

The Company's corporate governance framework reflects the commitment of its Board and management to build a trusted and respected organisation supported by a sound system of practices and processes that regulates the conduct of Board affairs, the Board's accountability to shareholders and management's accountability to the Board.

The Corporate Governance Report below describes ST Engineering's corporate governance processes and activities in 2004 with specific references to the Principles of the Singapore Corporate Governance Code.

Board's Conduct of its Affairs and Independence of the Board (Principles 1, 2 and 3)

The Board's key responsibilities include providing leadership and guidance to management on corporate strategy, business directions, acquisitions and divestments, risk policy and implementation of corporate objectives. The Board is aided in its tasks by Board Committees which have been established to focus on the key areas of oversight.

The Board comprises 11 directors and an alternate director.

The Chairman is Mr Peter Seah, a non executive director independent of management. He was the President and CEO of parent company Singapore Technologies Pte Ltd (STPL) until it restructured and ceased operations on 31 December 2004.

As a non executive director, Mr Seah is free from any relationship with the executive management of the Company that could materially interfere with the exercise of his independent judgment. However, in the context of Guidance Note 2.1 of the Corporate Governance Code, Mr Seah will not be regarded as an independent director for the time being as he is "a director being employed by the company or any of its related companies for the current or any of the past three financial years".

The President and CEO is Mr Tan Pheng Hock, who is an executive director.

Ten of our directors are non executive of whom the Board has determined that five are independent directors. These independent directors are Mr Koh Beng Seng, Mr Venkatachalam Krishnakumar, Dr Philip Pillai, Mr Winston Tan and Mr Lucien Wong.

The Company's independent and non executive directors' contributions to Board deliberations have been objective and useful. An independent minded director can constructively challenge and guide management without being adversarial in approach. The Board offers alternative viewpoints in a positive manner, working with management to achieve success for the Company.

During the year, Mr Tan Guong Ching, an independent director, retired at the Company's Annual General Meeting (AGM) upon the expiry of his term of office and did not stand for re-election. Mr Tan was Chairman of the Business Investment and Divestment Committee and a member of the Executive Resource and Compensation Committee (ERCC). He had served on the Board since its inception in 1997 and the Board and management are deeply appreciative of his unstinting support and contributions. Mr Tan's association with the company began in April 1992 when he was appointed to the Board of Singapore Technologies Marine, a subsidiary of ST Engineering.

Mr Lim Chin Beng succeeded Mr Tan as Chairman (co-opted) of the Business Investment and Divestment Committee on 15 July 2004.

The Board held a total of four meetings during the year, two of which, in accordance with its planning cycle, were for the approval of the FY2003 results and release of half year results. Two special Board meetings were held to specifically consider the business growth strategies of the Group.

Board Committees (Principles 4, 7 and 11)

Supporting the Board are the following Board Committees:

- Audit Committee
- Business Investment and Divestment Committee
- Executive Resource and Compensation Committee
- Nominating Committee
- Budget and Finance Committee
- Research, Development and Technology Committee
- Senior Human Resource Committee
- Risk Review Committee
- Tenders Committee

The composition of the Board Committees is found on page 31.

Board Selection, Training and Evaluation of Performance (Principles 4 and 5)

The Nominating Committee is responsible for identifying and selecting new directors and the re-election of directors due for retirement by rotation at the AGM. Its members are Mr Peter Seah (Chairman), Dr Philip Pillai and Mr Venkatachalam Krishnakumar.

The Nominating Committee has the same members as the ERCC. This is because both committees share similar objectives of searching for talent and expertise to enrich the Board and to strengthen management.

During the year, four Nominating Committee meetings were held to approve the format of an annual independent questionnaire for independent directors, adopt a Directorship Review Policy and review the membership of the Board and Board Committees in the Company and its key subsidiaries. The Committee decided not to fix a term of office for directors. Instead, it provided for a regular review of the Board composition to ensure that suitable directors are appointed to address the relevant industry and business needs of the Company and its key subsidiaries. The Committee determined that the Board is of an appropriate size to meet the objective of bringing a balance of skills and experience to bear on the deliberations of the various Board Committees. An expertise considered useful as a criterion for selection to the Board was "knowledge of security" in the context of the nature of the Group's business.

Informal reviews of directors of the Board are undertaken by the Nominating Committee when a director is due for retirement and re-election.

At each AGM, one third of the directors with the longest term in office is required to retire and submit for re-election. Mr Venkatachalam Krishnakumar, Dr Philip Pillai, Mr Lucien Wong and Mr Tan Pheng Hock will retire and submit themselves for re-election at the Company's forthcoming AGM under Article 98 of its Articles of Association.

ST Engineering subscribes to the principle that all directors including the President and CEO should retire and submit themselves for re-election at regular intervals and at least once every three years. This is one of the principles in the Corporate Governance Code (Guidance Note 4.2). ST Engineering is an early adopter of this principle. It amended its Articles of Association in 2002 to require all directors, including the CEO of the Company, to retire by rotation. Mr Tan Pheng Hock is now due for retirement and is submitting himself for re-election.

On appointment, new directors are given a briefing by the President and CEO on the strategies of the Company and its key subsidiaries. From time to time, seminars on updates to the relevant laws and corporate governance are organised for the benefit of the directors and management. The Board consists of members with backgrounds in finance, banking, technology, legal and management skills. Each director brings to the Board an independent and objective perspective to enable balanced and well considered decisions to be made.

Access to Information (Principle 6)

In accordance with this principle, the Board receives monthly reports providing updates on key operational activities and financial analysis. The Board also has unrestricted access to the President and CEO, the Chief Financial Officer, management and the Company Secretary as well as the internal and external auditors. The Board can also seek independent professional advice if deemed necessary.

Procedures for Developing Remuneration Policies Level and Mix of Remuneration

Disclosure on Remuneration (Principles 7, 8 and 9)

The ERCC performs the role of the Remuneration Committee. During the year, Mr Tan Guong Ching stepped down from the ERCC when he retired at the Company's AGM. Mr Ng Kee Choe also stepped down as a co-opted member. We thank Mr Tan Guong Ching

and Mr Ng Kee Choe for their invaluable contributions to the ERCC. Mr Venkatachalam Krishnakumar has replaced Mr Tan Guong Ching on the Committee.

The ERCC members are all non executive directors. Apart from Mr Peter Seah who is independent of management, the other members of the ERCC are independent directors.

The ERCC has access to professional advice from appropriate external advisors as and when it deems necessary. The ERCC may meet with these external advisors without management being present. All decisions at any meeting of the ERCC shall be decided by a majority of votes of the ERCC members present and voting (the decision of the ERCC shall at all times exclude the vote, approval or recommendation of any member who has a conflict of interest in the subject matter under consideration).

The ERCC has been authorised by the Board to carry out the following key duties and responsibilities:

- Review and establish executive remuneration policy;
- Approve the remuneration package and service terms for senior executives;
- Approve equity based incentive share plans and the grant of performance share awards and targets for senior executives;
- Approve non executive director remuneration structure.

The ERCC met four times in 2004. Its key activities centred on the assessment and development of the management team, target setting, and the determination of their compensation, incentives plan and award.

In May, the ERCC endorsed the creation of an Executive Office to support the Group's push for growth, especially in the international markets. This was subsequently approved by the Board. The Executive

Office, comprising the President and CEO, two Deputy CEOs, and the Chief Financial Officer, will strengthen the execution of the globalisation strategy and provide better focus on customers and growth areas. The two Deputy CEOs were promoted from within the Group, an endorsement of the confidence of the Board in the management team and the strength of talent in the Group.

The Committee also reviewed and approved the grant of share options and conditional performance share awards under ST Engineering's approved share plans.

The Group has set out a groupwide cross section of executives' remuneration by number of employees from \$100,000 upwards in bands of \$50,000 up to \$250,000 on page 188. This is a comprehensive analysis detailing remuneration for up to 1,000 of its key employees instead of only for a small group of selected individuals. It therefore gives a better perspective of the remuneration pattern in the Group.

The Senior Human Resource Committee, chaired by Mr Peter Seah, comprises Mr Tan Pheng Hock, Lieutenant-General Ng Yat Chung and Dr Tan Kim Siew. During the year, it met twice to review the development of senior staff as well as those staff with the potential to hold senior positions in the Group. During the year, the Committee enhanced its system of identifying and screening talent to be groomed for senior positions through a framework of eight leadership competencies. The Committee also reviewed succession plans for key positions in the Group.

Accountability (Principle 10)

The Board places importance on its relationship with shareholders as it is accountable to them for the Group's performance.

Shareholders are required to approve directors' fees and also the appointment and re-appointment of auditors.

The ST Engineering Board provides leadership and guidance on corporate strategy, business directions, acquisitions and divestments, risk policy and implementation of corporate objectives.

Directors and key senior executives of the Group are prohibited from dealing in ST Engineering shares two weeks before the announcement of ST Engineering's first quarter, half year, third quarter and full year results up to the date of the announcement of the results. Additionally, all directors of the Group and its employees are required to observe the insider trading laws at all times.

The directors' interests in shares of ST Engineering and its related companies during the year are found on pages 97 to 106.

Audit Committee (Principle 11)

The Audit Committee comprises Mr Koh Beng Seng, Dr Philip Pillai and Mr Venkatachalam Krishnakumar. All the members of the Audit Committee are independent directors. The Audit Committee held four meetings during the year including a session with the external and internal auditors, without management, to review FY2003 results.

The Audit Committee reviewed and recommended to the Board the release of the full year and half year financial statements, and considered and approved the 2004 Audit Plan and the 2004 Internal Audit (IA) Plan. It also reviewed internal control procedures, Interested Person transactions, corporate guarantee status and noted updates on the risk review undertaken by the Risk Review Committee. With delegated authority by

the Board, the Audit Committee also met and approved the release of the financial results for the first quarter and third quarter of 2004.

In the first meeting in 2005, the Audit Committee reviewed the audit observations with the external auditors for the financial statements for FY2004 audit. The Audit Committee also met with the external and internal auditors, without management, to review 2004 results. There were no major issues highlighted and the auditors confirmed that they would provide an unqualified report.

The Audit Committee reviewed the nature and extent of non audit services provided by the external auditors during the year which included tax services. It was satisfied that the quantum of services was not significant enough to call into question the external auditors' independence.

The Audit Committee also reviewed the performance of the external auditors. It recommended to the Board the re-appointment of Ernst & Young as auditors for FY2005, after having been satisfied with its standards of audit, independence and objectivity.

The Audit Committee was supported in its work by the audit committees of the four main subsidiaries. The respective Chairmen of the audit committees of the four subsidiaries were invited to attend the Audit Committee meetings of ST Engineering so as to have a clear understanding of policies made at the holding level and to give feedback from the subsidiaries' audit committees.

The Audit Committee has full authority to commission and review findings of internal investigations into matters where it is alerted of any suspected fraud or irregularity or failure of internal controls or infringement of any law likely to have a material impact on the listed Group's operating results. It can investigate any matter within its terms of reference and with the full cooperation of management.

The mix of independent and non executive directors contributes to useful and objective board deliberations. An independent minded director can constructively challenge and guide management without being adversarial in approach.

Internal Controls (Principle 12)

Internal Audit (Principle 13)

The Audit Committee oversees and appraises the quality of the audit effort of the Company's IA function.

The IA function in 2004 was carried out by the Group Internal Audit (GIA), which resided in STPL. During the year, GIA planned its IA work in consultation with, but independent of, management. GIA attended every Audit Committee meeting of ST Engineering and its subsidiaries and reported on its IA work at such meetings. In addition, the Audit Committee met GIA at least once during the year without the presence of management.

The 2004 IA Plan, which was approved by the Audit Committee, identified the broad business risks for focus in the Business Continuity Plan to be drawn up under the purview of the Risk Review Committee. When the risk processes are finalised and approved by the Board, IA will monitor and audit the risk processes.

During the year, GIA made audit visits to overseas subsidiaries in accordance with their annual IA schedule. Post acquisition audit reviews of significant investments were made to ensure the objectives of the acquisitions were met. There were no significant control issues highlighted by GIA.

The Board, through the Audit Committee, the President and CEO and the Chief Financial Officer, considers that the Group's framework of internal controls and procedures is adequate to provide reasonable assurance of the integrity, confidentiality and availability of critical information and the effectiveness and efficiency of operations, safeguarding of assets and compliance with rules and regulations. It is also satisfied that problems are identified on a timely basis and there is in place a process for follow up actions to be taken promptly to minimise unnecessary lapses.

With STPL ceasing to be the parent company of ST Engineering with effect from 31 December 2004, GIA has ceased to exist as a department. For 2005, the Company has set up its own IA department, headed by a qualified professional, reporting directly to the Audit Committee of ST Engineering. The IA department has engaged the services of an external IA service provider to supplement its limited resources, skills and competencies so as to achieve the objectives of the IA function.

Risk Management

The Risk Review Committee, chaired by Mr Winston Tan, comprises LG Ng Yat Chung, Mr Lucien Wong, Mr Venkatachalam Krishnakumar, Mr Tan Pheng Hock and Mr Chang See Hiang, a co-opted member and Board Director of Singapore Technologies Aerospace. The Committee has commissioned a consultancy firm to conduct a Value at Risk study of the risk exposures of the Group. The nature and types of risks in the four business segments of ST Engineering will be identified and thereafter internal controls will be refined and new

controls, where relevant, will be put in place to enable management to better manage significant risks. The consultant's findings will be reviewed by the Risk Review Committee before submission to the Board. The section on risk management is found on pages 88 to 90.

In 2003, GIA introduced the concept of Control Self-Assessment (CSA) in ST Engineering. CSA is a methodology that helps management to identify and manage risks. It has structured processes which tap into the knowledge and experience of staff to self assess the risks and controls of their businesses and the systems and processes employed. As a follow up to the two pilot CSA projects which were launched in two subsidiaries with the help of external facilitators, GIA carried out four CSA projects in four of the Company's subsidiaries during the year.

Budget and Finance

Budgets prepared by the respective subsidiaries are consolidated at the ST Engineering level and presented to the Budget and Finance Committee for review and recommendation to the Board for approval.

During the year, the Budget and Finance Committee held three meetings. Chaired by Mr Lucien Wong, the Committee members are Mr Quek Poh Huat, Dr Tan Kim Siew and Mr Tan Pheng Hock. The Committee also reviewed the first quarter, half year and third quarter financial statements of the Group, as well as the forecast for FY2004 against the budget at every quarter.

Business Investment and Divestment Committee

The Business Investment and Divestment Committee comprises Mr Lim Chin Beng as co-opted member and Chairman, Mr Tan Pheng Hock, LG Ng Yat Chung, Mr Winston Tan and Mr Quek Poh Huat.

All ST Engineering directors, including the CEO, retire and submit themselves for re-election at regular intervals at least once every three years. ST Engineering was an early adopter of this principle.

During the year, the Business Investment and Divestment Committee, by way of a circular resolution, approved a share swap arrangement which involved the divestment of an overseas subsidiary in exchange for a stake in the purchasing company, an overseas listed company.

**Communication with Shareholders (Principle 14)
Greater Shareholder Participation (Principle 15)**

The Group believes in prompt disclosure of information to its shareholders. In addition to quarterly live webcasts of its results and briefings to the media and investment analysts, the Investor Relations team, together with the President and CEO and Chief Financial Officer, participated in roadshows in Hong Kong, Singapore and the US during the year to ensure that the investing community receives a balanced and updated view of the Group's performance and business.

The Board members attend AGMs and Extraordinary General Meetings where shareholders present are given an opportunity to clarify or question the Board on issues pertaining to the resolutions proposed before they are voted on. The external auditors are also

present at the AGM to assist the directors in answering questions on audit related matters from shareholders. The Group fully supports the Corporate Governance Code's principle to encourage active shareholder participation.

The Group has also been supporting investor education programmes organised by the Securities Investors Association Singapore (SIAS) to enable investors to gain competency in reading and interpreting information in annual reports and other financial documents. The Group also engages in regular dialogue with SIAS for feedback to improve its disclosure and transparency standards.

Financial and other information are made available on the Company's website at <http://www.stengg.com> and these are regularly updated.

**SINGAPORE TECHNOLOGIES ENGINEERING LTD
BOARD COMPOSITION AND COMMITTEES**

(As at 31 December 2004)

	Audit Committee	Business Investment and Divestment Committee	Executive Resource and Compensation Committee/ Nominating Committee*	Budget and Finance Committee	Research Development and Technology Committee	Senior Human Resource Committee	Risk Review Committee	Tenders Committee
Board Members								
Mr Peter SEAH Lim Huat			C			C		Rolling list of any 3 Board Directors
Mr TAN Pheng Hock		M		M	M	M	M	
Mr KOH Beng Seng	C							
Lieutenant-General NG Yat Chung		M				M	M	
Dr TAN Kim Siew				M		M		
Professor LUI Pao Chuen					C			
Mr Winston TAN Tien Hin		M			M		C	
Mr Lucien WONG Yuen Kuai				C			M	
Dr Philip Nalliah PILLAI	M		M					
Mr QUEK Poh Huat		M		M				
Mr Venkatachalam KRISHNAKUMAR	M		M				M	
Brigadier-General Bernard TAN Kok Kiang ⁺								
Non Board Members								
Mr LIM Chin Beng		CC						
Mr CHANG See Hiang							CM	

Denotes:

C – Chairman, CC – Co-opted Chairman, M – Member, CM – Co-opted Member

* The members of the Executive Resource and Compensation Committee and the Nominating Committee are the same.

+ Alternate director to Lieutenant-General NG Yat Chung