on 25 Jul 2005, first appointed on 22 May 2003)	Non-Independent	Deputy Chairman	4/4			Member	2/2	Member	4/4	Member	-
<b>Wong Nang Jang</b> (last re-appointed on 26 Jul 2004, first appointed on 24 Mar 2000)	Independent	Member	4/4	Chairman	4/4	Member	2/2				
<b>N Varaprasad</b> (last re-appointed on 25 Jul 2005, first appointed on 1 Mar 2000)	Independent	Member	3/4	Member	4/4			Chairman	4/4		
<b>Wong Ngit Liong</b> (last re-appointed on 26 Jul 2004, first appointed on 1 Mar 2000)	Independent	Member	3/4			Chairman	2/2	Member	4/4		
<b>Bey Soo Khiang</b> (last re-appointed on 12 Jul 2003, first appointed on 1 Mar 2000)	Non-Independent	Member	4/4							Member (from 26 Jul 2005)	
<b>Thio Su Mien</b> (last re-appointed on 12 Jul 2003, first appointed on 1 Mar 2000)	Independent	Member	4/4	Member	4/4					Alternate	-
<b>Tan Bian Ee</b> (last re-appointed on 26 Jul 2004, first appointed on 15 April 2004)	Independent	Member	4/4	Member (from 1 Jun 2005)	3/3	Member (from 1 Feb 2006)	-				
<b>Koh Kheng Siong</b> (first appointed on 1 Sep 2005)	Independent	Member	2/2	Member (from 1 Jan 2006)	1/1						
<b>Koh Boon Hwee</b> (stepped down on 31 Dec 2005, last re-appointed on 12 Jul 2003, first appointed on 22 May 2003)	Non-Independent	Chairman	2/2								
<b>Chew Leng Seng</b> (retired on 25 July 2005, last re-appointed on 12 Jul 2003, first appointed on 16 Mar 1982)	Non-Independent	Member	1/1	Member	2/2					Member	-
Total Number of Meetings Held in FY 05/06			4		4		2		4		-

### Notes:

- i) "Att." refers to the number of meetings attended by respective Directors for the period served in FY05/06.
- ii) The Board does not consist of any Executive Director.
- iii) The Board Committee does not conduct physical meetings as described further below.



There is a clear demarcation of responsibilities between the Board and the Management, and the Board does not interfere in the day-to-day administration of the Chief Executive Officer and the Management.

The Chief Executive Officer is responsible for the daily operations of the Company and is not a Board member. He chairs the Management Committee, comprising senior executives of the Company. The Management Committee meets weekly to discuss both policy and operational issues, and to implement key decisions of the Board.

#### AUDIT COMMITTEE (Principles 11 and 12)

The Audit Committee comprises five non-executive Directors, all of whom are independent. The members of the Audit Committee at the date of this report are:

Chairman	Wong Nang Jang
Members	N Varaprasad
	Thio Su Mien
	Tan Bian Ee (appointed on 1 June 2005)
	Koh Kheng Siong (appointed on 1 January 2006)

The Committee met four times during the year with the Management and the internal and external auditors of the Company. The attendance of individual Directors at these meetings is shown above. In the course of the year, the Committee performed the following functions:

- reviewed the audit plans of the internal and external auditors of the Company, the results of the auditors' examination of the Company's material internal financial, accounting and compliance controls and the co-operation given by the Company's officers to the auditors;
- reviewed the Company's risk management framework and processes and provided oversight to the work of the Risk Management Committee in respect of financial risks;
- reviewed the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements;

- reviewed the quarterly and full-year announcements of results and annual financial statements and the external auditors' report thereon before their submission to the Board;
- reviewed the independence of the external auditors and the nature and extent of non-audit services provided by them;
- nominated the external auditors of the Company for reappointment and recommended the auditors' remuneration for the Board's approval;
- reviewed the adequacy and effectiveness of the internal audit function;
- reviewed interested person transactions; and
- reviewed the process established by the Company whereby staff may, in confidence, raise concerns or lodge complaints about possible wrongdoings and improprieties.

The Committee has full access to and co-operation of the Management. The Committee also has full discretion to invite any Director or executive officer to attend the meetings, and has been given reasonable resources to enable it to discharge its functions.

During the year, the Committee also met with the internal and external auditors without the presence of the Management.

The Audit Committee has undertaken a review of the fees paid to the external auditors, including fees paid for non-audit services during the year and is of the opinion that the auditor's independence has not been compromised.

Minutes of the Committee's meetings are circulated to the Directors of the Company by the Company Secretary.

The review of the adequacy of operational controls and risk management polices is undertaken directly by the Board, and accordingly, these functions do not come under the purview of the Audit Committee. The Directors are of the opinion that the Company has complied with the Code of Corporate Governance.

## CORPORATE GOVERNANCE

### COMPENSATION & HR COMMITTEE

(Principles 7 and 8)

The Compensation & HR Committee comprises three non-executive Directors, two of whom (including the Chairman) are independent. The members of the Committee for FY05/06 were:

Chairman	N Varaprasad
Members	Chew Choon Seng Wong Ngit Liong

The Committee, guided by the principles of the Code, regularly reviews the recruitment, appointment, development and compensation of senior staff with reference to market data provided by recognised surveys of comparative groups in the aerospace and other related sectors. The Committee also considers and approves the fees payable to Directors serving on the Board and Board Committees. The Committee is also responsible for reviewing the eligibility, guidelines, allotment and awards of the Company's Employee Share Option Plan ("ESOP"), the Restricted Share Plan ("RSP") and the Performance Share Plan ("PSP"). Details on the RSP and PSP were set out in the Circular To Shareholders dated 1 July 2005.

During FY05/06, the Committee held four meetings and performed, inter alia, the following main functions:

- (a) reviewed and decided the allotment for the 7th ESOP Grant;
- (b) determined the eligibility and guidelines of the 7th ESOP Grant;
- (c) conducted the annual salary review and promotion exercise of senior staff;
- (d) reviewed and approved the appointments of senior staff;
- (e) determined the Profit Sharing Bonus Formula (including the identification of Company-specific Key Performance Indicators) for senior staff;
- (f) reviewed and approved the implementation of the RSP and the PSP with effect from FY06/07\*;
- (g) reviewed and updated the succession plan for key positions in the Company;
- (h) reviewed the progress and status of the Collective Agreements between the Company and its Unions;
- (i) reviewed the manpower recruitment and retention strategies for the Company;
- (j) reviewed the proposed Flexible Technical Employment Scheme;
- (k) reviewed the compensation philosophy and framework for senior staff;
- (l) reviewed the remuneration payable to Company Directors for FY05/06;
- (m) reviewed the findings and specific action plans derived from the Organisation Climate Survey and the Managers' Perception Survey; and
- (n) conducted a competency profiling exercise for senior staff.

\* There have been no awards under the RSP or the PSP since the adoption of the RSP and the PSP.

### NOMINATING COMMITTEE

(Principles 4 and 5)

Four non-executive Directors, three of whom are independent (including the Chairman), make up the Nominating Committee. The members of the Nominating Committee for FY05/06 were:

Chairman	Wong Ngit Liong
Members	Chew Choon Seng Wong Nang Jang Tan Bian Ee (appointed on 1 February 2006)

The Nominating Committee considered the need to appoint additional Directors, preferably independent Directors, to maintain a strong element of independence in the Board's composition. The Committee shortlisted and recommended to the Board new Directors for appointment, based on a stringent set of criteria established in 2001 that seeks to augment the collective experience, expertise and qualifications of existing Directors.

Since the Company's listing, the Board has selected candidates who have met these high and exacting standards. The Nominating Committee believes that the Board has an optimal mix of experience and expertise to guide the Company in achieving its business objectives.

At the 2006 AGM, Bey Soo Khiang and Thio Su Mien will retire. In noting Wong Ngit Liong's request to retire as Director at the close of the same AGM, the Nominating Committee had recommended Bey Soo Khiang and Thio Su Mien's re-election, after assessing their respective contributions, including their attendance, preparedness and participation at Board meetings.

The Nominating Committee initiated a formal Board evaluation process in FY02/03 by engaging a consultant to assist the Committee in assessing the efficacy of the Board as a whole. The assessment was expanded in FY03/04 to include an assessment of the performance of individual Directors. The same evaluation process and evaluation criteria used in past years' assessment of the Board and Directors' performances were used for FY05/06, to ensure consistency in evaluation.

The Nominating Committee and the Board are committed to conduct the annual formal assessment of the Board and Directors as a means to take stock, monitor performance, and make continuous improvements at the Board level, based on the feedback received.

With due regard given to Principles 4 and 5 of the Code, the Nominating Committee also performed, inter alia, the following functions over two meetings in FY05/06:

- (a) recommended the appointment of Tan Bian Ee as an additional member of the Audit Committee with effect from 1 June 2005 and an additional member of the Nominating Committee with effect from 1 February 2006;
- (b) recommended the appointment of Koh Kheng Siong as Director with effect from 1 September 2005 and as an additional member of the Audit Committee with effect from 1 January 2006;
- (c) recommended the appointment of Stephen Lee Ching Yen as Director with effect from 1 December 2005 and as Chairman with effect from 1 January 2006;
- (d) determined the independence/non-independence of Directors based on individual Director's declaration; and
- (e) considered and recommended Directors to retire by rotation and seek re-election at the AGM for 2006.

## BOARD COMMITTEE

The Board Committee deputises for the Board on routine matters to facilitate day-to-day administration and to expedite decisions thereon, including opening of bank accounts, affixing the Company's seal on documents requiring the Company's seal, and authorising specific officers to sign pertinent documents on behalf of the Company. The Board Committee also approves capital expenditures from \$1.5 million to \$5 million, and investments in joint ventures of up to \$5 million. Approvals of values below the base level of \$1.5 million, except for investments in joint ventures, are referred to the Senior Management Committee. For FY05/06, the Committee comprised:

Members	Chew Choon Seng Bey Soo Khiang (appointed on 26 July 2005)
Alternate	Thio Su Mien

The Board Committee does not conduct physical meetings. In practice, resolutions are passed by the Board Committee by circulation in writing. Resolutions approved by the Board Committee are reported to the Board at the Board meeting following the circulation.

The Board Committee has been useful in relieving the Board on routine day-to-day matters that require Board approval. The swiftness of their deliberation and decision-making enables the Company to be more efficient in its daily operations.

## COMPANY SECRETARY

The Directors have separate and independent access to the Company Secretary. The role of the Company Secretary has been defined by the Board to include:

- a) supervising, monitoring and advising on compliance by the Company with its Memorandum and Articles of Association, laws and regulations applicable in Singapore, and the Listing Manual of the SGX-ST;

## CORPORATE GOVERNANCE

- b) ensuring an open and regular flow of communication between the Company and the SGX-ST, the Accounting & Corporate Regulatory Authority and both institutional and individual shareholders; and
- c) updating and informing the Board on the principles and best practices of corporate governance.

The Company Secretary also performs such other duties of a company secretary as are required under the laws and regulations or as are specified in the SGX-ST Listing Manual or the Articles

of Association of the Company, or as are required by the Chairman of the Board or the Chairman of any Board Committee or the Directors (or any of them), as the case may be.

### REMUNERATION REPORT (Principle 9)

Directors' remuneration for FY05/06, comprising fees and allowances, amounts to \$542,404 (\$569,702 in FY04/05) and is derived using the following rates:

Type of Appointment	Fees per Annum
<b>Board of Directors</b>	
Member's Fees ("Basic Fee")	1 X Basic Fee = \$40,000
Chairman's Allowance	0.625 X Basic Fee = \$25,000
Deputy Chairman's Allowance	0.5 X Basic Fee = \$20,000
<b>Board Committee</b>	
Member's Allowance	0.20 X Basic Fee = \$8,000
<b>Audit Committee</b>	
Member's Allowance	0.30 X Basic Fee = \$12,000
Chairman's Allowance	0.60 X Basic Fee = \$24,000
<b>Other Board Committees</b>	
Member's Allowance	0.20 X Basic Fee = \$8,000
Chairman's Allowance	0.30 X Basic Fee = \$12,000

#### Note:

Subject to Shareholders' approval, every Director will be entitled to receive the full Basic Fee as shown in the table above for FY05/06. In addition, he will be entitled to receive the Chairman's allowance if he is Chairman of the Board as well as the relevant allowances (depending on whether he is Chairman or a Member of the relevant Board Committee) for each position he holds on a Board Committee. If the Director occupied a position for part of FY05/06, the fee or allowance payable will be pro-rated accordingly. The same rates used to compute Directors' remuneration for FY04/05 were used for FY05/06.

The remuneration of each Director for FY05/06 is as shown in the table below:

Name of Director	Fees Received (\$)
Stephen Lee Ching Yen <sup>1</sup>	19,425
Chew Choon Seng	84,000
N Varaprasad	64,000
Wong Nang Jang	72,000
Wong Ngit Liong	60,000
Bey Soo Khiang	45,458
Thio Su Mien	52,000
Tan Bian Ee	51,288
Koh Kheng Siong <sup>2</sup>	26,192
Koh Boon Hwee <sup>3</sup>	48,973
Chew Leng Seng <sup>4</sup>	19,068
<b>Total</b>	<b>542,404</b>

<sup>1</sup> Mr Stephen Lee was appointed as Director on 1 December 2005 and elected Chairman on 1 January 2006.

<sup>2</sup> Mr Koh Kheng Siong was appointed as Director on 1 September 2005.

<sup>3</sup> Mr Koh Boon Hwee stepped down as Chairman and Director on 31 December 2005.

<sup>4</sup> Mr Chew Leng Seng retired at the AGM on 25 July 2005.

<sup>5</sup> The fees due to Chew Choon Seng and Bey Soo Khiang are paid to Singapore Airlines Limited while the fees due to N Varaprasad and Wong Ngit Liong are paid to the Directorship and Consultancy Appointments Council and Venture Corporation respectively.

The annual remuneration report for the Company's top 5 executives is as follows:

Remuneration Bands & Top 5 Executives	Salary (%)	Bonus		Benefits (%)	Total (%)	Stock options granted during the year (on 1 July 2005)	
		Fixed (%)	Variable# (%)			Number	Exercise Price
<b>\$500,001 - \$750,000</b>							
William Tan Seng Koon Chief Executive Officer	48	4	36	12	100	225,000	\$2.45
<b>\$250,001 - \$500,000</b>							
Chan Seng Yong Senior Vice President (Services)	64	5	26	5	100	96,000	\$2.45
Oh Wee Khoon Senior Vice President (Aircraft Services & Business Development)	63	6	26	5	100	114,000	\$2.45
Png Kim Chiang Senior Vice President (Commercial)	63	6	25	6	100	132,000	\$2.45
<b>Below \$250,000</b>							
Jack Koh Swee Lim Senior Vice President (Line Maintenance & Materials) (joined on 1 September 2005)	53	8	33	6	100	-	-

The remuneration bands above do not include the value of the share options granted.

# Includes profit-sharing bonus determined on an accrual basis for the financial year ended 31 March 2006.

Details of the Company's Employee Share Option Scheme can be found in the Report by the Board of Directors.

## CORPORATE GOVERNANCE

### SENIOR EXECUTIVES' PROFILE

**President & Chief Executive Officer - Mr William Tan, 53,** was appointed President & Chief Executive Officer of SIA Engineering Company in May 2001.

Mr Tan joined SIA, the Airline, in 1978 and served in various positions in the Engineering Division of SIA, rising to become the Senior Vice President of Engineering in 1999. Mr Tan holds a Bachelor of Science (Engineering) degree from the University of Singapore and a Diploma in Business Administration from the National University of Singapore (NUS).

Mr Tan is the non-executive Chairman of JAMCO Aero Design & Engineering Pte Ltd and Singapore JAMCO Pte Ltd, Deputy Chairman of Eagle Services Asia Pte Ltd, Deputy Chairman of Singapore Aero Engine Services Limited, a Director on the Boards of Singapore Aircraft Leasing Enterprise Pte Ltd and SIAEC Global Pte Ltd.

**Senior Vice President (Services) - Mr Chan Seng Yong, 58,** joined the Engineering Division of SIA in 1968. In 1997, he was appointed Vice-President Engineering Planning. In April 2000, Mr Chan was transferred to SIA Engineering Company and was appointed Senior Vice President (Operations) responsible for all operational divisions. On 1 September 2005, he became the Senior Vice President (Services) and he now oversees the Facilities Development, Engineering and Information Technology, Productivity and Engineering Training Divisions.

In addition to aircraft maintenance qualifications, Mr Chan holds a Bachelor of Business (Business Administration for Information Technology) from the Royal Melbourne Institute of Technology, Australia.

Mr Chan is a Director on the Boards of Combustor Airmotive Services Pte Ltd, Asian Surface Technologies Pte Ltd and Messier Services Asia Pte Ltd.

**Senior Vice President (Aircraft Services and Business Development) - Mr Oh Wee Khoon, 47,** graduated from

University of Manchester Institute of Science and Technology with a First Class Honours degree in Mechanical Engineering and holds a Master Degree in Business Administration from the National University of Singapore.

Mr Oh joined SIA in 1975 and was transferred to SIA Engineering Company in 1993. Mr Oh served in various management positions in SIA and SIA Engineering Company. He was appointed as Senior Vice President (Commercial) on 1 April 2000, responsible for Business Development, Partnership Management, Marketing and Sales, as well as Facilities Development Divisions. On 1 September 2005, Mr Oh was appointed as Senior Vice President (Aircraft Services and Business Development). His responsibilities now include strategy planning and overseeing the activities of Base Maintenance, Workshops and Business Development Divisions.

Mr Oh is the Chairman of Fuel Accessory Service Technologies Pte Ltd and Aviation Partnership (Philippines) Corporation. He is also a Director of Eagle Services Asia Pte Ltd and SIAEC Global Pte Ltd. Mr Oh has been the President of the Association of Aerospace Industries (Singapore) since December 2002.

**Senior Vice President (Commercial) - Mr Png Kim Chiang, 47,** holds a Bachelor of Science degree in Computation (First Class Honours) from the University of Manchester Institute of Science and Technology as well as a Master in Business Administration from the National University of Singapore.

Mr Png joined SIA in 1975 and has served in various departments of the Engineering Division of SIA. He was appointed Vice President Engineering Supplies in 1998. In April 2001, Mr Png was transferred to SIA Engineering Company as its Senior Vice President (Services). On 1 September 2005, he was appointed as Senior Vice President (Commercial) and is currently responsible for Marketing and Sales, Fleet Management and Partnership Management Divisions.

Mr Png is the Chairman of Aerospace Component Engineering Services Pte Ltd and Pan Asia Pacific Aviation Services Limited, Deputy Chairman of Goodrich Aerostructures Service Centre-Asia Pte Ltd, and a Director of Singapore Aero Engine Services Ltd and Tiger Airways Pte Ltd.

**Senior Vice President (Line Maintenance and Materials) - Mr Jack Koh Swee Lim**, 53, holds a Bachelor of Business from Curtin University (Australia) and a Master of Business Administration from Monash University (Australia).

Mr Koh joined SIA in 1971. He served as Vice President Technical Projects in 1999 and was appointed Divisional Vice President Engineering in 2001. Mr Koh was appointed Senior Vice President (Line Maintenance and Materials) in SIA Engineering Company in September 2005.

He is a Director of SIA Cargo Pte Ltd, Messier Services Asia Pte Ltd, International Engine Component Overhaul Pte Ltd and PT JAS Aero-Engineering Services.

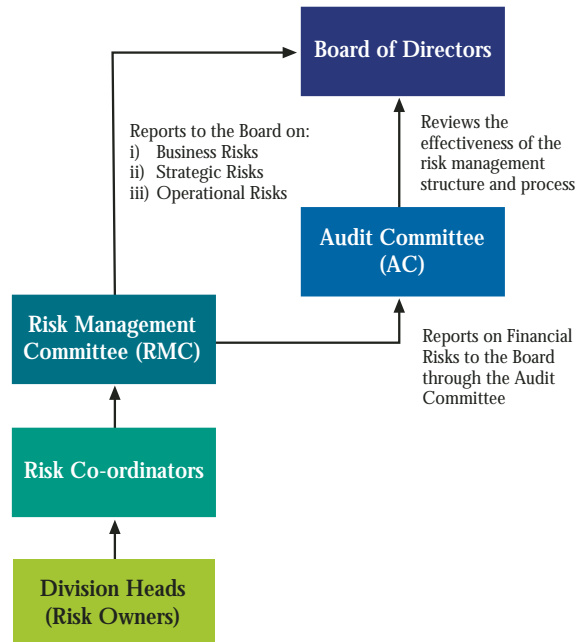
## INTERNAL CONTROLS (Principle 12)

The Board believes that, in the absence of evidence to the contrary, the system of internal controls maintained by the Company's Management and that was in place throughout the financial year and up to the date of this report provides reasonable, but not absolute, assurance against material financial misstatements or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of enterprise risk. The Board notes that no system of internal control could provide absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities.

## RISK MANAGEMENT (Principle 12)

The Risk Management Committee ("RMC"), chaired by the Chief Executive Officer and comprising members from Senior Management, assists the Audit Committee and the Board in driving risk management activities within the Company.

The reporting structure within the Company's risk management framework, which was formalised in 2003, is as follows:



## RISK PROCESSES AND ACTIVITIES

In the preceding year, the following processes and activities were carried out to enhance the Company's oversight of risk management:

- a) **Control Self Assessment ('CSA') for Process Risks**  
Line departments tested their compliance with established processes during the CSA validation exercise. The programme provides a structured framework for line management to assess themselves against key controls identified to mitigate risks within the processes. Major process risks identified in the exercise have been escalated for further review by the RMC.
- b) **Annual Risk Refresh**  
The Company carried out the Annual Risk Refresh Exercise from January to February 2006, using the standardised 5-step risk management process to identify, evaluate, prioritise, reduce and review risks at all levels of risk ownership. Risks at departmental levels were evaluated at divisional levels before being consolidated for review by the RMC.

## CORPORATE GOVERNANCE

### c) Formalisation of SIAEC's Second-Tier Risks

Further to the Company's top risks, the RMC formalised a list of second-tier risks in October 2005 to expand its oversight of risks, and progressively review the same. The Company's Risk Register is constantly updated and refined through this process.

### d) Business Continuity Plans

Changes to the operating climate are monitored closely and Business Continuity Plans ("BCPs") have been developed for identified events that may cause disruptions to operations. An example is the risk of a flu pandemic in Singapore. The BCPs outline the procedures and processes for the Business Units to resume and recover the disrupted business functions.

### e) Risk Oversight and Audit

Good risk management practices require the establishment of oversight and audit controls to ensure compliance. SIA Internal Audit carried out an independent review in March 2006 to evaluate the effectiveness of the Company's risk management processes. In addition to the Company's procedural manuals, risk mitigation plans were also tested for compliance. The auditors were satisfied that the Company's risk management processes are consistently applied at all levels.

### ENHANCEMENT OF RISK POLICIES

The Company has also introduced new risk policies and updated existing ones to ensure that the overall control environment remains relevant in the current operating environment:

#### a) Guidelines on Managing Risks of Outsourcing

The trend of increasing outsourcing of non-core activities to stay competitive has resulted in increased dependency on external parties for our success. In view of the above, guidelines on managing such risks arising from outsourcing of these activities and functions were formalised and issued in June 2005.

#### b) Fraud Management/Whistle-Blowing Procedures

In October 2005, the Company set out its policy and procedures on fraud. The procedures provide guidance on

detection, reporting and investigation for fraud within the Company. A Whistle-Blowing Committee has been set up to handle investigations.

### c) Corporate Policies on Banking and Borrowing Activities

Corporate policies in relation to banking and borrowing activities were reviewed by the SIA Group. Lenders to SIAEC are to note that all bank transactions undertaken by the Company must be properly authorised, including the opening of new bank accounts and any proposed credit facilities. The Company has its own approval limits and procedures for every banking transaction, having regard to the nature of the transaction concerned. These approval limits and procedures are updated from time to time.

### COMMENTS BY THE BOARD OF DIRECTORS

Having reviewed the risk management practices and activities of the Company, the Board of Directors believe that, in the absence of evidence to the contrary, a satisfactory system of internal controls and risk management is maintained by the Company's Management.

### INTERNAL AUDIT

#### (Principle 13)

The Company has an internal audit function, which is undertaken by the Internal Audit Department of Singapore Airlines Limited (SIA Internal Audit Department), the Company's holding company. It is designed to provide reasonable assurance about the effectiveness and efficiency of operations, reliability of financial information and compliance with the Company's policies and procedures, applicable laws and regulations. The internal auditors report directly to the Company's Audit Committee. In situations where the audit work to be carried out by SIA Internal Audit Department could give rise to potential conflicts of interest, such as audit work relating to transactions between the Company and Singapore Airlines Limited, the Audit Committee may authorise such audit work to be carried out by an independent third party as it deems appropriate. The Company's internal audit function meets the standards set by the Institute of Internal Auditors.



## MANAGEMENT COMMITTEES

The Company has Management Committees which provide an intermediate and objective avenue for reviewing the Company's policies and procedures. More importantly, these Committees enable the Management to closely monitor the entire expanse of the Company's business and operations. Each Management Committee is tasked to oversee very specific areas that affect the operations of the Company. These Committees hold meetings with varying frequency, from daily, weekly, bi-weekly to monthly.

The functions of the various Committees include reviewing operational efficiency and effectiveness; managing operational risks and maintaining internal controls; recommending and approving capital expenditures; evaluating IT system projects; ensuring occupational safety and health; reviewing staff development and progression; developing investor relations strategies; approving tender exercises and tender awards; and addressing issues relating to service standards, quality and productivity.

## COMMUNICATIONS WITH SHAREHOLDERS

(Principle 14 and 15)

The Company strives to convey to Shareholders pertinent information in a clear, detailed and timely manner and on a regular basis. The Company holds analyst briefings of its second-quarter and full-year results. These results are published through SGXNET, press releases and the Company's website. Since July 2003, the Company has been releasing quarterly reports of its corporate results.

The Company's Investor Relations Department communicates with analysts regularly and monitors the dissemination of material information to ensure that it is disclosed to the market in a timely manner and on a non-selective basis.

While Shareholders have a right to appoint proxies to attend and vote at General Meetings on their behalf, the Company's Articles of Association currently do not provide for Shareholders to vote at General Meetings in absentia, such as by mail,

e-mail or fax. The Company will consider implementing the relevant amendment to its Articles of Association if the Board is of the view that there is a demand for the same, and after the Company has evaluated and put in place the necessary measures to facilitate absentia voting and protection against errors, fraud and other irregularities.

The Chairmen of the Audit Committee, Nominating Committee and Compensation & HR Committee, and members of the respective Committees, as well as the external auditors, plan to be in attendance at the Company's General Meeting to address questions from Shareholders.

## SECURITIES TRANSACTIONS

As recommended by the SGX-ST's Best Practices Guide, the Company has a set of Policy and Guidelines for dealings in the Company's securities, which has been disseminated to employees of the Company and Directors. The Policy and Guidelines restrict certain employees from trading in the Company's securities during the period two weeks prior to the announcement of corporate results for the first three quarters of the financial year, and one month prior to the announcement of full-year results, and ending on the date of announcement of the results. These employees include all Administrative Officers and above, regardless of department or division; and certain other employees in departments which are likely to be privy to confidential price-sensitive information, including the Offices of the Chief Executive Officer and Senior Vice Presidents, Finance, Corporate, Business Development, Partnership Management, Marketing & Sales Divisions, and any other staff and/or divisions/departments to be notified from time to time. The Policy and Guidelines also remind employees and Directors to be mindful of the insider trading prohibitions under the Securities and Futures Act 2001 whenever trading in the Company's or any other corporation's securities.

## CORPORATE GOVERNANCE

Code Principal	Compliance
1. Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with the Management to achieve this and the Management remains accountable to the Board.	✓
2. There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from the Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.	✓
3. There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.	✓
4. There should be a formal and transparent process for the appointment of new Directors to the Board.	✓
5. There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board.	✓
6. In order to fulfil their responsibilities, Board Members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.	✓
7. There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.	✓
8. The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A significant proportion of executive Directors' remuneration should be linked to performance.	✓
9. Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to Directors and key executives, and performance.	✓
10. The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.	✓
11. The Board should establish an Audit Committee with written terms of reference, which clearly set out its authority and duties.	✓
12. The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.	✓
13. The company should establish an internal audit function that is independent of the activities it audits.	✓
14. Companies should engage in regular, effective and fair communication with shareholders.	✓
15. Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.	✓

## FINANCIALS





The background features a blurred image of a financial report. A magnifying glass is positioned over a table of contents. The text in the background is partially legible, including terms like 'Capital Index', 'Index 30-day moving', 'Cross', 'Group', 'Bank', 'Trade', 'Part', 'Group', and 'Turnover'. A dashed orange line with an arrow at the top points to the table of contents area.

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*Note: The comparative figures for the financial years ended 31 March 2005 and 31 March 2004 have been restated to take into account the retrospective adjustments relating to FRS 102 – Share-based Payment.*

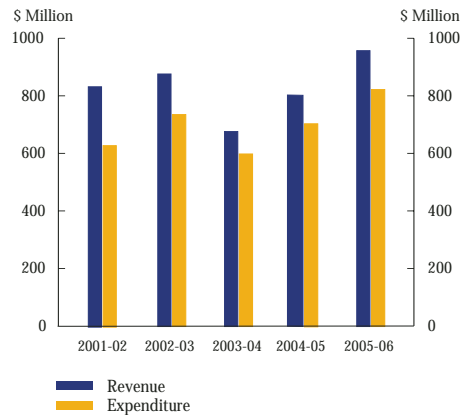
## FINANCIAL REVIEW

### EARNINGS

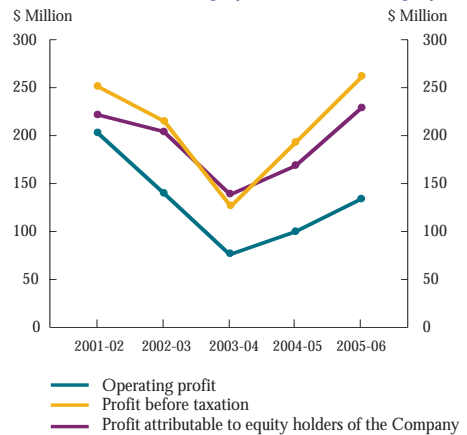
The Group achieved a profit attributable to equity holders of the Company of \$230.6 million for financial year 2005-06, an increase of \$60.2 million (+35.3%) over last year. Strong operating results and improved performance by associated and joint venture companies contributed to the higher earnings. Operating profit was \$134.7 million, up \$33.9 million (+33.6%) from last year. Profit before taxation increased by \$69.0 million (+35.5%) to \$263.3 million.

The Group's basic earnings per share rose 33.2% (+5.6 cents) to 22.5 cents.

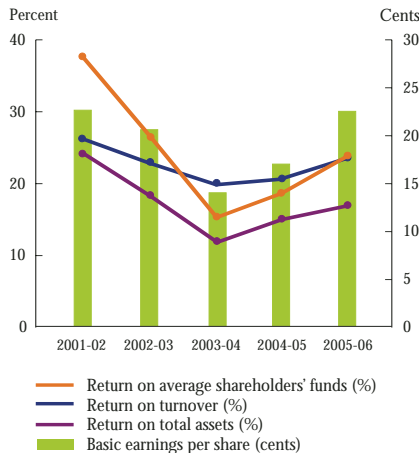
Group Revenue and Expenditure



Group Operating Profit, Profit Before Taxation and Profit Attributable to Equity Holders of the Company



Group Profitability Ratios



Profitability ratios of the Group are as follows:

	2005-06 %	2004-05 (Restated) %	Change % points
Return on turnover	24.0	21.1	+2.9
Return on average shareholders' funds	24.3	19.1	+5.2
Return on total assets	17.4	15.5	+1.9

## FINANCIAL REVIEW

### REVENUE

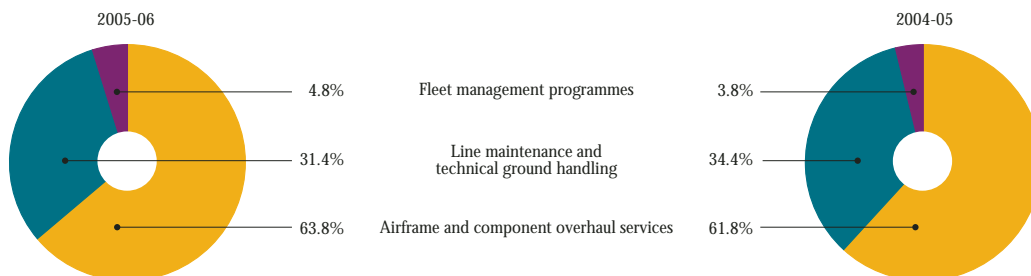
In 2005-06, the Group's revenue grew by \$151.6 million (+18.8%) to \$959.1 million, mainly due to higher workload and fleet management revenue.

The Group's revenue composition is as follows:

	2005-06 \$ million	2004-05 \$ million	Change	
			\$ million	%
Airframe and component overhaul services	612.4	499.0	+113.4	+22.7
Line maintenance and technical ground handling	300.8	277.6	+23.2	+8.4
Fleet management programmes	45.9	30.9	+15.0	+48.5
<b>Total</b>	<b>959.1</b>	<b>807.5</b>	<b>+151.6</b>	<b>+18.8</b>

Revenue from airframe and component overhaul work improved by 22.7% to \$612.4 million mainly due to additional hangar capacity with the commissioning of two new hangars in 2005. Line maintenance revenue grew by 8.4% to \$300.8 million mainly as a result of an increase in the number of flights handled at Changi Airport. Revenue contributed by fleet management work increased by 48.5% to \$45.9 million due to new contracts secured and revenue recognition of \$11.5 million on completion of contracts. Airframe and component overhaul services, line maintenance and fleet management work contributed 63.8%, 31.4% and 4.8% respectively to the Group's revenue.

### Group Revenue Composition



## FINANCIAL REVIEW

### EXPENDITURE

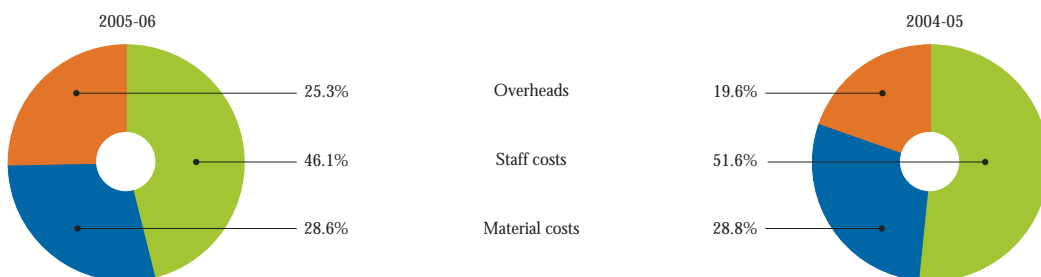
In 2005-06, the Group's expenditure was \$824.4 million, up 16.7% (+\$117.7 million) from the previous year.

The increase in the Group's expenditure came from:

	2005-06	2004-05	Change	
	\$ million	(Restated) \$ million	\$ million	%
Staff costs	380.1	364.4	+15.7	+4.3
Material costs	235.7	203.6	+32.1	+15.8
Overheads	208.6	138.7	+69.9	+50.4
Total	824.4	706.7	+117.7	+16.7

Staff costs rose by \$15.7 million (+4.3%) as a result of increased workload, a higher provision for the expensing of share options and the recruitment of staff at two new subsidiaries. Material costs increased by \$32.1 million (+15.8%) in tandem with higher revenue. Overheads increased by \$69.9 million (+50.4%) mainly due to higher subcontract costs, depreciation of fixed assets and amortisation of intangibles. In addition, there was a provision for doubtful debts of \$5.9 million and a foreign exchange loss of \$1.4 million compared to a write-back of provision for doubtful debts of \$4.5 million and an exchange gain of \$0.9 million last year.

### Group Expenditure Composition



## FINANCIAL REVIEW

### SHARE OF PROFITS OF ASSOCIATED AND JOINT VENTURE COMPANIES

Share of profits from associated and joint venture companies increased by \$30.1 million (+39.9%) to \$105.6 million. This represents 40.1% of the Group's pre-tax profits.

### TAXATION

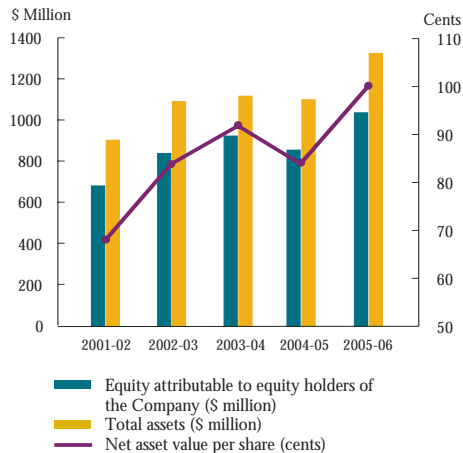
The Group's provision for taxation was \$32.9 million in 2005-06, a \$9.3 million (+39.4%) increase compared to that in 2004-05. This was mainly due to higher profitability and changes in the Company's tax incentive schemes. With effect from 1 June 2005, the defined tax base that is subject to tax at the prevailing corporate tax rate became significantly higher. Tax is paid at a concessionary tax rate of 10% on profits in excess of the tax base.

### FINANCIAL POSITION

Equity attributable to equity holders of the Company stood at \$1,038.8 million as at 31 March 2006, an increase of 21.0% (+\$180.3 million) from a year ago. Correspondingly, the net asset value per share of the Group rose by 18.7% (+15.8 cents) to 100.2 cents as at 31 March 2006.

Total assets of the Group increased by 20.6% to \$1,327.6 million at the end of the financial year under review. The net liquid assets of the Group rose to \$497.6 million as at 31 March 2006, 53.0% (+\$172.4 million) higher than as at 31 March 2005.

Equity Attributable to Equity Holders of the Company,  
Total Assets and Net Asset Value Per Share



Net Liquid Assets





## FINANCIAL REVIEW

### SHARE CAPITAL

On 30 January 2006, in accordance with the Companies (Amendment) Act 2005, the concepts of “par value” and “authorised capital” were abolished and on that date, the shares of the Company ceased to have a par value. The amounts standing in the share premium reserve became part of the Company’s share capital on that date. As a result of this and the issuance of 19,381,050 new ordinary shares pursuant to the exercise of share options under the Employee Share Option Plan during the financial year, the share capital of the Company increased from \$101,742,003 at 31 March 2005 to \$163,084,437 at 31 March 2006.

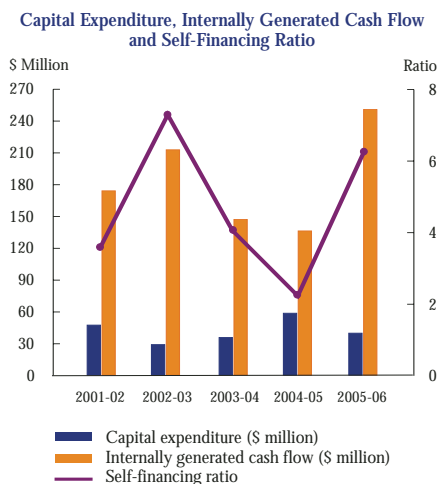
### SHARE OPTIONS

On 1 July 2005, the Company made a seventh grant of share options to employees. 16,313,700 share options were accepted by eligible employees to subscribe for ordinary shares at the price of \$2.45 per share for the exercise period from 1 July 2006 to 30 June 2015. As at 31 March 2006, options to subscribe for 60,225,575 ordinary shares remain outstanding under the Employee Share Option Plan.

### CAPITAL EXPENDITURE AND CASH FLOW

In 2005-06, capital expenditure by the Group was \$39.6 million, 32.2% (-\$18.8 million) lower than in the previous year.

Internally generated cash flow increased by 84.3% (+\$114.6 million) to \$250.6 million. The self-financing ratio of cash flow to capital expenditure rose to 6.33 times from 2.33 times last year.



## FINANCIAL REVIEW

### DIVIDENDS

A tax-exempt interim dividend of 4.0 cents per share, amounting to \$41.1 million, was paid on 25 November 2005.

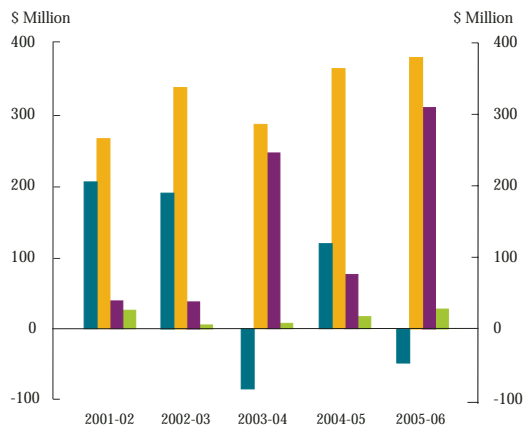
A final tax-exempt (one-tier) dividend of 26.0 cents per share, comprising an ordinary dividend of 6.0 cents per share (amounting to approximately \$62.2 million) and a special dividend of 20.0 cents per share (amounting to approximately \$207.4 million), is proposed for 2005-06. The final dividend, if approved by shareholders, will be paid on 8 August 2006.

### VALUE ADDED

Total value added for the Group in 2005-06 was \$670.8 million, up \$93.8 million (+16.3%) from financial year 2004-05. The increase was mainly attributable to higher revenue (+\$151.6 million) and higher share of profits of associated and joint venture companies (+\$31.6 million), partially offset by higher purchases of goods and services (+\$94.4 million).

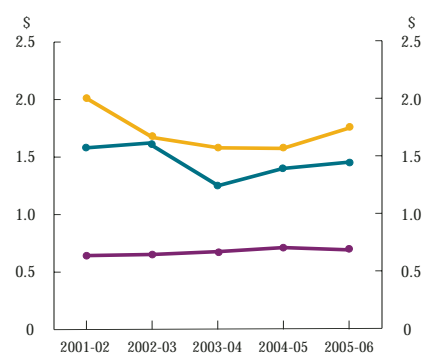
Salaries and other staff costs of \$380.1 million accounted for 56.7% of the value added. Shareholders received \$310.7 million (46.3%) in dividends and \$27.8 million (4.1%) went to corporate taxes. The remaining \$47.6 million (7.1%) was applied from the business.

Group Value Added Distribution



■ Retained in/(applied from) the business  
■ Employees  
■ Suppliers of capital  
■ Government

Group Value Added Productivity Ratios



— Value added per \$ employment cost  
— Value added per \$ investment in fixed assets  
— Value added per \$ revenue  
— Value added per \$ revenue

## FINANCIAL REVIEW

### STATEMENT OF VALUE ADDED AND ITS DISTRIBUTION (in \$ million)

	2005-06	2004-05 (Restated)	2003-04 (Restated)	2002-03	2001-02
Revenue	959.1	807.5	678.7	878.1	835.6
Less:					
Purchase of goods and services	(411.9)	(317.5)	(269.9)	(376.0)	(345.7)
Value added on operations	547.2	490.0	408.8	502.1	489.9
Add:					
Dividend income from long-term investment	11.9	4.8	0.4	0.4	-
Net interest income	9.2	3.8	3.0	3.7	5.7
Surplus on sale of fixed assets	1.9	0.4	0.8	0.5	1.8
Share of profits of associated/ joint venture companies	100.6	69.0	43.7	63.0	38.7
Exceptional item	-	9.0	(3.1)	-	-
Total value added available for distribution	670.8	577.0	453.6	569.7	536.1
Applied as follows:					
To employees					
- Salaries and other staff costs	380.1	364.4	286.7	338.4	266.1
To government					
- Corporate taxes	27.8	17.1	4.9	3.0	25.6
To suppliers of capital					
- Ordinary dividends	103.3	76.1	45.2	38.0	38.7
- Special dividends	207.4	-	200.9	-	-
- Minority interests	(0.2)	0.3	0.1	0.1	0.2
Retained for future capital requirements/ (applied from the business)					
- Depreciation	25.5	20.5	22.9	23.0	21.2
- Amortisation of intangibles	7.0	4.3	-	-	-
- Retained profit	(80.1)	94.3	(107.1)	167.2	184.3
Total value added	670.8	577.0	453.6	569.7	536.1
Value added per \$ revenue (\$)	0.70	0.71	0.67	0.65	0.64
Value added per \$ employment cost (\$)	1.76	1.58	1.58	1.68	2.01
Value added per \$ investment in fixed assets (\$)	1.45	1.40	1.30	1.61	1.58

Value added is a measure of wealth created. The statement above shows the Group's value added from 2001-02 to 2005-06 and its distribution by way of payments to employees, government, and to those who have provided capital. It also indicates the portion retained in the business for future capital requirements or applied from the business.

## FINANCIAL REVIEW

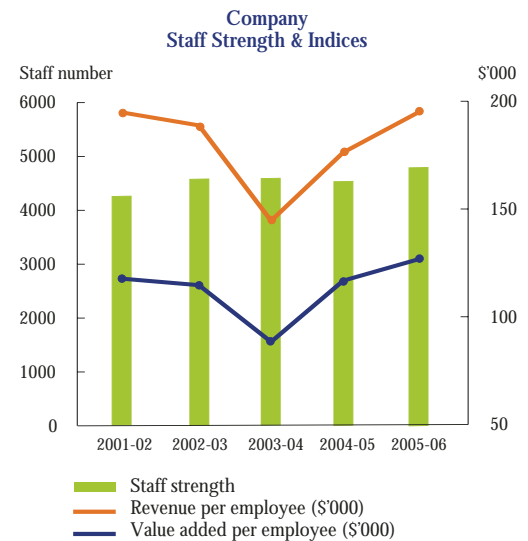
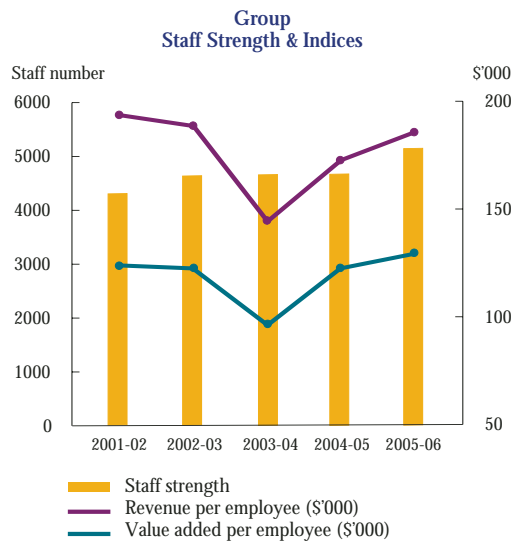
### STAFF STRENGTH AND INDICES

The Group's average staff strength in 2005-06 was 5,133, a 10.1% increase from the previous financial year.

	2005-06	2004-05 (Restated)	% change
Revenue per employee (\$)	186,857	173,173	+7.9
Value added per employee (\$)	130,690	123,751	+5.6
Staff costs per employee (\$)	74,045	78,146	-5.2
Average number of employees	5,133	4,663	+10.1

Group revenue per employee increased by \$13,684 (+7.9%) to \$186,857, and value added per employee rose by \$6,939 (+5.6%) to \$130,690.

The Company's average staff strength was 4,789 in 2005-06, a 5.8% increase from the previous financial year.



## REPORT BY THE BOARD OF DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2006.

### 1. DIRECTORS OF THE COMPANY

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

Stephen Lee Ching Yen	–	Chairman (appointed as Director on 1 December 2005)
Chew Choon Seng	–	Deputy Chairman
Bey Soo Khiang		
Koh Kheng Siong		(Independent) (appointed as Director on 1 September 2005)
N Varaprasad		(Independent)
Tan Bian Ee		(Independent)
Thio Su Mien		(Independent)
Wong Nang Jang		(Independent)
Wong Ngit Liang		(Independent)

Mr Stephen Lee Ching Yen was elected as Chairman by the Board with effect from 1 January 2006 to succeed Mr Koh Boon Hwee, who stepped down on 31 December 2005 as Chairman and Director.

### 2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of the financial year, nor at any time during that financial year, did there subsist any arrangements to which the Company is a party, whereby directors might acquire benefits by means of the acquisition of shares and share options in, or debentures of, the Company or any other body corporate, other than pursuant to the SIA Engineering Company Limited Employee Share Option Plan (see Note 5 of this report).

### 3. DIRECTORS' INTERESTS IN ORDINARY SHARES, SHARE OPTIONS AND DEBENTURES

The following directors who held office at the end of the financial year have, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50 (the "Act"), an interest in the ordinary shares and share options of the Company, and in the shares, share options, and debentures of the Company's immediate holding company and the subsidiary companies of the Company's immediate and ultimate holding company:

## REPORT BY THE BOARD OF DIRECTORS

### 3. DIRECTORS' INTERESTS IN ORDINARY SHARES, SHARE OPTIONS AND DEBENTURES (continued)

Name of Director	Direct interest			Deemed interest		
	1.4.2005/ date of appointment	31.3.2006	21.4.2006	1.4.2005/ date of appointment	31.3.2006	21.4.2006
<b>Interest in Singapore Airlines Limited</b>						
<u>Ordinary shares</u>						
Chew Choon Seng	214,000	214,000	214,000	–	–	–
Stephen Lee Ching Yen	10,000	10,000	10,000	–	–	–
N Varaprasad	2,000	2,000	2,000	–	–	–
Koh Kheng Siong	15,000	15,000	15,000	–	–	–
Bey Soo Kiang	114,000	–	–	–	–	–
<u>Options to subscribe for ordinary shares</u>						
Chew Choon Seng	834,000	1,074,000	1,074,000	–	–	–
Bey Soo Kiang	570,000	608,000	608,000	–	–	–
<b>Interest in SIA Engineering Company Limited</b>						
<u>Ordinary shares</u>						
Chew Choon Seng	20,000	20,000	20,000	–	–	–
Bey Soo Kiang	13,000	13,000	13,000	–	–	–
N Varaprasad	5,000	5,000	5,000	–	–	–
Thio Su Mien	13,000	13,000	13,000	–	–	–
Wong Nang Jang	30,000	30,000	30,000	30,000	30,000	30,000
Wong Ngit Liong	13,000	13,000	13,000	–	–	–
<b>Interest in Singapore Airport Terminal Services Limited</b>						
<u>Ordinary shares</u>						
Chew Choon Seng	10,000	10,000	10,000	–	–	–
<b>Interest in Singapore Telecommunications Limited</b>						
<u>Ordinary shares</u>						
Stephen Lee Ching Yen	190	190	190	190	190	190
Chew Choon Seng	11,040	11,040	11,040	–	–	–
Bey Soo Kiang	1,620	1,620	1,620	10,910	10,910	10,910
N Varaprasad	–	12,700	12,700	1,620	1,620	1,620
Tan Bian Ee	190	190	190	11,300	11,300	11,300
Thio Su Mien	1,730	1,730	1,730	2,360	2,360	2,360
Wong Nang Jang	1,620	1,620	1,620	1,770	1,620	1,620
Wong Ngit Liong	1,620	1,620	1,620	840	840	840
Koh Kheng Siong	11,040	11,040	11,040	3,050	3,050	3,050
<b>Interest in Singapore Food Industries Limited</b>						
<u>Ordinary shares</u>						
Wong Nang Jang	–	–	–	30,000	–	–
Wong Ngit Liong	60,000	60,000	60,000	–	–	–

## REPORT BY THE BOARD OF DIRECTORS

### 3. DIRECTORS' INTERESTS IN ORDINARY SHARES, SHARE OPTIONS AND DEBENTURES (continued)

Name of Director	Direct interest			Deemed interest		
	1.4.2005/ date of appointment	31.3.2006	21.4.2006	1.4.2005/ date of appointment	31.3.2006	21.4.2006
<b>Interest in SMRT Corporation Limited</b>						
<u>Ordinary shares</u>						
Chew Choon Seng	50,000	50,000	50,000	—	—	—
<b>Interest in ST Engineering Limited</b>						
<u>Ordinary shares</u>						
N Varaprasad	—	6,000	6,000	—	—	—
Koh Kheng Siong	34,361	34,361	34,361	—	—	—
<b>Interest in Neptune Orient Lines</b>						
<u>Ordinary shares</u>						
Stephen Lee Ching Yen	30,000	30,000	30,000	—	—	—
<b>Interest in Chartered Semiconductor Manufacturing Limited</b>						
<u>Ordinary shares</u>						
Bey Soo Khiang	—	—	—	35,000	45,000	45,000
<b>Interest in SembCorp Logistics Ltd</b>						
<u>Ordinary shares</u>						
Koh Kheng Siong	20,150	—	—	—	—	—
<b>Interest in SembCorp Industries Ltd</b>						
<u>Ordinary shares</u>						
Koh Kheng Siong	18,800	18,800	18,800	—	—	—

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

### 4. DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company 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 the director is a member, or with a company which the director has a substantial financial interest.

## REPORT BY THE BOARD OF DIRECTORS

### 5. OPTIONS ON SHARES IN THE COMPANY

The SIA Engineering Company Limited Employee Share Option Plan (the "Plan"), which comprises the Senior Executive Share Option Scheme and the Employee Share Option Scheme for senior executives and all other employees respectively, was approved by shareholders on 9 February 2000.

Under the Plan, all options to be issued will have a term no longer than 10 years from the date of grant. The exercise price of the option will be the average of the closing prices of the Company's ordinary shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") for the five market days immediately preceding the date of grant.

Under the Employee Share Option Scheme, options will vest two years after the date of grant. Under the Senior Executive Share Option Scheme, options will vest:

- (i) one year after the date of grant for 25% of the ordinary shares subject to the options;
- (ii) two years after the date of grant for an additional 25% of the ordinary shares subject to the options;
- (iii) three years after the date of grant for an additional 25% of the ordinary shares subject to the options;  
and
- (iv) four years after the date of grant for the remaining 25% of the ordinary shares subject to the options.

At the date of this report, the Compensation and HR Committee administering the Plan comprises the following directors:

N Varaprasad - Chairman  
Chew Choon Seng  
Wong Ngit Liong

No options have been granted to controlling shareholders or their associates, or parent group employees.

No employee has received 5% or more of the total number of options available under the Plan.

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

During the financial year, in consideration of the payment of \$1.00 for each offer accepted, offers of options were granted pursuant to the Plan in respect of 16,313,700 unissued shares in the Company at an exercise price of \$2.45 per share.



## REPORT BY THE BOARD OF DIRECTORS

### 5. OPTIONS ON SHARES IN THE COMPANY (continued)

At the end of the financial year, options to take up 60,225,575 unissued shares in the Company were outstanding:

Date of grant	Number of options to subscribe for unissued ordinary shares			Balance at 31.3.2006	Exercise price*	Exercisable period
	Balance at 1.4.2005/ date of grant	Cancelled	Exercised			
28.03.2000	11,585,500	(45,600)	(5,501,500)	6,038,400	\$1.85	28.03.2001 - 27.03.2010
03.07.2000	9,417,650	(22,800)	(4,386,700)	5,008,150	\$1.75	03.07.2001 - 02.07.2010
02.07.2001	4,791,000	–	(1,621,350)	3,169,650	\$1.21	02.07.2002 - 01.07.2011
01.07.2002	15,429,800	(40,900)	(4,338,925)	11,049,975	\$2.18	01.07.2003 - 30.06.2012
01.07.2003	7,290,325	(18,250)	(3,460,450)	3,811,625	\$1.55	01.07.2004 - 30.06.2013
01.07.2004	15,195,500	(166,500)	(72,125)	14,956,875	\$1.89	01.07.2005 - 30.06.2014
01.07.2005	16,313,700	(122,800)	–	16,190,900	\$2.45	01.07.2006 - 30.06.2015
	80,023,475	(416,850)	(19,381,050)	60,225,575		

\* At the extraordinary general meeting of the Company held on 26 July 2004, the Company's shareholders approved an amendment to the Plan allowing for adjustment to the exercise prices of the existing options by the Committee administering the Plan, in the event of the declaration of a special dividend. At the same meeting, the Company's shareholders approved the declaration of a special dividend. The said Committee then approved a \$0.20 reduction of the exercise prices of the outstanding share options for the first six grants. The exercise prices reflected here are the exercise prices after such adjustment.

### 6. AUDIT COMMITTEE

The Audit Committee performed the functions specified in the Act. The functions performed are detailed in the Report on Corporate Governance, which is set out in the Annual Report.

### 7. AUDITORS

The auditors, Ernst & Young, Certified Public Accountants, have expressed their willingness to accept re-appointment.

On behalf of the Board,

STEPHEN LEE CHING YEN  
Chairman

CHEW CHOON SENG  
Deputy Chairman

Dated this 4<sup>th</sup> day of May 2006

## STATEMENT BY THE DIRECTORS

Pursuant to Section 201(15) of the Singapore Companies Act, Cap. 50

We, Stephen Lee Ching Yen and Chew Choon Seng, being two of the directors of SIA Engineering Company Limited, do hereby state that, in the opinion of the directors:

- (a) the accompanying consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2006, the changes in equity of the Group and of the Company, the results of the business and the cash flows of the Group for the financial year ended on that date; 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 Board,

STEPHEN LEE CHING YEN  
Chairman

CHEW CHOON SENG  
Deputy Chairman

Dated this 4<sup>th</sup> day of May 2006

## AUDITORS' REPORT

to the Members of SIA Engineering Company Limited

We have audited the accompanying financial statements of SIA Engineering Company Limited (the "Company") and its subsidiary companies (collectively, the "Group") set out on pages 90 to 140 for the financial year ended 31 March 2006. 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore 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 Group and of the Company as at 31 March 2006, changes in equity of the Group and of the Company, the results 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 subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

**ERNST & YOUNG**  
Certified Public Accountants

Dated this 4<sup>th</sup> of May 2006  
Singapore

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the financial year ended 31 March 2006 (in thousands of \$)

	Note	The Group	
		2005-06	2004-05 (Restated*)
REVENUE	4	959,139	807,505
EXPENDITURE			
Staff costs	5	380,075	364,395
Material costs		235,685	203,636
Depreciation	16	25,461	20,502
Amortisation of intangibles	17	7,022	4,263
Company accommodation		39,337	36,418
Other operating expenses		136,880	77,460
		824,460	706,674
OPERATING PROFIT	6	134,679	100,831
Interest income	7	9,190	3,809
Interest on external borrowings		(26)	(19)
Surplus on sale of fixed assets		1,906	368
Dividends from long-term investment		11,922	4,827
Share of profits of associated companies		85,753	67,542
Share of profits of joint venture companies		19,866	7,951
PROFIT BEFORE EXCEPTIONAL ITEM		263,290	185,309
Exceptional item	8	–	9,043
PROFIT BEFORE TAXATION		263,290	194,352
TAXATION	9	(32,910)	(23,636)
PROFIT FOR THE FINANCIAL YEAR		230,380	170,716
PROFIT ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		230,557	170,455
Minority interests		(177)	261
		230,380	170,716
BASIC EARNINGS PER SHARE (CENTS)	10	22.5	16.9
DILUTED EARNINGS PER SHARE (CENTS)	10	22.1	16.7

The notes on pages 97 to 140 form an integral part of these financial statements.

\* The comparative profit and loss account for the financial year ended 31 March 2005 has been restated to take into account the retrospective adjustments relating to FRS 102 - Share-based Payment.

## BALANCE SHEETS

At 31 March 2006 (in thousands of \$)

	Note	The Group		The Company	
		2006	2005 (Restated*)	2006	2005 (Restated*)
<b>SHARE CAPITAL</b>	12	163,084	101,742	163,084	101,742
<b>RESERVES</b>					
General reserve		885,558	741,060	718,331	615,079
Foreign currency translation reserve		(21,653)	(15,482)	–	–
Share-based compensation reserve	13	11,898	5,637	11,898	5,637
Share premium		–	25,634	–	25,634
		875,803	756,849	730,229	646,350
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		1,038,887	858,591	893,313	748,092
<b>MINORITY INTERESTS</b>		14,170	2,332	–	–
<b>TOTAL EQUITY</b>		1,053,057	860,923	893,313	748,092
<b>DEFERRED TAXATION</b>	14	14,842	14,418	14,522	14,418
<b>LONG-TERM LIABILITY</b>					
Finance lease commitments – repayable after one year	15	1,952	–	–	–
		1,069,851	875,341	907,835	762,510
Represented by:					
<b>FIXED ASSETS</b>	16	230,084	221,558	218,477	217,908
<b>INTANGIBLES</b>	17	19,200	24,784	18,898	24,605
<b>SUBSIDIARY COMPANIES</b>	18	–	–	16,320	3,816
<b>ASSOCIATED COMPANIES</b>	19	299,779	277,227	168,330	166,627
<b>JOINT VENTURE COMPANIES</b>	20	69,835	55,983	56,599	56,599
<b>LONG-TERM INVESTMENTS</b>	21	14,606	14,606	14,606	14,606
<b>CURRENT ASSETS</b>					
Trade and other debtors	22	52,675	41,038	45,662	39,461
Immediate holding company	23	84,631	76,495	84,233	76,315
Related parties	24	29,775	15,660	24,542	13,760
Stocks	25	8,254	6,879	6,899	6,003
Work-in-progress		18,324	40,363	18,198	39,989
Short-term deposits	26	464,144	288,877	455,140	288,877
Cash and bank balances	27	36,450	37,036	28,320	36,270
		694,253	506,348	662,994	500,675
Less:					
<b>CURRENT LIABILITIES</b>					
Trade and other creditors	28	224,096	205,996	215,974	203,907
Bank loans	29	750	750	–	–
Finance lease commitments – repayable within one year	15	245	–	–	–
Current tax payable		32,815	18,419	32,415	18,419
		257,906	225,165	248,389	222,326
<b>NET CURRENT ASSETS</b>		436,347	281,183	414,605	278,349
		1,069,851	875,341	907,835	762,510

The notes on pages 97 to 140 form an integral part of these financial statements.

\* The comparative balance sheets for 31 March 2005 have been restated to take into account the retrospective adjustments relating to FRS 102 - Share-based Payment.

## STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 March 2006 (in thousands of \$)

	Note	Attributable to Equity Holders of the Company					Total	Minority interests	Total equity
		Share capital	Share premium	Share-based compensation reserve	Foreign currency translation reserve	General reserve			
<b>The Group</b>									
Balance at 31 March 2005, as previously reported		101,742	25,634	–	(15,482)	746,646	858,540	2,332	860,872
Effects of adopting FRS 102		–	–	5,637	–	(5,586)	51	–	51
Balance at 31 March 2005, as restated		101,742	25,634	5,637	(15,482)	741,060	858,591	2,332	860,923
Effects of adopting FRS 39		–	–	–	–	1,130	1,130	–	1,130
		101,742	25,634	5,637	(15,482)	742,190	859,721	2,332	862,053
Transfer to share capital		25,634	(25,634)	–	–	–	–	–	–
		127,376	–	5,637	(15,482)	742,190	859,721	2,332	862,053
Currency translation differences not recognised in the profit and loss account		–	–	–	(6,171)	–	(6,171)	46	(6,125)
Profit for the financial year		–	–	–	–	230,557	230,557	(177)	230,380
Net income recognised for the financial year		–	–	–	(6,171)	230,557	224,386	(131)	224,255
Capital contribution		–	–	–	–	–	–	12,013	12,013
Shared-based payment	13	–	–	7,194	–	–	7,194	–	7,194
Share options exercised	12	35,708	–	(933)	–	–	34,775	–	34,775
Dividends	11	–	–	–	–	(87,189)	(87,189)	(44)	(87,233)
Balance at 31 March 2006		163,084	–	11,898	(21,653)	885,558	1,038,887	14,170	1,053,057

The notes on pages 97 to 140 form an integral part of these financial statements.

## STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 March 2006 (in thousands of \$)

	Note	Attributable to Equity Holders of the Company						Minority interests	Total equity
		Share capital	Share premium	Share-based compensation reserve	Foreign currency translation reserve	General reserve	Total		
<b>The Group</b>									
Balance at 31 March 2004, as previously reported		100,463	6,372	–	(10,420)	829,335	925,750	2,071	927,821
Effects of adopting FRS 102		–	–	940	–	(932)	8	–	8
Balance at 31 March 2004, as restated		100,463	6,372	940	(10,420)	828,403	925,758	2,071	927,829
Currency translation differences not recognised in the profit and loss account		–	–	–	(5,062)	–	(5,062)	–	(5,062)
Profit for the financial year		–	–	–	–	170,455	170,455	261	170,716
Net income recognised for the financial year		–	–	–	(5,062)	170,455	165,393	261	165,654
Shared-based payment	13	–	–	4,697	–	–	4,697	–	4,697
Share options exercised	12	1,279	19,262	–	–	–	20,541	–	20,541
Dividends	11	–	–	–	–	(257,798)	(257,798)	–	(257,798)
Balance at 31 March 2005		101,742	25,634	5,637	(15,482)	741,060	858,591	2,332	860,923

The notes on pages 97 to 140 form an integral part of these financial statements.

## STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 March 2006 (in thousands of \$)

	Note	Share capital	Share premium	Share-based compensation reserve	General reserve	Total
<b>The Company</b>						
Balance at 31 March 2005, as previously reported		101,742	25,634	–	620,665	748,041
Effects of adopting FRS 102		–	–	5,637	(5,586)	51
Balance at 31 March 2005, as restated		101,742	25,634	5,637	615,079	748,092
Effects of adopting FRS 39		–	–	–	1,130	1,130
		101,742	25,634	5,637	616,209	749,222
Transfer to share capital		25,634	(25,634)	–	–	–
		127,376	–	5,637	616,209	749,222
Profit for the financial year		–	–	–	189,311	189,311
Net income recognised for the financial year		–	–	–	189,311	189,311
Shared-based payment	13	–	–	7,194	–	7,194
Share options exercised	12	35,708	–	(933)	–	34,775
Dividends	11	–	–	–	(87,189)	(87,189)
Balance at 31 March 2006		163,084	–	11,898	718,331	893,313

The notes on pages 97 to 140 form an integral part of these financial statements.



## STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 March 2006 (in thousands of \$)

	Note	Share capital	Share premium	Share-based compensation reserve	Foreign currency translation reserve	General reserve	Total
<b>The Company</b>							
Balance at 31 March 2004, as previously reported		100,463	6,372	–	69	742,062	848,966
Effects of adopting FRS 102		–	–	940	–	(932)	8
Balance at 31 March 2004, as restated		100,463	6,372	940	69	741,130	848,974
Currency translation differences not recognised in the profit and loss account		–	–	–	(69)	–	(69)
Profit for the financial year		–	–	–	–	131,747	131,747
Net income recognised for the financial year		–	–	–	(69)	131,747	131,678
Shared-based payment	13	–	–	4,697	–	–	4,697
Share options exercised	12	1,279	19,262	–	–	–	20,541
Dividends	11	–	–	–	–	(257,798)	(257,798)
Balance at 31 March 2005		101,742	25,634	5,637	–	615,079	748,092

The notes on pages 97 to 140 form an integral part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 31 March 2006 (in thousands of \$)

	Note	The Group	
		2005-06	2004-05 (Restated*)
NET CASH PROVIDED BY OPERATING ACTIVITIES	30	180,389	100,794
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Capital expenditure		(39,604)	(58,357)
Proceeds from disposal of fixed assets		5,835	143
Investments in associated companies		(1,703)	(767)
Proceeds from sale of long-term investment		–	12,471
Repayment of loans by investee companies		–	2,283
Repayment of loan		–	(200)
Dividend received from long-term investment		11,922	4,827
Dividends received from associated companies		52,112	25,951
Dividends received from joint venture companies		7,049	4,000
NET CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		35,611	(9,649)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from exercise of share options		34,775	20,541
Proceeds from issuance of share capital by subsidiaries to minority equity holders		12,013	–
Dividends paid		(87,233)	(257,798)
NET CASH USED IN FINANCING ACTIVITIES		(40,445)	(237,257)
NET CASH INFLOW / (OUTFLOW)		175,555	(146,112)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>		325,913	472,367
Effect of exchange rate changes		(874)	(342)
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>		500,594	325,913
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>			
Short-term deposits	26	464,144	288,877
Cash and bank balances	27	36,450	37,036
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>		500,594	325,913

The notes on pages 97 to 140 form an integral part of these financial statements.

\* The comparative cash flow statement for the financial year ended 31 March 2005 has been restated to take into account the retrospective adjustments relating to FRS 102 - Share-based Payment.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 1. GENERAL

SIA Engineering Company Limited (the "Company") is a limited liability company incorporated in the Republic of Singapore, which is also the place of domicile. The Company is a subsidiary company of Singapore Airlines Limited and its ultimate holding company is Temasek Holdings (Private) Limited, both incorporated in the Republic of Singapore.

The registered office of the Company is located at SIA Engineering Company Hangar, 31 Airline Road, Singapore 819831.

The principal activities of the Company are the airframe and component overhaul services, the provision of line maintenance and technical ground handling services, and investment holdings. The principal activities of the subsidiary companies include the manufacturing of aircraft cabin equipment, refurbishment of aircraft galleys, the provision of technical and non-technical handling services, repair and overhaul of hydro-mechanical aircraft equipment and investment holdings. There have been no significant changes in the nature of these activities during the financial year.

The financial statements for the financial year ended 31 March 2006 were authorised for issue in accordance with a resolution of the directors on 4 May 2006.

### 2. ACCOUNTING POLICIES

The main accounting policies of the Group, which have been consistently applied except where indicated otherwise, are described in the following paragraphs:

#### (a) Basis of accounting

The financial statements of the Group and of the Company, which are expressed in Singapore dollars (\$), are prepared under the historical cost convention except as disclosed in the accounting policies below, and in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Singapore Companies Act, Cap. 50.

#### (b) Changes in accounting policies

On 1 April 2005, the Group and the Company adopted all new or revised FRS that are applicable in the current financial year. The 2004-05 financial statements have been amended as required, in accordance with the relevant transitional provisions in the respective FRS. Those FRS with significant financial impact are disclosed in Note 3.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (c) Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Depreciation of plant, equipment and tooling, and aircraft rotatable spares

The cost of plant, equipment and tooling, and aircraft rotatable spares are depreciated on a straight-line basis over the expected useful lives. Management estimates the useful lives of these assets to be within 3 to 15 years. These are common life expectancies in the aircraft maintenance, repair and overhaul industry. The carrying amount of the Group's plant, equipment and tooling, and aircraft rotatable spares as at 31 March 2006 was \$77,020,000 (2005: \$67,469,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore future depreciation charges could be revised.

#### Income taxes

The group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### Work-in-progress

Work-in-progress was stated at cost plus estimated profit earned, based on the estimated percentage of completion and total estimated budgeted costs. Management made reference to labour hours incurred and the physical stage of maintenance, repair and overhaul in estimating the percentage of completion and budgeted cost.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (d) Consolidation

The consolidated financial statements comprise the financial statements of the Company and all its subsidiary companies as at the balance sheet date. Consistent accounting policies are applied for like transactions and events in similar circumstances. A list of the Group's subsidiary companies is shown in Note 18.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated profit and loss account.

#### (e) Subsidiary, associated and joint venture companies

In the Company's financial statements, investment in subsidiary, associated and joint venture companies are stated at cost less impairment losses.

A subsidiary company is defined as a company in which the Group, directly or indirectly controls more than half of the voting power, or controls the composition of the board of directors.

An associated company is defined as a company, not being a subsidiary company or joint venture company, in which the Group has a long-term interest of not less than 20% and not more than 50% of the voting power and in whose financial and operating policy decisions the Group exercises significant influence.

The Group's share of the consolidated results of associated companies is included in the consolidated profit and loss account. The Group's share of the post-acquisition reserves is added to the value of investments in associated companies shown on the consolidated balance sheet. A list of the Group's associated companies is shown in Note 19.

A joint venture company is defined as a company, not being a subsidiary company, in which the Group has a long-term interest of not more than 50% in the equity and has joint control of the company's commercial and financial affairs.

The Group's share of the consolidated results of the joint venture companies are included in the consolidated financial statements under the equity method on the same basis as associated companies. A list of the Group's joint venture companies is shown in Note 20.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (e) Subsidiary, associated and joint venture companies (continued)

The most recent available audited financial statements of the associated and joint venture companies are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not co-terminous with those of the Group, the share of results is arrived at from the last audited financial statements available and unaudited management financial statements to the end of the accounting period.

#### (f) Intangible assets

##### (i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Goodwill arising from business combinations prior to 1 April 2001 has been written-off against Group reserves in the financial year in which it arose. When determining goodwill, assets and liabilities of the acquired interest are translated using the exchange rate at the date of acquisition if the financial statements of the acquired interest are not denominated in Singapore dollars.

##### (ii) Computer software

Computer software are stated at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised using the straight-line method over their estimated useful lives of 3 to 5 years.

#### (g) Functional and foreign currencies

The management has determined the currency of the primary economic environment in which the company operates i.e. functional currency, to be Singapore dollar. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in Singapore dollar.

Foreign currency transactions are converted into Singapore dollars at exchange rates which approximate bank rates prevailing at dates of transactions.

All foreign currency monetary assets and liabilities are translated into Singapore dollars using year-end exchange rates. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined.

Gains and losses arising from translation of current assets and liabilities are dealt with in the profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (g) Functional and foreign currencies (continued)

For the purposes of the Group financial statements, the net assets of the foreign subsidiary, associated and joint venture companies are translated into Singapore dollars at the exchange rates ruling at the balance sheet date. The financial results of foreign subsidiary, associated and joint venture companies are translated monthly into Singapore dollars at exchange rates which approximate the exchange rates at the date of the transactions. The resulting gains or losses on exchange are taken to foreign currency translation reserve.

Goodwill and fair value adjustments arising from the acquisition of foreign operations on or after 1 April 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations, and translated at the closing rate at the balance sheet date.

Goodwill and fair value adjustments which arose on acquisitions of foreign subsidiaries before 1 April 2005 are deemed to be assets and liabilities of the parent company and are recorded in Singapore dollars at the rates prevailing at the dates of acquisition.

#### (h) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions, improvements and renewal is capitalised and expenditure for maintenance and repairs is charged to the profit and loss account. When assets are sold or retired, their costs and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

#### (i) Depreciation of fixed assets

Fixed assets are depreciated on a straight-line basis at rates which are calculated to write-down their costs to their estimated residual values at the end of their operational lives. Operational lives and residual values are reviewed annually in the light of experience and changing circumstances.

Fully depreciated assets are retained in the financial statements until they are no longer in use. No depreciation is charged after assets are depreciated to their residual values.

#### Leasehold land and buildings

Leasehold land and buildings are amortised over the lease period or 30 years, whichever is the shorter.

#### Plant, equipment and tooling

These are depreciated over 3 to 7 years, with the exception of the test cell, which is depreciated over 15 years.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (i) Depreciation of fixed assets (continued)

##### Aircraft rotatable spares

These are depreciated over 3 to 10 years.

##### Other fixed assets

This covers office furniture and equipment, and motor vehicles. These are depreciated over 1 to 7 years.

#### (j) Leased assets

##### Finance lease – as lessee

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalised at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased fixed assets and the corresponding lease commitments are included under liabilities. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against the profit and loss accounts. Depreciation on the relevant assets is charged to the profit and loss accounts.

##### Operating lease – as lessee

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss accounts on a straight-line basis over the lease term.

#### (k) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

#### (l) Work-in-progress

Work-in-progress is stated at cost plus a proportion of estimated profit earned to-date, based on the percentage of completion of the projects. Cost comprises direct materials, direct labour and other direct overheads. Anticipated losses, if any, are provided for in full as and when they are determined.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (m) Financial assets

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale assets, as appropriate. Financial assets are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, and in the case of financial assets not at fair value through profit or loss at directly attributable transaction costs. The Group determines the classifications of its financial assets after initial recognition, and where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

#### Financial assets at fair value through profit or loss

There are two sub-categories: financial assets held for trading, and those designated as fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified under this category unless they are designated as hedging derivatives. Gains or losses on financial instruments held at fair value through profit and loss are recognised in the profit and loss account.

Assets in this category are classified as current assets.

#### Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss accounts when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Receivables are included in trade debtors on the balance sheet. The accounting policy for trade debtors is stated in Note (o).

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. For investments carried at amortised cost, gains and losses are recognised in the profit and loss accounts when the investments are derecognised or impaired, as well as through the amortisation process.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (m) Financial assets (continued)

##### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives financial assets that are either designated in this category, or not classified in any other categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in the fair value reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss accounts.

The fair value of quoted investments is generally determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions or reference to the current market value of another instrument (which is substantially the same). For investments where there is no active market and where fair value cannot be reliably measured, they are measured at cost.

#### (n) Derecognition of financial assets and liabilities

##### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- i) The contractual rights to receive cash flows from the asset have expired;
- ii) The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- iii) The Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the assets, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (n) Derecognition of financial assets and liabilities (continued)

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that has been recognised directly in equity is recognised in the profit and loss accounts.

Gains and losses arising from derivative financial instruments on foreign currencies are recognised at dates of maturity.

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss accounts.

#### (o) Trade debtors

Trade debtors, including amounts owing by subsidiary, associated and joint venture companies are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note (m).

Further details on the accounting policy for impairment of financial assets are stated in Note (z) below.

#### (p) Cash and bank balances

Cash and bank balances are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Cash on hand, demand deposits and short-term deposits are classified and accounted for as loans and receivables under FRS 39.

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash on hand and deposits with immediate holding company and banks.

#### (q) Deferred taxation

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (q) Deferred taxation (continued)

Additionally the Group's deferred tax liabilities include all taxable temporary differences associated with investments in subsidiary, associated and joint venture companies, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and, carry forward of unused tax assets and losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and, carry forward of unused tax assets and losses, can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged in the same or a different period, directly to equity.

#### (r) Loans and borrowings

Loans and other borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

#### (s) Employee benefits

##### Equity compensation plan

The Company has in place the SIA Engineering Company Limited Employee Share Option Plan for granting of share options to senior executives and all other employees. The exercise price approximates the market value of the shares at the date of grant. Details of the plans are disclosed in Note 12.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (s) Employee benefits (continued)

##### Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The Group has adopted the transitional provisions of FRS 102 in respect of equity-settled awards and has applied FRS 102 only to equity-settled awards granted after 22 November 2002 that had not vested on or before 1 January 2005.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not recognised for the award is recognised immediately.

##### **Defined contribution plan**

As required by law, the companies in Singapore make contributions to the state pension scheme, the Central Provident Fund ("CPF"). Such contributions are recognised as compensation expenses in the same period as the employment that gave rise to the contributions.

#### (t) Trade creditors

Trade creditors and amounts owing to subsidiary, associated and joint venture companies are carried at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss accounts when the liabilities are derecognised as well as through the amortisation process.

#### (u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss account net of any reimbursement.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (u) Provisions (continued)

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provision for warranty claims is made for airframe and component overhaul services based on past experience of the level of repairs.

#### (v) Revenue

Revenue from airframe and component overhaul is recognised based on the percentage of completion of the projects. The percentage of completion of the projects is determined based on the number of man-hours incurred to-date against the estimated man-hours needed to complete the projects.

Revenue from line maintenance and technical ground handling is recognised upon rendering of services.

Revenue from Fleet Management Programmes is recognised on a time proportion basis and in accordance with the period in which services have been rendered.

#### (w) Income from investments

Dividend income from investments is recognised when the Group's right to receive the payment is established.

Interest income from investments and fixed deposits is recorded using the effective interest rate method and recognised on an accrual basis.

#### (x) Training and development costs

Training and development costs, including start-up program costs, are charged to the profit and loss accounts in the financial year in which they are incurred.

#### (y) Borrowing costs

Borrowing costs are recognised as expenses in the financial period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (z) Impairment of non-financial and financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is charged to the profit and loss accounts unless it reverses a previous revaluation credited to equity, in which case it is charged to equity. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

The Group also assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

#### Assets carried at amortised costs

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an amortisation account. The amount of the loss shall be recognised in the profit and loss accounts.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment is reversed. Any subsequent reversals of an impairment loss is recognised in the profit and loss accounts, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### Assets carried at costs

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated realisable amount. Such impairment losses are not reversed in subsequent periods.

#### Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit and loss, is transferred from equity to the profit and loss accounts. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the profit and loss account. Reversals of impairment losses on debt instruments are reversed through the profit and loss accounts, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss accounts.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 2. ACCOUNTING POLICIES (continued)

#### (aa) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the profit and loss accounts.

The fair value of forward currency contracts is determined by reference to current forward prices for contracts with similar maturity profiles.

#### (ab) Segmental reporting

The Company and its subsidiary companies operate in Singapore and Philippines in one business segment, that of maintenance, repair and overhaul of aircraft and aircraft engines.

### 3. SIGNIFICANT FINANCIAL IMPACT OF NEW AND REVISED FINANCIAL REPORTING STANDARDS

#### (a) FRS 39: Financial Instruments: Recognition and Measurement

FRS 39 sets out the new requirement for the recognition, derecognition and measurement of the Group's financial instruments and hedge accounting. The adoption of FRS 39 has resulted in the Group recognising available-for-sale investments at cost, loans and receivables and financial liabilities at amortised cost, which in the case of the Group, based on the nature of the underlying financial instruments, equate materially to cost.

In accordance with the transitional provisions of FRS 39, the comparative financial statements for 2004-05 are not restated. Instead, the changes have been accounted for by restating the following opening balances in the balance sheet as at 1 April 2005:

	<u>Increased by</u> <u>\$ million</u>
General reserve	1.1
Deferred tax	0.3
Trade debtors	1.4



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 3. SIGNIFICANT FINANCIAL IMPACT OF NEW AND REVISED FINANCIAL REPORTING STANDARDS (continued)

#### (b) FRS 102: Share-based Payments

FRS 102 requires the Group to recognise an expense in the profit and loss account with a corresponding increase in equity for share options granted after 22 November 2002 and not vested by 1 April 2005. The total amount to be recognised as an expense in the profit and loss account is determined by reference to the fair value of the share options at the date of the grant and the number of share options to be vested by vesting date. At every balance sheet date, the Group revises its estimates of the number of share options that are expected to vest by the vesting date. Any revision of this estimate is included in the profit and loss account and a corresponding adjustment to equity over the remaining vesting period.

The application of FRS 102 is retrospective and accordingly, the comparative financial statements are restated and the financial impact on the Group is as follows:

	<u>Increased/ (decreased) by \$ million</u>
Profit for the financial year 2004-05	(4.7)
Profit for the financial year 2005-06	(7.2)
General reserve as at 31 March 2004	(0.9)
General reserve as at 31 March 2005	(5.6)
Share-based compensation reserve as at 31 March 2004	0.9
Share-based compensation reserve as at 31 March 2005	5.6
	<u>Decreased by Cents</u>
Basic earnings per share for the financial year 2004-05	(0.46)
Basic earnings per share for the financial year 2005-06	(0.70)
Diluted earnings per share for the financial year 2004-05	(0.43)
Diluted earnings per share for the financial year 2005-06	(0.65)

#### (c) FRS 103: Business Combinations; FRS 36: Impairment of Assets; and FRS 38: Intangible Assets

The new accounting standard FRS 103: Business Combinations has resulted in consequential amendments to two other accounting standards, FRS 36: Impairment of Assets and FRS 38: Intangible Assets.

Under FRS 103, goodwill acquired in a business combination is no longer subject to amortisation to the profit and loss account. Instead, it is subject to impairment review annually or whenever there is an indication that the goodwill is impaired as required by the revised FRS 36. Any impairment loss is charged to the profit and loss account and subsequent reversal is not allowed.

The Group adopted FRS 103 with effect from 1 April 2005.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 3. SIGNIFICANT FINANCIAL IMPACT OF NEW AND REVISED FINANCIAL REPORTING STANDARDS (continued)

#### (c) FRS 103: Business Combinations; FRS 36: Impairment of Assets; and FRS 38: Intangible Assets (continued)

Under FRS 21, goodwill and intangible assets that arose on the acquisition of foreign entities are to be translated at the exchange rates ruling at the balance sheet date. The difference due to exchange rates will be reflected as currency realignment in the balance sheet.

Previously, goodwill was amortised using the straight-line method over a period not exceeding twenty years. No goodwill amortisation was recorded for the financial year FY2005-06 (FY2004-05: \$0.4 million).

#### (d) FRS and INT FRS not yet effective

The Group has not applied the following FRS and INT FRS that have been issued but are only effective for annual financial periods beginning on or after 1 April 2006.

##### INT FRS 104, Determining whether an arrangement contains a lease

This interpretation requires the determination of whether an arrangement is, or contains a lease, to be based on the substance of the arrangement and requires an assessment of whether the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Group expects that the adoption of the pronouncement above will have no impact on the financial statements in the period of initial application.

### 4. REVENUE (in thousands of \$)

	The Group	
	2005-06	2004-05
Airframe and component overhaul services	612,366	499,021
Line maintenance and technical ground handling	300,841	277,554
Fleet management programmes	45,932	30,930
	959,139	807,505

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 5. STAFF COSTS (in thousands of \$)

	The Group	
	2005-06	2004-05 (Restated)
Salary, bonuses and other costs	347,616	334,633
CPF and other defined contributions	25,301	25,108
Share-based compensation expense *	7,158	4,654
	380,075	364,395

\* Disclosures relating to share-based compensation expense are in Note 12.

### 6. OPERATING PROFIT (in thousands of \$)

Operating profit for the financial year is arrived at after charging / (crediting):

	The Group	
	2005-06	2004-05
Exchange losses/(gains), net	1,361	(930)
Operating lease expenses	143	113
Provision for obsolete stocks, net	472	2,305
Provision for warranty claims, net	535	919
Remuneration for auditors of the Company		
- Audit fees	179	172
- Non-audit fees	87	180

### 7. INTEREST INCOME (in thousands of \$)

	The Group	
	2005-06	2004-05
Deposits placed with immediate holding company	7,561	2,887
Deposits placed with banks	1,473	738
Loans to long-term investee companies	-	8
Staff loans	156	176
	9,190	3,809

### 8. EXCEPTIONAL ITEM

In the previous financial year, the Company disposed of its 5% equity stake in Taikoo (Xiamen) Aircraft Engineering Company Limited, for a total consideration of US\$7.4 million (S\$12.7 million), to Hong Kong Aircraft Engineering Company Limited. The net gain arising from the disposal amounted to \$9.0 million, after providing for incidental expenses that may arise from the disposal.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 9. TAXATION (in thousands of \$)

	The Group	
	2005-06	2004-05 (Restated)
<u>Current taxation</u>		
Provision for the financial year	(27,259)	(14,099)
Under provision in respect of prior years	(211)	(253)
Share of associated companies' taxation	(6,972)	(6,460)
Share of joint venture companies' taxation	1,956	(3)
	(32,486)	(20,815)
<u>Deferred taxation</u>		
Provision for the financial year	(424)	(2,821)
	(32,910)	(23,636)

On 3 December 2003, the Company was granted a 10-year Development and Expansion Incentive (Relief from Income Tax), subject to the Company's compliance with the conditions imposed by the laws, whereby a concessionary tax rate of 10% shall be imposed on qualifying income in excess of a certain 'base' level of taxable income. The base, as well as any income from non-qualifying activities, shall be taxed at the prevailing corporate tax rate. This incentive has commenced on 1 June 2004, after the expiry of its expansion incentive under the Economic Expansion Incentive (Relief from Income Tax) on 31 May 2004. The tax base was significantly higher from 1 June 2005.

A reconciliation between taxation expense and the product of accounting profit multiplied by the applicable tax rate for the financial years ended 31 March is as follows:

	The Group	
	2005-06	2004-05 (Restated)
Profit before taxation	263,290	194,352
Taxation at statutory tax rate of 20.0% (2005: 20%)	(52,658)	(38,870)
<u>Adjustments</u>		
Income not subject to tax	18,492	14,083
Income subject to a lower tax rate	3,682	4,009
Expenses not deductible for tax purposes	(2,260)	(2,497)
Lower effective tax rates of other countries	-	(9)
Under provision in relation to prior years	(211)	(253)
Others	45	(99)
	(32,910)	(23,636)

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 10. EARNINGS PER SHARE

	The Group	
	2005-06	2004-05 (Restated)
Profit attributable to equity holders (in thousands of \$)	230,557	170,455
Weighted average number of ordinary shares in issue used for computing basic earnings per share	1,026,861,000	1,011,233,825
Adjustment for share options	14,709,723	8,011,723
Weighted average number of ordinary shares in issue used for computing diluted earnings per share	1,041,570,723	1,019,245,548
Basic earnings per share (cents)	22.5	16.9
Diluted earnings per share (cents)	22.1	16.7

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the financial year.

For purposes of calculating diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to take into account the effects of dilutive options.

16,190,900 (2005: 26,006,850) of share options granted to employees under the existing employee share option plans have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the current and previous financial period presented.

### 11. DIVIDENDS PAID AND PROPOSED (in thousands of \$)

	The Group and Company	
	2005-06	2004-05
Dividends Paid:		
Final dividend of 4.5 cents per share tax exempt in respect of previous financial year (2004-05: 22.5 cents per share tax exempt, comprising an ordinary dividend of 2.5 cents per share and a special dividend of 20.0 cents per share)	46,098	227,439
Interim dividend of 4.0 cents per share tax exempt in respect of current financial year (2004-05: 3.0 cents per share tax exempt)	41,091	30,359
	87,189	257,798

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 11. DIVIDENDS PAID AND PROPOSED (in thousands of \$) (continued)

The directors propose a final tax-exempt (one-tier) dividend of 26.0 cents per share, comprising an ordinary dividend of 6.0 cents per share and a special dividend of 20.0 cents per share (2005: 4.5 cents per share), amounting to approximately \$62,208,000 and \$207,360,000 respectively (2005: approximately \$46,098,000) to be paid for the financial year ended 31 March 2006.

### 12. SHARE CAPITAL (in thousands of \$)

	<u>The Group and Company</u>	
	31 March	
	2006	2005
<b>Issued and fully paid</b>		
Balance at 1 April 1,017,420,025 shares (2005: 1,004,631,900 shares)	101,742	100,463
Transfer of share premium reserve to share capital	25,634	–
19,381,050 share options exercised during the year (2004-05: 12,788,125)	35,708	1,279
Balance at 31 March 1,036,801,075 shares (2005: 1,017,420,025 shares)	<u>163,084</u>	<u>101,742</u>

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

On 30 January 2006, in accordance with the Companies (Amendment) Act 2005, the concepts of “par value” and “authorised capital” were abolished and on that date, the shares of the Company ceased to have a par value. In addition, the amounts standing in the share premium reserve had become part of the Company’s share capital.

During the financial year, the Company issued 19,381,050 shares (2005: 12,788,125) upon exercise of options granted under the Employee Share Option Plan.

#### Share Option Plan

The SIA Engineering Company Limited Employee Share Option Plan (“ESOP”), which comprises the Senior Executive Share Option Scheme and the Employee Share Option Scheme for senior executives and all other employees respectively, was approved by shareholders on 9 February 2000.

Under the Plan, all options to be issued will have a term no longer than 10 years from the date of grant. The exercise price of the option will be the average of the closing prices of the Company’s ordinary shares on the SGX-ST for the five market days immediately preceding the date of grant.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 12. SHARE CAPITAL (in thousands of \$) (continued)

Under the Employee Share Option Scheme, options will vest two years after the date of grant. Under the Senior Executive Share Option Scheme, options will vest:

- (a) one year after the date of grant for 25% of the ordinary shares subject to the options;
- (b) two years after the date of grant for an additional 25% of the ordinary shares subject to the options;
- (c) three years after the date of grant for an additional 25% of the ordinary shares subject to the options; and
- (d) four years after the date of grant for the remaining 25% of the ordinary shares subject to the options.

There are no cash settlement alternatives.

Information with respect to the number of options granted under the Plan is as follows:

	2005-06	2004-05
Outstanding at 1 April	63,709,775	62,637,100
Granted	16,313,700	15,310,700
Exercised	(19,381,050)	(12,788,125)
Cancelled	(416,850)	(1,449,900)
Outstanding at 31 March	60,225,575	63,709,775
Exercisable at 31 March	28,144,350	39,073,525

#### Fair values of ESOP

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted each year under the ESOP. The estimate of the fair value of the services received is measured based on a binomial model, taking into account the terms and conditions upon which the ESOP options were granted. The following table lists the inputs to the model used for the July 2004 and July 2005 grants:

	<u>July 2005 Grant</u>	<u>July 2004 Grant</u>
Expected dividend yield (%)	Management's forecast in line with dividend policy	
Expected volatility (%)	25.90	27.92
Risk-free interest rate (%)	2.29 - 2.44	2.63 - 3.08
Expected life of options (years)	5.5 - 7.0	5.5 - 7.0
Exercise price (\$)	2.45	1.89*
Share price at date of grant (\$)	2.41	1.89*

\* At the extraordinary general meeting of the Company held on 26 July 2004, the Company's shareholders approved an amendment to the Plan allowing for adjustment to the exercise prices of existing options by the Committee administering the Plan, in the event of the declaration of a special dividend. At the same meeting, the Company's shareholders approved the declaration of a special dividend. The said Committee then approved a \$0.20 reduction of the exercise prices of the outstanding share options. The exercise prices reflected here are the exercise prices after such adjustment.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 12. SHARE CAPITAL (in thousands of \$) (continued)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options were incorporated into the measurement of fair value.

Proceeds received from share options exercised during the financial year were:

(in thousands of \$)	2005-06	2004-05
Aggregate proceeds from shares issued	34,775	20,541

Details of share options granted during the financial year:

	2005-06	2004-05
Expiry date	30.06.2015	30.06.2014
Exercise price	\$2.45	\$1.89

Terms of share options outstanding as at 31 March 2006:

Exercisable period	Exercise price (\$)	Number outstanding	Number exercisable
28.03.2001 - 27.03.2010	1.85	199,425	199,425
28.03.2002 - 27.03.2010	1.85	5,400,125	5,400,125
28.03.2003 - 27.03.2010	1.85	219,175	219,175
28.03.2004 - 27.03.2010	1.85	219,675	219,675
03.07.2001 - 02.07.2010	1.75	323,111	323,111
03.07.2002 - 02.07.2010	1.75	4,038,813	4,038,813
03.07.2003 - 02.07.2010	1.75	323,111	323,111
03.07.2004 - 02.07.2010	1.75	323,115	323,115
02.07.2002 - 01.07.2011	1.21	378,300	378,300
02.07.2003 - 01.07.2011	1.21	1,798,150	1,798,150
02.07.2004 - 01.07.2011	1.21	445,400	445,400
02.07.2005 - 01.07.2011	1.21	547,800	547,800
01.07.2003 - 30.06.2012	2.18	780,550	780,550
01.07.2004 - 30.06.2012	2.18	8,622,550	8,622,550
01.07.2005 - 30.06.2012	2.18	810,675	810,675
01.07.2006 - 30.06.2012	2.18	836,200	-
01.07.2004 - 30.06.2013	1.55	268,200	268,200
01.07.2005 - 30.06.2013	1.55	2,898,175	2,898,175
01.07.2006 - 30.06.2013	1.55	322,625	-
01.07.2007 - 30.06.2013	1.55	322,625	-



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 12. SHARE CAPITAL (in thousands of \$) (continued)

Exercisable period	Exercise price (\$)	Number outstanding	Number exercisable
01.07.2005 - 30.06.2014	1.89	548,000	548,000
01.07.2006 - 30.06.2014	1.89	13,175,625	–
01.07.2007 - 30.06.2014	1.89	616,625	–
01.07.2008 - 30.06.2014	1.89	616,625	–
01.07.2006 - 30.06.2015	2.45	677,125	–
01.07.2007 - 30.06.2015	2.45	14,159,525	–
01.07.2008 - 30.06.2015	2.45	677,125	–
01.07.2009 - 30.06.2015	2.45	677,125	–
Total number of options outstanding/exercisable		60,225,575 @	28,144,350

@ The total number of options outstanding includes 4,018,475 share options not exercised by employees who have retired or ceased to be employed by the Company or any of the subsidiary companies by reason of (i) ill health, injury or disability or death; (ii) redundancy; or (iii) any other reason approved in writing by the Committee. The said options are exercisable up to the expiration of the applicable exercise period or the period of 5 years from the date of retirement or cessation of employment, whichever is earlier.

Details of share options exercised:

	No. of shares	Exercise price *	Share price
<b>2005-06</b>			
April to June	4,073,600	\$1.21 - \$2.18	\$2.24 - \$2.51
July to September	4,923,175	\$1.21 - \$2.18	\$2.30 - \$2.54
October to December	2,193,125	\$1.21 - \$2.18	\$2.36 - \$2.60
January to March	8,191,150	\$1.21 - \$2.18	\$2.49 - \$3.30
	<u>19,381,050</u>		
<b>2004-05</b>			
April to June	3,155,000	\$1.21 - \$1.85	\$1.85 - \$2.02
July to September	3,592,700	\$1.21 - \$1.85	\$1.94 - \$2.27
October to December	912,200	\$1.21 - \$2.18	\$2.02 - \$2.12
January to March	5,128,225	\$1.21 - \$2.18	\$2.07 - \$2.37
	<u>12,788,125</u>		

\* At the extraordinary general meeting of the Company held on 26 July 2004, the Company's shareholders approved an amendment to the Plan allowing for adjustment to the exercise prices of existing options by the Committee administering the Plan, in the event of the declaration of a special dividend. At the same meeting, the Company's shareholders approved the declaration of a special dividend. The said Committee then approved a \$0.20 reduction of the exercise prices of the outstanding share options. The exercise prices reflected here are the exercise prices after such adjustment.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 12. SHARE CAPITAL (in thousands of \$) (continued)

The range of exercise prices for options outstanding at the end of the year was \$1.21 - \$2.45 (2004-05: \$1.21 - \$2.18). The weighted average remaining contractual life for these options is 7.18 years (2004-05: 7.06 years).

The weighted average fair value of options granted during the year was \$0.49 (2004-05: \$0.53).

The weighted average share price for options exercised during the year was \$2.58 (2004-05: \$2.10).

### 13. OTHER RESERVES (in thousands of \$)

#### Employee share option reserve

Employee share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

	The Group and Company	
	31 March	
	2006	2005
Balance at 1 April as previously reported	–	–
Effects of adopting FRS 102	5,637	940
Opening balance at 1 April as restated	5,637	940
Grant of equity-settled share options	7,194	4,697
Exercise of share options	(933)	–
Balance at 31 March	11,898	5,637

### 14. DEFERRED TAXATION (in thousands of \$)

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Balance at 1 April	14,418	11,597	14,418	11,597
Provision for the financial year	424	2,821	104	2,821
Balance at 31 March	14,842	14,418	14,522	14,418

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 14. DEFERRED TAXATION (in thousands of \$) (continued)

Deferred tax relates to the following items:

	Group				Company	
	Consolidated balance sheet		Consolidated profit and loss account		Balance sheet	
	2006	2005	2006	2005	2006	2005
<u>Deferred tax liability</u>						
Differences in depreciation	16,114	16,280	(166)	1,992	15,794	16,280
<u>Deferred tax asset</u>						
Other items	(1,272)	(1,862)	590	829	(1,272)	(1,862)
	14,842	14,418			14,522	14,418
Deferred income tax expense			424	2,821		

### 15. FINANCE LEASE COMMITMENTS (in thousands of \$)

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	The Group			
	31 March			
	2006		2005	
	Minimum payments	Repayment of Principal	Minimum payments	Repayment of Principal
Within one year	245	241	–	–
After one year but not more than five years	1,952	1,952	–	–
Total future lease payments	2,197	2,193	–	–
Amounts representing interest	(4)	–	–	–
Principal value of long-term commitments	2,193	2,193	–	–

The Group has a lease agreement for a building for a lease term of 30 years from August 2005. The initial down payment of 20% for the building of \$2,402,000 is payable by instalments over a period of 24 months, at an interest rate of 2% per annum.



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 16. FIXED ASSETS (in thousands of \$) (continued)

Group	Balance at	Additions	Reclassification*	Disposals/	Balance at
	1 April 2004			Transfers	31 March 2005
<b>Cost</b>					
Leasehold land and buildings	139,637	6,672	–	22,813	169,122
Plant, equipment and tooling	181,029	10,060	–	(1,456)	189,633
Engine overhaul tooling	4,573	–	–	–	4,573
Aircraft rotatable spares	–	14,735	8,532	(143)	23,124
Office furniture and equipment	17,996	423	–	154	18,573
Motor vehicles	6,069	8	–	(145)	5,932
	349,304	31,898	8,532	21,223	410,957
Advance and progress payments	42,805	24,954	–	(42,215)	25,544
	392,109	56,852	8,532	(20,992)	436,501
<b>Accumulated depreciation and impairment</b>					
Leasehold land and buildings	39,879	4,971	–	–	44,850
Plant, equipment and tooling	130,983	12,212	–	(1,984)	141,211
Engine overhaul tooling	2,434	887	–	–	3,321
Aircraft rotatable spares	–	1,118	2,959	–	4,077
Office furniture and equipment	16,012	848	–	(408)	16,452
Motor vehicles	4,711	466	–	(145)	5,032
	194,019	20,502	2,959	(2,537)	214,943
<b>Net book value</b>	<b>198,090</b>				<b>221,558</b>
		<b>Depreciation</b>		<b>Net Book Value</b>	
				<b>31 March</b>	
		<b>2004-05</b>	<b>2003-04</b>	<b>2005</b>	<b>2004</b>
Leasehold land and buildings		4,971	4,698	124,272	99,758
Plant, equipment and tooling		12,212	13,330	48,422	50,046
Engine overhaul tooling		887	888	1,252	2,139
Aircraft rotatable spares		1,118	–	19,047	–
Office furniture and equipment		848	1,136	2,121	1,984
Motor vehicles		466	525	900	1,358
Advance and progress payments		–	–	25,544	42,805
		20,502	20,577	221,558	198,090

\* During the financial year, aircraft rotatable spares with cost of \$8.5 million and impairment provision of \$3.0 million have been reclassified from stocks to fixed assets due to a change in the intended use of the assets.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 16. FIXED ASSETS (in thousands of \$) (continued)

Company	Balance at 1 April 2005	Additions	Disposals/ Transfers	Balance at 31 March 2006
<b>Cost</b>				
Leasehold land and buildings	163,787	6,519	17,208	187,514
Plant, equipment and tooling	187,788	12,937	(559)	200,166
Engine overhaul tooling	4,573	–	(38)	4,535
Aircraft rotatable spares	23,124	10,257	(4,398)	28,983
Office furniture and equipment	18,353	1,514	1,102	20,969
Motor vehicles	5,842	258	(175)	5,925
	<u>403,467</u>	<u>31,485</u>	<u>13,140</u>	<u>448,092</u>
Advance and progress payments	25,544	304	(25,297)	551
	<u>429,011</u>	<u>31,789</u>	<u>(12,157)</u>	<u>448,643</u>
<b>Accumulated depreciation and impairment</b>				
Leasehold land and buildings	42,971	6,210	–	49,181
Plant, equipment and tooling	139,487	12,639	(6,125)	146,001
Engine overhaul tooling	3,321	710	(38)	3,993
Aircraft rotatable spares	4,077	3,723	1,274	9,074
Office furniture and equipment	16,304	1,141	(697)	16,748
Motor vehicles	4,943	379	(153)	5,169
	<u>211,103</u>	<u>24,802</u>	<u>(5,739)</u>	<u>230,166</u>
<b>Net book value</b>	<u>217,908</u>			<u>218,477</u>
		<b>Depreciation</b>	<b>Net Book Value</b>	
			<b>31 March</b>	
	<b>2005-06</b>	<b>2004-05</b>	<b>2006</b>	<b>2005</b>
Leasehold land and buildings	6,210	4,756	138,333	120,816
Plant, equipment and tooling	12,639	12,110	54,165	48,301
Engine overhaul tooling	710	887	542	1,252
Aircraft rotatable spares	3,723	1,118	19,909	19,047
Office furniture and equipment	1,141	855	4,221	2,049
Motor vehicles	379	463	756	899
Advance and progress payments	–	–	551	25,544
	<u>24,802</u>	<u>20,189</u>	<u>218,477</u>	<u>217,908</u>

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 16. FIXED ASSETS (in thousands of \$) (continued)

Company	Balance at 1 April 2004	Additions	Reclassification*	Disposals/ Transfers	Balance at 31 March 2005
<b>Cost</b>					
Leasehold land and buildings	134,447	6,527	–	22,813	163,787
Plant, equipment and tooling	179,173	10,044	–	(1,429)	187,788
Engine overhaul tooling	4,573	–	–	–	4,573
Aircraft rotatable spares	–	14,735	8,532	(143)	23,124
Office furniture and equipment	17,773	344	–	236	18,353
Motor vehicles	5,979	8	–	(145)	5,842
	<u>341,945</u>	<u>31,658</u>	<u>8,532</u>	<u>21,332</u>	<u>403,467</u>
Advance and progress payments	42,805	24,954	–	(42,215)	25,544
	<u>384,750</u>	<u>56,612</u>	<u>8,532</u>	<u>(20,883)</u>	<u>429,011</u>
<b>Accumulated depreciation and impairment</b>					
Leasehold land and buildings	38,215	4,756	–	–	42,971
Plant, equipment and tooling	129,334	12,110	–	(1,957)	139,487
Engine overhaul tooling	2,434	887	–	–	3,321
Aircraft rotatable spares	–	1,118	2,959	–	4,077
Office furniture and equipment	15,821	855	–	(372)	16,304
Motor vehicles	4,625	463	–	(145)	4,943
	<u>190,429</u>	<u>20,189</u>	<u>2,959</u>	<u>(2,474)</u>	<u>211,103</u>
<b>Net book value</b>	<u>194,321</u>				<u>217,908</u>
		<b>Depreciation</b>		<b>Net Book Value</b>	
				<b>31 March</b>	
		<b>2004-05</b>	<b>2003-04</b>	<b>2005</b>	<b>2004</b>
Leasehold land and buildings		4,756	4,488	120,816	96,232
Plant, equipment and tooling		12,110	13,210	48,301	49,839
Engine overhaul tooling		887	888	1,252	2,139
Aircraft rotatable spares		1,118	–	19,047	–
Office furniture and equipment		855	1,092	2,049	1,952
Motor vehicles		463	513	899	1,354
Advance and progress payments		–	–	25,544	42,805
		<u>20,189</u>	<u>20,191</u>	<u>217,908</u>	<u>194,321</u>

\* During the financial year, aircraft rotatable spares with cost of \$8.5 million and impairment provision of \$3.0 million have been reclassified from stocks to fixed assets due to a change in the intended use of the assets.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 16. FIXED ASSETS (in thousands of \$) (continued)

Details of leasehold land and buildings are as follows:

Description	Land Area/ Gross Floor Area	Title
(i) Hangar 2 at 31 Airline Road, Singapore	13,759 sqm/44,510 sqm	Leasehold, 48 years commencing 9 January 1992
(ii) Hangar 3 at 21 Airline Road, Singapore	10,047 sqm/12,444 sqm	Leasehold, 37 years commencing 12 January 2001
(iii) Engine Overhaul Facility at 30 Loyang Ave, Singapore	12,465 sqm/4,774 sqm	Leasehold, 41 years commencing 8 May 1997
(iv) Factory at 8 Loyang Lane, Singapore	6,961 sqm/4,055 sqm	Leasehold, 30 years commencing 16 November 1994
(v) Hangar 4 at Airline Road, Singapore	7,650 sqm/8,783 sqm	Leasehold, 35 years commencing 15 November 2002
(vi) Hangar 5 at Airline Road, Singapore	7,650 sqm/10,392 sqm	Leasehold, 35 years commencing 15 November 2002
(vii) Factory at 45 Changi North Crescent, Singapore	4,447 sqm/2,738 sqm	Leasehold, 30 years commencing 10 August 2005

### 17. INTANGIBLES (in thousands of \$)

Software	Group	Company
<b>Cost:</b>		
Balance at 1 April 2004	14,032	13,700
Additions	1,505	1,390
Disposals	(49)	(49)
Transfers/reclassification	18,278	18,278
Balance at 31 March 2005 and 1 April 2005	33,766	33,319
Additions	1,438	1,206
Balance at 31 March 2006	35,204	34,525
<b>Accumulated amortisation</b>		
Balance at 1 April 2004	4,719	4,568
Additions	4,263	4,146
Balance at 31 March 2005 and 1 April 2005	8,982	8,714
Additions	7,022	6,913
Balance at 31 March 2006	16,004	15,627



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 17. INTANGIBLES (in thousands of \$) (continued)

	Group	Company
<b>Net Book Value:</b>		
31 March 2006	19,200	18,898
31 March 2005	24,784	24,605
<b>Amortisation:</b>		
2005-2006	7,022	6,913
2004-2005	4,263	4,146

### 18. SUBSIDIARY COMPANIES (in thousands of \$)

	The Company	
	31 March	
	2006	2005
Unquoted shares, at cost	16,320	3,816

Details of the subsidiary companies at 31 March are as follows:

Name of company	Principal activities	Country of incorporation and place of business	Cost		Percentage equity held by the Group	
			2006	2005	2006	2005
Singapore Jamco Pte Ltd *	Manufacturing aircraft cabin equipment and refurbishment of aircraft galleys	Singapore	3,816	3,816	65.0	65.0
Aviation Partnership (Philippines) Corporation #	Provide aircraft maintenance services, including technical and non-technical handling at the airport	Philippines	2,762	–	51.0	0.0
Aerospace Component Engineering Services Pte Limited *	Repair and overhaul of hydro-mechanical equipment for Boeing and Airbus aircraft	Singapore	9,742	–	51.0	0.0
SIAEC Global Pte Ltd *	Investment holding	Singapore	@	@	100.0	100.0

\* Audited by Ernst & Young, Singapore

# Audited by Ernst & Young, Philippines (SGV & Co)

@ Cost of investment and issued and paid-up share capital is \$2

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 18. SUBSIDIARY COMPANIES (in thousands of \$) (continued)

In April 2005, the Company and Parker Hannifin Corporation's Parker Aerospace Group, incorporated a company, Aerospace Component Engineering Services ("ACES"). The Company injected \$9.7 million for its 51% equity interest in ACES.

In May 2005, the Company and Cebu Pacific Air, incorporated Aviation Partnership (Philippines) Corporation ("APPC"). The Company injected \$2.8 million for its 51% equity interest in APPC.

### 19. ASSOCIATED COMPANIES (in thousands of \$)

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Unquoted shares, at cost	168,330	166,627	168,330	166,627
Share of post-acquisition profits	175,025	149,042	–	–
Goodwill written-off to reserves	(25,237)	(25,237)	–	–
Translation adjustment	(18,339)	(13,205)	–	–
	299,779	277,227	168,330	166,627

Details of the associated companies at 31 March are as follows:

Name of company	Principal activities	Country of incorporation and place of business	Cost		Percentage equity held by the Group	
			2006	2005	2006	2005
Asian Compressor Technology Services Co Ltd #	Repair and overhaul of aircraft engine high pressure compressor stators	Taiwan	4,104	4,104	24.5	24.5
Asian Surface Technologies Pte Ltd ##	Repair and overhaul of aircraft engine fan blades	Singapore	6,376	6,376	29.0	29.0
Combustor Airmotive Services Pte Ltd ###	Repair and overhaul of aircraft engine combustion chambers, guides, fuel nozzles and related parts	Singapore	3,011	3,011	49.0	49.0
Eagle Services Asia Private Limited ##	Repair and overhaul of aircraft engines	Singapore	71,588	71,588	49.0	49.0
Fuel Accessory Service Technologies Pte Ltd ##	Repair and overhaul of engine fuel components and accessories	Singapore	5,071	5,071	49.0	49.0

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 19. ASSOCIATED COMPANIES (in thousands of \$) (continued)

Name of company	Principal activities	Country of incorporation and place of business	Cost		Percentage equity held by the Group	
			2006	2005	2006	2005
International Aerospace Tubes - Asia Pte Ltd <sup>##</sup>	Repair of tubes, ducts and manifolds for aircraft engines and airframe	Singapore	5,286	3,583	33.3	33.3
JAMCO Aero Design & Engineering Pte Ltd <sup>**</sup>	Provide turnkey solutions for aircraft interior modifications	Singapore	767	767	45.0	45.0
Messier Services Asia Private Limited @	Repair and overhaul of Boeing and Airbus series landing gears	Singapore	13,971	13,971	40.0	40.0
Pan Asia Pacific Aviation Services Ltd *	Provide aircraft maintenance services, including technical and non-technical handling at the airport	Hong Kong	5,373	5,373	47.1	47.1
PT Jas Aero-Engineering Services @@	Provide aircraft maintenance services, including technical and non-technical handling at the airport	Indonesia	3,675	3,675	49.0	49.0
PWA International Limited <sup>###</sup>	Repair, overhaul and re-manufacture of aircraft turbine engine cases, components and related parts	Ireland	6,217	6,217	49.0	49.0
Goodrich Aerostructures Service Center - Asia Pte Ltd (GASCA) <sup>**</sup> (Formerly known as "Rohr Aero Services-Asia Pte Ltd")	Repair and overhaul of aircraft nacelles, thrust reversers and pylons	Singapore	37,220	37,220	40.0	40.0
Turbine Coating Services Private Limited <sup>##</sup>	Repair and overhaul of aircraft engine turbine airfoils	Singapore	5,671	5,671	24.5	24.5

# Audited by PriceWaterhouseCoopers, Taiwan

## Audited by PriceWaterhouseCoopers, Singapore

### Audited by PriceWaterhouseCoopers, Ireland

@ Audited by Deloitte & Touche, Singapore

@@ Audited by Deloitte & Touche, Indonesia

\* Audited by Ernst & Young, Hong Kong

\*\* Audited by Ernst & Young, Singapore

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 19. ASSOCIATED COMPANIES (in thousands of \$) (continued)

The summarised financial information of the associates is as follows:

	The Group	
	31 March	
	2006	2005
<u>Assets and liabilities</u>		
Current assets	668,395	539,694
Non-current assets	189,309	179,314
	857,704	719,008
Current liabilities	172,248	81,301
Non-current liabilities	9,619	6,525
	181,867	87,826
<u>Results</u>		
Revenue	1,180,464	946,479
Profit for the financial year	184,751	139,434

### 20. JOINT VENTURE COMPANIES (in thousands of \$)

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Unquoted shares, at cost	56,599	56,599	56,599	56,599
Share of post acquisition profits	16,596	1,660	–	–
Translation adjustment	(3,360)	(2,276)	–	–
	69,835	55,983	56,599	56,599

The Group's share of the consolidated results of the joint venture companies is as follows:

	The Group	
	2005-06	2004-05
<u>Results</u>		
Revenue	267,810	185,745
Expenses	247,944	177,794

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 20. JOINT VENTURE COMPANIES (in thousands of \$) (continued)

The Group's share of the consolidated assets and liabilities of the joint venture companies comprises:

	The Group	
	31 March	
	2006	2005
<u>Assets and liabilities</u>		
Current assets	114,187	70,634
Non-current assets	58,693	55,705
	172,880	126,339
Current liabilities	65,424	25,911
Non-current liabilities	37,621	44,445
	103,045	70,356

Details of the joint venture companies at 31 March are as follows:

Name of company	Principal activities	Country of incorporation and place of business	Cost		Percentage equity held by the Group	
			2006	2005	2006	2005
International Engine Component Overhaul Pte Ltd *	Repair and overhaul of aero engine components and parts	Singapore	10,067	10,067	50.0	50.0
Singapore Aero Engine Services Pte Ltd *	Repair and overhaul of aircraft engines	Singapore	46,532	46,532	50.0	50.0

\* Audited by Ernst & Young, Singapore

### 21. LONG-TERM INVESTMENTS (in thousands of \$)

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Unquoted equity investments, at cost	14,606	14,606	14,606	14,606

The Company holds a 10.0% (2005: 10.0%) interest in the equity of Hong Kong Aero Engine Services Limited, which is incorporated and operates in Hong Kong Special Administrative Region of the People's Republic of China.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 22. TRADE AND OTHER DEBTORS (in thousands of \$)

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Trade debtors	40,559	28,758	34,164	27,239
Other debtors	12,116	12,280	11,498	12,222
	52,675	41,038	45,662	39,461

As at 31 March 2006, 92% of trade debtors (2005: 89%) were held in United States dollars by the Group.

Trade debtors are stated after deducting specific provision for doubtful debts. An analysis of the specific provision for doubtful debts is as follows:

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Balance at 1 April	5,671	9,919	5,671	9,919
Effect of adopting FRS 39	(1,412)	–	(1,412)	–
Charge / (Write-back) to profit and loss, net	5,848	(4,212)	5,813	(4,212)
Provision utilised during the financial year	–	(36)	–	(36)
Balance at 31 March	10,107	5,671	10,072	5,671
Bad debts written-off directly to profit and loss account, net of debts recovered	117	(256)	117	(256)

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Other debtors consist of:				
Staff loans and advances	4,237	6,010	4,151	6,010
Deposits and prepayments	2,357	1,192	1,825	1,134
Amounts rechargeable to customers	920	2,799	920	2,799
Others	4,602	2,279	4,602	2,279
	12,116	12,280	11,498	12,222

No loans have been given to the Company's staff who are directors of its subsidiary companies as at year-end (2005: \$nil).

### 23. IMMEDIATE HOLDING COMPANY

The amounts due from the immediate holding company, which are carried at cost, are trade in nature and for which normal commercial terms apply.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 24. RELATED PARTIES

The amounts receivable on current account from related parties, which are carried at cost, are trade in nature and for which normal commercial terms apply.

### 25. STOCKS (in thousands of \$)

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Aircraft and component spares	7,259	5,844	6,668	5,844
Consumable stores and stocks	261	159	231	159
Raw materials	734	876	–	–
Total stocks at lower of cost and net realisable value	8,254	6,879	6,899	6,003

During the financial year, the Group wrote down \$0.5 million (2004-05: \$2.3 million) of stocks, which are recognised as expense in the profit and loss account.

Aircraft and component spares and raw materials are stated after deducting provision for stock obsolescence. An analysis of the provision for stock obsolescence is as follows:

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Balance at 1 April	4,891	5,557	4,865	5,527
Charge to profit and loss, net	472	2,305	454	2,297
Provision utilised during the financial year	–	(12)	–	–
Amount reclassified to fixed assets (Note 16)	–	(2,959)	–	(2,959)
Balance at 31 March	5,363	4,891	5,319	4,865

	The Group		The Company	
	31 March		31 March	
	2006	2005	2006	2005
Stocks are stated at:				
Cost	1,644	1,115	316	239
Net realisable value	6,610	5,764	6,583	5,764
	8,254	6,879	6,899	6,003

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 26. SHORT-TERM DEPOSITS (in thousands of \$)

	The Group 31 March		The Company 31 March	
	2006	2005	2006	2005
Deposits placed with the immediate holding company	453,006	286,772	453,006	286,772
Fixed deposits placed with banks	11,138	2,105	2,134	2,105
	464,144	288,877	455,140	288,877

Funds surplus to the Company's working capital requirements are placed in short-term deposits with the immediate holding company and external financial institutions. These deposits earn interest ranging from 1.9% to 3.8% (2005: 0.5% to 2.8%) per annum and can be withdrawn on demand.

As at 31 March 2006, 0.9% of short-term deposits (2005: 1.0%) were held in United States dollars by the Group.

### 27. CASH AND BANK BALANCES

These balances are placed in interest-bearing current accounts earning interest ranging from 2.2% to 4.3% (2005: 0.3% to 2.2%) per annum.

As at 31 March 2006, the composition of cash and bank balances held in foreign currencies by the Group is as follows: United States dollar – 58% (2005: 56%) and Philippine peso – 2% (2005: nil).

### 28. TRADE AND OTHER CREDITORS (in thousands of \$)

	The Group 31 March		The Company 31 March	
	2006	2005	2006	2005
Trade	110,544	99,261	107,688	98,361
Accruals	109,996	103,891	105,257	102,704
Provision for warranty claims	3,029	2,842	3,029	2,842
Sundry	527	2	–	–
	224,096	205,996	215,974	203,907

As at 31 March 2006, the composition of trade creditors held in foreign currencies by the Group is as follows: United States dollar – 62% (2005: 36%) and Euro – nil (2005: 1%).

An analysis of the provision for warranty claims is as follows:

	The Group 31 March		The Company 31 March	
	2006	2005	2006	2005
Balance at 1 April	2,842	2,129	2,842	2,129
Charge to profit and loss, net	535	919	535	919
Provision utilised during the year	(348)	(206)	(348)	(206)
Balance at 31 March	3,029	2,842	3,029	2,842



## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 29. BANK LOANS (in thousands of \$)

	The Group	
	31 March	
	2006	2005
Revolving credit facility	750	750

The revolving credit facility taken by a subsidiary company is unsecured and bears interest between 2.8% and 4.2% (2005: 2.0% and 2.9% per annum).

### 30. CASH FLOW FROM OPERATING ACTIVITIES (in thousands of \$)

	The Group	
	2005-06	2004-05
<b>Profit before taxation</b>	263,290	194,352
Adjustments for:		
Interest income	(9,190)	(3,809)
Interest expense	26	19
Depreciation of fixed assets	25,461	20,502
Amortisation of intangibles	7,022	4,263
Gain on sale of long-term investment	-	(9,043)
Share of profits of associated/joint venture companies	(105,619)	(75,493)
Dividend income from long-term investment	(11,922)	(4,827)
Surplus on sale of fixed assets	(1,906)	(368)
Exchange differences	1,361	(930)
Share option expense	7,158	4,654
<b>Operating profit before working capital changes</b>	175,681	129,320
Increase in debtors	(12,303)	(2,368)
Decrease/(increase) in stocks/work-in-progress	20,664	(27,796)
Increase in creditors	21,973	38,958
Increase in amounts owing from related companies	(20,454)	(32,198)
<b>Cash generated from operations</b>	185,561	105,916
Interest received from deposits	7,430	3,539
Interest paid	(26)	(19)
Income taxes paid	(12,576)	(8,642)
<b>Net cash provided by operating activities</b>	180,389	100,794

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 31. CAPITAL AND OTHER COMMITMENTS

#### (a) Capital expenditure commitments

The Group and the Company have commitments for capital expenditure. Such commitments aggregated approximately \$157,305,000 (2005: approximately \$154,900,000) for the Group and approximately \$153,274,000 (2005: approximately \$154,900,000) for the Company.

In addition, the Group's share of a joint venture company's purchase commitments for fixed assets totalled approximately \$4,985,000 (2005: approximately \$2,717,000).

#### (b) Operating lease commitments (in thousands of \$)

Future lease payments under non-cancellable operating leases are as follows:

	The Group	
	31 March	
	2006	2005
Within one year	173	185
After one year but less than 5 years	486	465
More than 5 years	1,471	1,585
	2,130	2,235

The Group leases certain property under lease agreements that are non-cancellable within a year. The leases expire at various dates till 2024 and contain provisions for rental adjustments.

### 32. CONTINGENT LIABILITIES, UNSECURED

There are contingent liabilities in respect of bank guarantees and performance bond given by the Group and the Company at 31 March 2006 amounting to approximately \$3,103,000 (2005: approximately \$2,414,000) and \$2,910,000 (2005: approximately \$2,285,000) respectively.

As previously noted, an airline customer had made a claim on 16 January 2001 for US\$4.6 million (S\$7.6 million) damages arising from maintenance work, which claim was fully covered by insurance. The claim has since been settled through arbitration and accordingly is no longer a contingent liability.

### 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group operates principally in Singapore and generates revenue mainly in Singapore dollars. The Group also has investments in associated and joint venture companies that operate in five countries. The Group's operations carry certain financial risks, including the effects of changes in foreign exchange rates and interest rates. The Group's risk management approach is to moderate the effects of such volatility on its financial performance. The Group's policy is to use derivatives to hedge specific exposures.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

As derivatives are used for the purpose of risk management, they do not expose the Group to market risk because gains and losses on the derivatives offset losses and gains on the matching asset, liability, revenues or costs being hedged. Moreover, counterparty credit risk is generally restricted to any hedging gain from time to time, and not the principal amount hedged. Therefore the possibility of material loss arising in the event of non-performance by a counterparty is considered to be unlikely.

Financial risk management policies are periodically reviewed and approved by the Audit Committee.

#### Foreign currency risk

The Group is exposed to the effects of foreign exchange rate fluctuations because of its foreign currency denominated operating revenues and expenses. For the financial year ended 31 March 2006, these accounted for 14% of total revenue (2004-05: 4%) and 4% of total operating expenses (2004-05: 2%). The Group's largest exposure is from United States dollar.

The Group manages its foreign exchange exposure by a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, as soon as practicable, for Singapore dollars. The Group also uses forward foreign currency contracts to hedge a portion of its future foreign exchange exposure. Such contracts provide for the Group to sell United States dollars at predetermined forward rates, depending on forecast requirements, with settlement dates that range from one month up to one year. The Group uses forward contracts purely as a hedging tool. It does not take positions in currencies with a view to make speculative gains from currency movements.

#### Credit risk exposures and significant concentrations of credit risk

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparties fail to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet as of 31 March 2006.

Concentrations of credit risk with respect to trade debtors are limited to the entities comprising the Group's customer base. The Group carefully assesses the financial strength of its customers and generally does not require any collateral. At 31 March 2006, the only trade debtor exceeding 10% of the Group's trade debtors was an amount of approximately \$84,631,000 (2005: approximately \$76,496,000) due from its immediate holding company, Singapore Airlines Limited.

#### Interest rate risk

The Group's exposure to market risk for changes in the interest rates relates primarily to the Group's short-term deposits with the immediate holding company and banks.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Liquidity risk

As at 31 March 2006, the Group had at its disposal cash and short-term deposits amounting to \$500.6 million (2005: \$325.9 million). In addition, the Group had available short-term credit facilities of approximately \$7.6 million (2005: \$7.6 million), of which is available for use.

The Group's holding of cash and short-term deposits, together with committed funding facilities and net cash flow from operations, are expected to be sufficient for working capital purposes as well as future capital commitments. Any shortfall can be met by bank borrowings.

### 34. FINANCIAL INSTRUMENTS

#### Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

#### Financial instruments carried at fair value

The fair value of forward currency contracts is determined by reference to current forward prices for contracts with similar maturity profiles.

#### Financial instruments whose carrying amounts approximate fair value

The carrying amounts of the following financial assets and liabilities approximate their fair values due to their short-term nature: cash and bank balances, funds from subsidiary companies, amounts owing by/to subsidiary, associated and joint venture companies, loans, trade debtors and creditors. The carrying values of the long-term lease commitments approximate their fair values.

### 35. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 35. RELATED PARTY TRANSACTIONS (continued)

In addition to the related party information disclosed elsewhere in the financial statements, these were the following significant related party transactions which were carried out in the normal course of business on terms that prevail in arm's length transactions during the financial year:

(in thousands of \$)	The Group		The Company	
	2005-06	2004-05	2005-06	2004-05
<b>Income</b>				
Sales of services and related materials to:				
- the immediate holding and related companies	720,681	611,737	711,273	608,504
- associated companies	4,497	2,697	4,497	2,697
- joint venture companies	6,944	4,531	6,944	4,531
Interest income from the immediate holding company	7,561	2,887	7,561	2,887
Equipment fee charged to the immediate holding company	5,383	6,399	5,383	6,399
Rental of office space charged to the immediate holding company	2,149	2,149	2,149	2,149
<b>Expense</b>				
Management fees charged by the immediate holding company for corporate, general and administrative, technical and insurance services and equipment leases	12,373	12,561	12,373	12,561
Rental of workshop and office space charged by the immediate holding company	22,865	23,008	22,865	23,008
Purchases of materials from the immediate holding company	215,326	179,965	215,326	179,965
Purchases of goods from:				
- associated companies	9,570	1,612	9,570	1,612
- joint venture companies	4	–	4	–
Services rendered by:				
- the immediate holding company	8,845	9,348	8,845	9,348
- a related company	3,179	1,909	3,179	1,909

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

### 35. RELATED PARTY TRANSACTIONS (continued)

Directors' and key executives' remuneration of the Company (in \$)

	The Company	
	2005-06	2004-05
<u>Directors</u>		
Directors' fees	542,404*	569,702
<u>Key executives (excluding executive directors)</u>		
Salary, bonuses and other costs	1,778,000	1,642,000
CPF and other defined contributions	39,000	54,000
Share-based compensation expense	244	168

\* proposed

Share options granted to and exercised by key executives of the Company are as follows:

Name of participant	Options granted during financial year under review	Exercise price for options granted during financial year under review	Aggregate options	Aggregate options	Options lapsed	Aggregate options outstanding at end of financial year under review
			granted since commencement of scheme to end of financial year under review	exercised since commencement of scheme to end of financial year under review		
William Tan	225,000	\$2.45	1,289,000	–	–	1,289,000
Oh Wee Khoo	114,000	\$2.45	818,500	–	–	818,500
Chan Seng Yong	96,000	\$2.45	705,225	–	–	705,225
Png Kim Chiang	132,000	\$2.45	667,200	–	–	667,200

## ADDITIONAL INFORMATION

Required by the Singapore Exchange Securities Trading Limited

### 1. INTERESTED PERSONS TRANSACTIONS (in thousands of \$)

The aggregate value of interested persons transactions ("IPTs") entered into during the financial year are as follows:

Name of interested person	Aggregate value of all IPTs during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under the shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPTs conducted under the shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Singapore Airlines Ltd	–	35,154
Singapore Airport Terminal Services Limited	–	650
Asprecise Pte Ltd <i>(66% owned by Temasek eVentures and ultimately by Temasek Holdings Pte Ltd)</i>	–	1,680
ST Aerospace Supplies Pte Ltd <i>(wholly-owned by ST Aerospace Ltd and ST Engineering Ltd)</i>	–	246
<b>Total</b>	–	<b>37,730</b>

### 2. MATERIAL CONTRACTS

Since the end of the previous financial year, the Company and its subsidiaries did not enter into any material contracts involving interests of the Chief Executive Officer, directors or controlling shareholders and no such material contracts still subsist at the end of the financial year.

## QUARTERLY RESULTS OF THE GROUP

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<b>Revenue:</b>						
2005-06	(\$ million)	223.5	240.0	235.3	260.3	959.1
	(%)	23.3	25.0	24.5	27.2	100.0
2004-05	(\$ million)	201.3	206.7	195.3	204.2	807.5
	(%)	24.9	25.6	24.2	25.3	100.0
<b>Expenditure:</b>						
2005-06	(\$ million)	190.5	213.6	212.7	207.6	824.4
	(%)	23.1	25.9	25.8	25.2	100.0
2004-05 (restated*)	(\$ million)	168.5	179.4	184.1	174.7	706.7
	(%)	23.8	25.4	26.1	24.7	100.0
<b>Operating profit:</b>						
2005-06	(\$ million)	33.0	26.4	22.6	52.7	134.7
	(%)	24.5	19.6	16.8	39.1	100.0
2004-05 (restated*)	(\$ million)	32.8	27.3	11.2	29.5	100.8
	(%)	32.5	27.1	11.1	29.3	100.0
<b>Profit before taxation:</b>						
2005-06	(\$ million)	62.0	58.4	60.6	82.3	263.3
	(%)	23.5	22.2	23.0	31.3	100.0
2004-05 (restated*)	(\$ million)	48.5	47.3	41.4	57.1	194.3
	(%)	25.0	24.3	21.3	29.4	100.0
<b>Profit attributable to equity holders of the Company:</b>						
2005-06	(\$ million)	55.2	50.4	53.2	71.8	230.6
	(%)	23.9	21.9	23.1	31.1	100.0
2004-05 (restated*)	(\$ million)	43.4	42.0	36.4	48.6	170.4
	(%)	25.5	24.6	21.4	28.5	100.0
<b>Earnings (after tax) per share - basic:</b>						
2005-06	(cents)	5.4	4.9	5.2	7.0	22.5
	(%)	24.0	21.8	23.1	31.1	100.0
2004-05 (restated*)	(cents)	4.3	4.2	3.6	4.8	16.9
	(%)	25.4	24.9	21.3	28.4	100.0

\* The comparative figures for the financial year ended 31 March 2005 have been restated to take into account the retrospective adjustments relating to FRS 102 - Share-based Payment.



## FIVE-YEAR FINANCIAL SUMMARY OF THE GROUP

	2005-06	2004-05 (Restated*)	2003-04 (Restated*)	2002-03	2001-02
<b>Profit and loss account (\$ million)</b>					
Revenue	959.1	807.5	678.7	878.1	835.6
Expenditure	824.4	706.7	600.7	737.2	631.9
Operating profit	134.7	100.8	78.0	140.9	203.7
Other income	23.0	9.0	4.3	4.7	7.6
Share of profits of associated/ joint venture companies	105.6	75.5	48.8	70.8	41.2
Exceptional item	-	9.0	(3.1)	-	-
Profit before taxation	263.3	194.3	128.0	216.4	252.5
Profit attributable to equity holders of the Company	230.6	170.4	139.0	205.2	223.0
<b>Balance sheet (\$ million)</b>					
Share capital	163.1	101.8	100.5	100.0	100.0
Reserves					
General reserve	885.5	741.0	828.4	731.9	569.7
Share-based compensation reserve	11.9	5.6	0.9	-	-
Foreign currency translation reserve	(21.7)	(15.5)	(10.4)	5.0	13.0
Share premium	-	25.6	6.4	0.8	-
Equity attributable to equity holders of the Company	1,038.8	858.5	925.8	837.7	682.7
Minority interest	14.1	2.3	2.1	2.0	2.0
Deferred taxation	14.8	14.4	11.6	10.7	14.1
Fixed assets	230.1	221.5	198.1	194.8	189.4
Intangibles	19.2	24.8	9.3	-	-
Associated companies	299.8	277.2	246.4	244.4	203.6
Joint venture companies	69.8	56.0	52.6	52.6	45.4
Long-term investments	14.6	14.6	17.3	23.6	29.3
Current assets	694.1	506.3	596.5	574.4	438.5
Total assets	1,327.6	1,100.4	1,120.2	1,089.8	906.2
Long-term liability	2.0	-	-	-	-
Current liabilities	257.9	225.2	180.7	239.4	207.4
Total liabilities	259.9	225.2	180.7	239.4	207.4
Net liquid assets <sup>R1</sup>	497.6	325.2	473.7	404.2	284.5
<b>Cash flow statement (\$ million)</b>					
Cash flow from operations	185.6	105.9	118.6	189.6	166.1
Internally generated cash flow <sup>R2</sup>	250.6	136.0	146.8	212.5	173.8
Capital expenditure	39.6	58.4	35.5	28.8	47.2

\* The comparative figures for the financial years ended 31 March 2005 and 31 March 2004 have been restated to take into account the retrospective adjustments relating to FRS 102 - Share-based Payment.

## FIVE-YEAR FINANCIAL SUMMARY OF THE GROUP (continued)

	2005-06	2004-05 (Restated*)	2003-04 (Restated*)	2002-03	2001-02
<b>Profitability ratios (%)</b>					
Return on shareholders' funds <sup>R3</sup>	24.3	19.1	15.8	27.0	38.2
Return on total assets	17.4	15.5	12.4	18.8	24.6
Return on turnover	24.0	21.1	20.5	23.4	26.7
<b>Productivity and employee data</b>					
Value added (\$ million)	670.8	577.0	453.6	569.7	536.1
Value added per employee (\$)	130,690	123,751	97,508	123,209	124,907
Revenue per employee (\$)	186,857	173,173	145,889	189,928	194,675
Average number of employees	5,133	4,663	4,652	4,624	4,293
<b>Per share data (cents)</b>					
Earnings before tax	25.6	19.2	12.8	21.6	25.3
Earnings after tax - basic <sup>R4</sup>	22.5	16.9	13.9	20.5	22.3
- diluted <sup>R5</sup>	22.1	16.7	13.8	20.4	22.2
Net asset value <sup>R6</sup>	100.2	84.4	92.1	83.7	68.3
<b>Gross dividends (cents per share)</b>					
Interim dividend	4.0	3.0	2.0	2.0	1.5
Final dividend - ordinary	6.0#	4.5	2.5	2.5	3.0
- special	20.0#	-	20.0	-	-
Total dividends	30.0	7.5	24.5	4.5	4.5

# proposed

### Notes:

R1 Net liquid assets is derived by offsetting current loans against liquid assets.

R2 Internally generated cash flow comprises cash generated from operations, dividends from associated and joint venture companies, and proceeds from sale of fixed assets.

R3 Return on shareholders' funds is profit attributable to equity holders of the Company expressed as a percentage of the average equity attributable to equity holders of the Company.

R4 Earnings after tax per share (basic) is computed by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

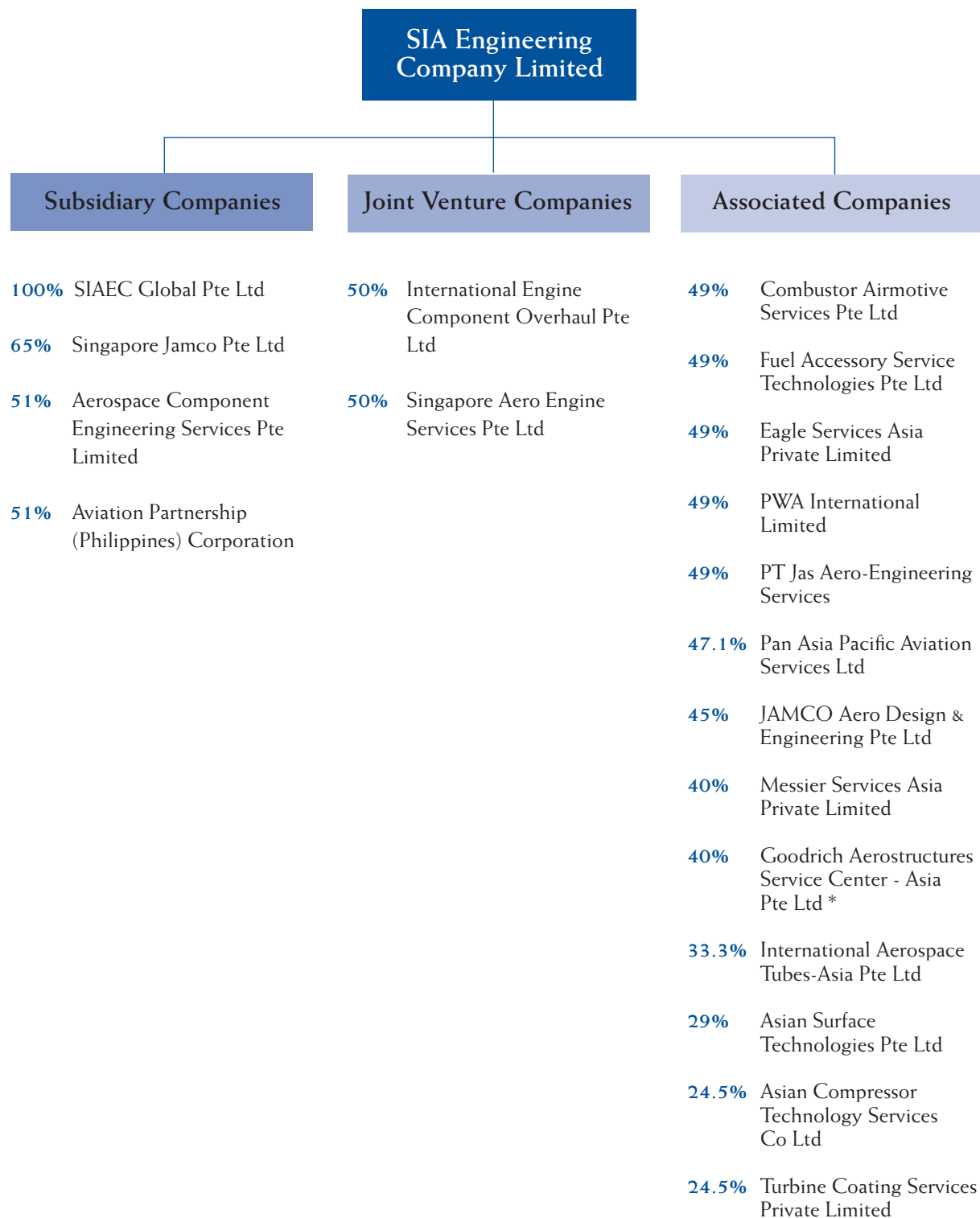
R5 Earnings after tax per share (diluted) is computed by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue after adjusting for the dilutive effect on the exercise of all outstanding share options granted to employees.

R6 Net asset value per share is computed by dividing the equity attributable to equity holders of the Company by the number of ordinary shares in issue at 31 March.

\* The comparative figures for the financial year ended 31 March 2005 and 31 March 2004 have been restated to take into account the retrospective adjustments relating to FRS 102 - Share-based Payment.

## GROUP CORPORATE STRUCTURE

as at 31 March 2006



\* Formerly known as Rohr Aero Services-Asia Pte Ltd

## SHAREHOLDING STATISTICS

As at 16 May 2006

Issued and fully paid-up share capital	:	S\$166,796,643.00
Number of shares in issue	:	1,039,181,950
Class of shares	:	Ordinary shares
Voting rights	:	1 vote for 1 share

Range of Shareholdings	Number of Shareholders		Amount of Shareholdings	
		%		%
1 – 999	172	1.47	83,078	0.01
1,000 – 10,000	10,828	92.76	21,865,400	2.10
10,001 – 1,000,000	662	5.67	24,410,653	2.35
1,000,001 and above	11	0.10	992,822,819	95.54
	11,673	100.00	1,039,181,950	100.00

### MAJOR SHAREHOLDERS as at 16 May 2006

No.	Name	Number of Shareholdings	%
1	Singapore Airlines Limited	870,000,000	83.72
2	HSBC (Singapore) Nominees Pte Ltd	27,016,080	2.60
3	Citibank Nominees Singapore Pte Ltd	25,144,300	2.42
4	DBS Nominees Pte Ltd	24,307,963	2.34
5	DBSN Services Pte Ltd	14,687,000	1.41
6	Raffles Nominees Pte Ltd	11,291,620	1.09
7	United Overseas Bank Nominees Pte Ltd	6,826,200	0.66
8	DB Nominees (S) Pte Ltd	5,404,356	0.52
9	Morgan Stanley Asia (S'pore)	3,912,000	0.38
10	The Asia Life Assurance Society Ltd - Par Fund	3,165,000	0.31
11	Merrill Lynch (S'pore) Pte Ltd	1,068,300	0.10
12	UOB Kay Hian Pte Ltd	954,300	0.09
13	OCBC Nominees Singapore Pte Ltd	951,002	0.09
14	Phillip Securities Pte Ltd	558,875	0.05
15	OCBC Securities Private Ltd	550,000	0.05
16	Kim Eng Securities Pte Ltd	513,000	0.05
17	Capital Intelligence Limited	500,000	0.05
18	Wong Ket Seong @ Wong Ket Yin	500,000	0.05
19	Lim & Tan Securities Pte Ltd	450,000	0.04
20	Royal Bank Of Canada (Asia) Ltd	356,000	0.03
	Total	998,155,996	96.05

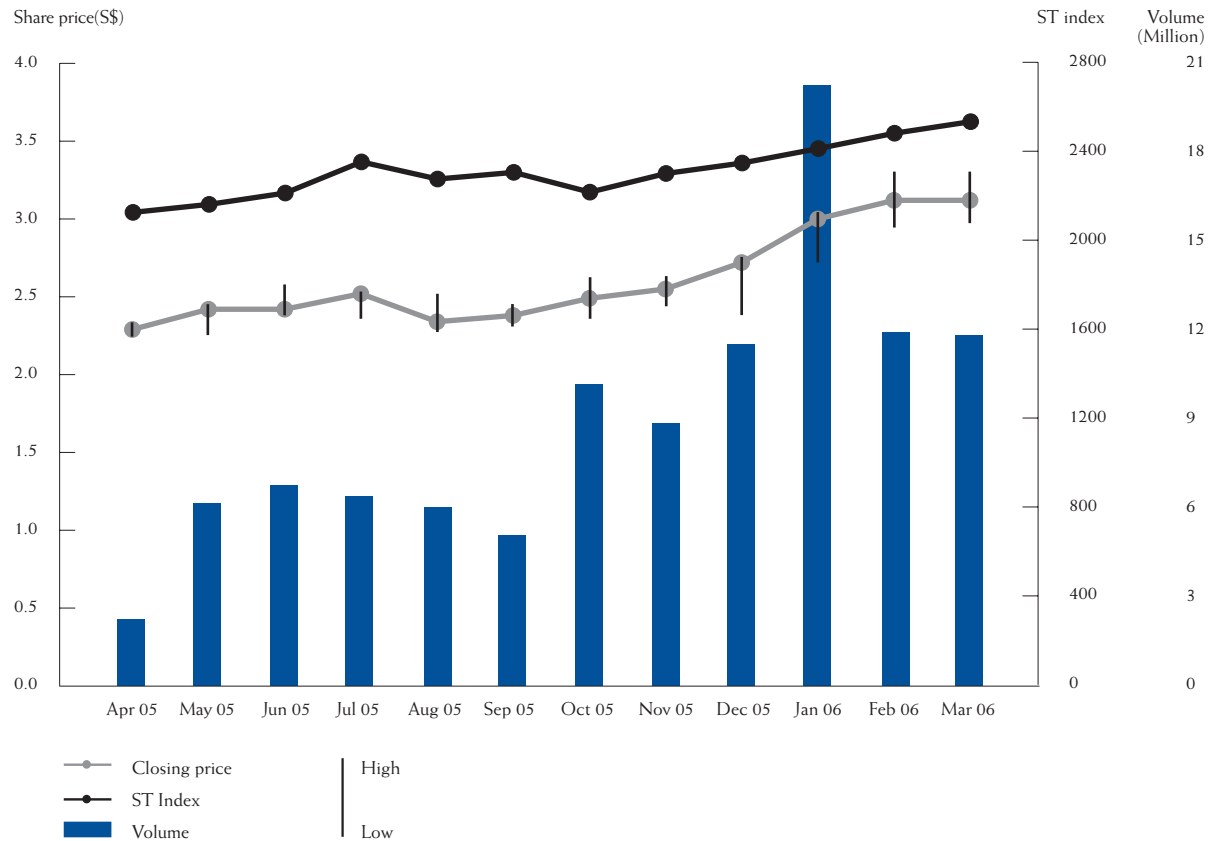
### SUBSTANTIAL SHAREHOLDERS (as shown in the Register of Substantial Shareholders)

Name	Direct Interest	Indirect Interest	Total Interest	%
Temasek Holdings (Pte Ltd)	-	870,050,000	870,050,000	83.72
Singapore Airlines Ltd	870,000,000	-	870,000,000	83.72

### SHAREHOLDINGS HELD BY THE PUBLIC

Based on the information available to the Company as at 16 May 2006, 16.28 per cent of the issued ordinary shares of the Company are held by the public and therefore, Rule 723 of the Listing Manual issued by the SGX-ST is complied with.

## SHARE PRICE AND TURNOVER



	2005-06	2004-05 (Restated)
<b>Share Price (S\$)</b>		
Highest closing price	3.30	2.37
Lowest closing price	2.24	1.85
31 March closing price	3.12	2.33
<b>Market Value Ratio*</b>		
Price/Earnings	13.87	13.79
Price/Book Value	3.11	2.76
Price/Cash Earnings**	12.18	12.07

### Notes:

\* Based on closing price on 31 March

\*\* Cash earnings is defined as profit attributable to equity holders of the Company plus depreciation and amortisation of intangibles.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 24th Annual General Meeting of SIA Engineering Company Limited ("the Company") will be held at The Ballroom (Level 3), Raffles Hotel, 1 Beach Road, Singapore 189673, on Friday, 21 July 2006 at 2.30 p.m. to transact the following business:

### ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the year ended 31 March 2006 and the Auditors' Report thereon.
2. To declare an ordinary dividend of 6.0 cents per share, tax exempt (one-tier) for the year ended 31 March 2006.
3. To declare a special dividend of 20.0 cents per share, tax exempt (one-tier) for the year ended 31 March 2006.
4. To re-elect the following Directors, each of whom will retire by rotation pursuant to Article 83 of the Company's Articles of Association and who being eligible, offer themselves for re-election pursuant to Article 84 of the Company's Articles of Association:
  - 4.1 Lt Gen (Ret) Bey Soo Khiang
  - 4.2 Dr Thio Su Mien
5. To re-elect the following Directors, each of whom will retire pursuant to Article 90 of the Company's Articles of Association and who being eligible, offer themselves for re-election as Directors:
  - 5.1 Mr Stephen Lee Ching Yen
  - 5.2 Mr Koh Kheng Siong
6. To re-appoint Messrs Ernst & Young as auditors of the Company to hold office until the next Annual General Meeting and to authorise the Directors to fix their remuneration.
7. To approve the payment of Directors' Fees of \$542,404.00 (FY2004/2005: \$569,702.00) for the year ended 31 March 2006.

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## NOTICE OF ANNUAL GENERAL MEETING

### SPECIAL BUSINESS

8. To consider and, if thought fit, to pass the following resolutions as ordinary resolutions with or without any modifications:

8.1 That pursuant to Section 161 of the Companies Act, Cap 50, authority be and is hereby given to the Directors of the Company to:

- (a) (i) issue shares in the capital of the Company ("shares") whether by way of rights, bonus or otherwise; and/or
- (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares, at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and
- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

- (1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50 per cent. of the issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 10 per cent. of the issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST")) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of issued shares shall be based on the number of issued shares in the capital of the Company at the time this Resolution is passed, after adjusting for:
  - (i) new shares arising from the conversion or exercise of any convertible securities or employee share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and
  - (ii) any subsequent consolidation or subdivision of shares;

## NOTICE OF ANNUAL GENERAL MEETING

- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and
- (4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

8.2 That the Directors be and are hereby authorised to:

- (a) offer and grant options in accordance with the provisions of the SIAEC Employee Share Option Plan ("**Share Option Plan**") and/or to grant awards in accordance with the provisions of the SIAEC Performance Share Plan ("**Performance Share Plan**") and/or the SIAEC Restricted Share Plan ("**Restricted Share Plan**") (the Share Option Plan, the Performance Share Plan and the Restricted Share Plan, together the "**Share Plans**"); and
- (b) allot and issue from time to time such number of ordinary shares in the capital of the Company as may be required to be issued pursuant to the exercise of options under the Share Option Plan and/or such number of fully paid shares as may be required to be issued pursuant to the vesting of awards under the Performance Share Plan and/or the Restricted Share Plan,

provided always that the aggregate number of ordinary shares to be issued pursuant to the Share Plans shall not exceed 15 per cent. of the total number of issued ordinary shares in the capital of the Company from time to time.

- 9. To transact any other business of the Company which may arise and can be transacted at an Annual General Meeting.



## NOTICE OF ANNUAL GENERAL MEETING

### CLOSURE OF BOOKS

NOTICE IS HEREBY GIVEN that, subject to approval of shareholders being obtained at the 24th Annual General Meeting of the Company for the declaration of the proposed dividends, registrable transfers received by the Company's Share Registrar, M & C Services Private Limited at 138 Robinson Road #17-00, The Corporate Office, Singapore 068906, up to 5.00 p.m. on 27 July 2006 will be registered to determine shareholders' entitlement to the proposed dividends (depositors whose securities accounts with The Central Depository (Pte) Limited are credited with shares as at 5.00 p.m. on 27 July 2006 will be entitled to the proposed dividends), and thereafter the Share Transfer Books and Register of Members of the Company will be closed on 28 July 2006 to determine shareholders' entitlements to the proposed dividends which will be paid on 8 August 2006.

BY ORDER OF THE BOARD

DEVIKA RANI DAVAR

Company Secretary

12 June 2006

Singapore

### EXPLANATORY NOTES:

- In relation to Ordinary Resolution No. 4.1, Lt Gen (Ret) Bey Soo Khiang, a non-independent Director, will upon re-election, continue to serve as a member of the Board Committee.
- In relation to Ordinary Resolution No. 4.2, Dr Thio Su Mien, an independent Director, will upon re-election, continue to serve as a member of the Audit Committee and an alternate member of the Board Committee.
- In relation to Ordinary Resolution No. 5.1, Mr Stephen Lee Ching Yen, a non-independent Director, will upon re-election, continue to serve as Chairman of the Board.
- In relation to Ordinary Resolution No 5.2, Mr Koh Kheng Siong, an independent Director, will upon re-election, continue to serve as a member of the Audit Committee.
- Ordinary Resolution No. 7 is to approve the payment of Directors' Fees of \$542,404.00 (FY2004/2005: \$569,702.00) for the year ended 31 March 2006, for services rendered by Directors on the Board as well as on the various Board Committees.

The Directors will be paid a basic annual fee and will get an additional annual allowance for their services in each of the Board Committees. The proposed fees for services on the Board, Audit Committee, Board Committee and other Board Committees are shown below:

		Fees per annum (\$)		
Board of Directors	Member's Fees ("Basic Fee")	1 X Basic Fee	=	\$40,000
	Chairman's Allowance	0.625 X Basic Fee	=	\$25,000
	Deputy Chairman's Allowance	0.5 X Basic Fee	=	\$20,000
Audit Committee	Member's Allowance	0.30 X Basic Fee	=	\$12,000
	Chairman's Allowance	0.60 X Basic Fee	=	\$24,000
Board Committee	Member's Allowance	0.20 X Basic Fee	=	\$8,000
Other Board Committees	Member's Allowance	0.20 X Basic Fee	=	\$8,000
	Chairman's Allowance	0.30 X Basic Fee	=	\$12,000

## NOTICE OF ANNUAL GENERAL MEETING

6. Ordinary Resolution No. 8.1, if passed, will empower Directors to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, from the date of the above meeting until the date of the next Annual General Meeting. The number of shares which the Directors may issue under this Resolution will not exceed 50 per cent. of the issued shares in the capital of the Company with a sub-limit of 10 per cent. for issues other than on a pro rata basis. The 10 per cent. sub-limit for non-pro rata issues is lower than the 20 per cent. sub-limit allowed under the Listing Manual of the SGX-ST and the Articles of Association of the Company. For the purpose of determining the aggregate number of shares which may be issued, the percentage of shares shall be based on the number of issued shares in the capital of the Company at the time this Ordinary Resolution is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible instruments or share options or vesting of share awards which are outstanding at the time this Ordinary Resolution is passed and (b) any subsequent consolidation or subdivision of shares.
7. Ordinary Resolution No. 8.2, if passed, will empower the Directors to offer and grant options and/or awards and to allot and issue ordinary shares in the capital of the Company pursuant to the SIAEC Employee Share Option Plan, the SIAEC Performance Share Plan and the SIAEC Restricted Share Plan. The modified SIAEC Employee Share Option Plan was adopted at the Extraordinary General Meeting of the Company held on 7 July 2001 and further modified at the Extraordinary General Meetings of the Company held on 12 July 2003 and 26 July 2004 respectively. The SIAEC Performance Share Plan and the SIAEC Restricted Share Plan were adopted at the Extraordinary General Meeting of the Company held on 25 July 2005.

### Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. The instrument appointing a proxy must be deposited at Robinson Road Post Office, P.O. Box 314, Singapore 900614 not less than 48 hours before the time appointed for the Annual General Meeting.

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# SIA ENGINEERING COMPANY LIMITED

(Incorporated in the Republic of Singapore)  
Co Registration No. 198201025C

## PROXY FORM

1. For investors who have used their CPF monies to buy the Company's shares, this report is forwarded to them at the request of their CPF approved nominees and is sent solely FOR THEIR INFORMATION ONLY.
2. This Proxy Form is 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.
3. CPF investors who wish to attend the 24th Annual General Meeting as OBSERVERS have to submit their requests through their respective Agent Banks so that their Agent Banks may register with the Company's Registrar. (Please see Note No. 8 on the next page).

\*I/We \_\_\_\_\_ (NRIC / Passport No. \_\_\_\_\_) of \_\_\_\_\_ being a

\*member/members of SIA Engineering Company Limited (the "Company"), hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings (No. of Shares)
and/or (delete as appropriate)			

or failing \*him/her, the Chairman of the Annual General Meeting ("AGM") of the Company as \*my/our \*proxy/proxies to attend and to vote for \*me/us and on \*my/our behalf and, if necessary, to demand a poll, at the AGM of the Company to be held on Friday, 21 July 2006 at The Ballroom (Level 3), Raffles Hotel, 1 Beach Road, Singapore 189673 at 2.30 p.m. and at any adjournment thereof.

\*I/We direct \*my/our \*proxy/proxies to vote for or against the Resolutions to be proposed at the AGM 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 AGM and at any adjournment thereof. If no person is named in the above boxes, the Chairman of the AGM shall be \*my/our \*proxy/proxies to vote, for or against the Resolutions to be proposed at the AGM as indicated hereunder, for \*me/us and on \*my/our behalf at the AGM and at any adjournment thereof.

No	Ordinary Business	**For	**Against
1.	Adoption of the Directors' Report, Audited Accounts and the Auditors' Report		
2.	Declaration of final dividend		
3.	Declaration of special dividend		
4.	Re-election of Directors retiring by rotation pursuant to Article 83 of the Articles of Association of the Company:		
	4.1 Lt Gen (Ret) Bey Soo Khiang		
	4.2 Dr Thio Su Mien		
5.	Re-election of Directors retiring pursuant to Article 90 of the Articles of Association of the Company:		
	5.1 Mr Stephen Lee Ching Yen		
	5.2 Mr Koh Kheng Siong		
6.	Re-appointment and remuneration of Auditors		
7.	Approval of Directors' Fees for year ended 31 March 2006		
	<b>Special Business</b>		
8.1	Authority for Directors to issue shares or make or grant offers, agreements or option requiring shares to be issued		
8.2	Authority for Directors to offer and grant options and issue shares in accordance with the provisions of the SIAEC Employee Share Option Plan and/or to grant awards and issue shares in accordance with the provisions of the SIAEC Performance Share Plan and/or SIAEC Restricted Share Plan		
9.	Any other business		

\* Delete accordingly

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

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2006

Total number of Ordinary Shares held:

\_\_\_\_\_  
Signature(s) of Shareholder(s) or Common Seal

Notes:

**IMPORTANT**  
Please read Notes on the reverse.

Notes:

1. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his stead. Such proxy need not be a member of the Company.
2. Where a member appoints two proxies, he must specify the proportion of his shareholding to be represented by each proxy.
3. The instrument appointing a proxy must be signed by the appointor or his duly authorised attorney or if the appointor is a corporation, it must be executed either under its common seal or signed by its attorney or officer duly authorised.
4. A corporation which is a member may also appoint by resolution of its directors or other governing body an authorised representative or representatives in accordance with its Articles of Association and Section 179 of the Companies Act (Cap. 50), to attend and vote on its behalf.
5. The instrument appointing a proxy or proxies (together with the power of attorney, if any, under which it is signed or a certified copy thereof) must be deposited at Robinson Road Post Office, P.O. Box 314, Singapore 900614, at least 48 hours before the time appointed for the AGM.
6. A member should insert the total number of Ordinary Shares held. If the member has Ordinary Shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act (Cap. 50), he should insert that number of Ordinary Shares. If the member has Ordinary Shares registered in his name in the Register of Members, he should insert that number of Ordinary Shares. If the member has Ordinary Shares entered against his name in the Depository Register as well as Ordinary Shares registered in his name in the Register of Members, he should insert the aggregate number of Ordinary Shares. If no number is inserted, this form of proxy will be deemed to relate to all the Ordinary Shares held by the member.
7. The Company shall be entitled to reject this instrument of proxy if it is incomplete, or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in this instrument of proxy. In addition, in the case of a member whose Ordinary Shares are entered in the Depository Register, the Company shall be entitled to reject this instrument of proxy which has been lodged if such member is not shown to have Ordinary Shares entered against his name in the Depository Register at least 48 hours before the time appointed for holding the AGM as certified by The Central Depository (Pte) Limited to the Company.
8. Agent Banks acting on the request of the CPF investors who wish to attend the meeting as observers are requested to submit in writing, a list with details of the investors' names, NRIC/Passport numbers, addresses and number of Ordinary Shares held. The list, signed by an authorised signatory of the relevant Agent Bank, should reach the Company's Registrar, M & C Services Private Limited at 138 Robinson Road #17-00, The Corporate Office, Singapore 068906, at least 48 hours before the time appointed for holding the AGM.

a. Fold along this line



Affix  
Postage  
Stamp

The Company Secretary  
SIA Engineering Company Limited  
Robinson Road Post Office  
P O Box 314  
Singapore 900614

b. Fold along this line