

Directors' Report AS AT 31 DECEMBER 2006

(Currency – Singapore dollars unless otherwise stated)

We, the undersigned directors, on behalf of all the directors of the Company, submit this annual report to the members together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2006.

DIRECTORS

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

Peter Seah Lim Huat	(Chairman)
Tan Pheng Hock	(President and Chief Executive Officer)
Koh Beng Seng	
LG Ng Yat Chung	
Dr Tan Kim Siew	
Professor Lui Pao Chuen	
Winston Tan Tien Hin	
Lucien Wong Yuen Kuai	
Dr Philip Nalliah Pillai	
Quek Poh Huat	
Venkatachalam Krishnakumar	
BG Bernard Tan Kok Kiang	(Alternate Director to LG Ng Yat Chung)

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Except for the Singapore Technologies Engineering Executives' Share Option Scheme, Singapore Technologies Engineering Share Option Plan and Singapore Technologies Engineering Performance Share Plan (collectively the "ST Engineering Share Plans"), neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares or debentures of the Company or of related corporations either at the beginning (or date of appointment, if later) or at the end of the financial year. There were no changes in any of the directors' interests in the Company between the end of the financial year and on 21 January 2007.

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50, particulars of interests of directors who held office at the end of the financial year in shares or debentures in the Company and its related corporations were as follows:

	1 JANUARY 2006 OR DATE OF APPOINTMENT IF LATER	31 DECEMBER 2006
The Company		
Ordinary Shares		
Tan Pheng Hock	85,864	173,364
Professor Lui Pao Chuen	181,444	181,444
Winston Tan Tien Hin	200,000 ¹	315,000 ¹
Lucien Wong Yuen Kuai	–	75,000
Dr Philip Nalliah Pillai	–	75,000
Quek Poh Huat	763,228	813,728
BG Bernard Tan Kok Kiang	9,164	9,164
Related Corporations		
CEI Electronics Pte Ltd		
Ordinary Shares		
Winston Tan Tien Hin	47,520	47,520
Chartered Semiconductor Manufacturing Ltd		
Ordinary Shares		
Tan Pheng Hock	7,000	7,000
Koh Beng Seng	44,074	44,074
Dr Tan Kim Siew	25,000	–
Winston Tan Tien Hin	–	20,000
Global Crossing Limited		
Common Stock of US\$0.01 each		
Peter Seah Lim Huat	750	1,785
SembCorp Industries Ltd		
Ordinary Shares		
Peter Seah Lim Huat	140,000	N.A. ²
Professor Lui Pao Chuen	66,189	N.A. ²
Quek Poh Huat	34,676	N.A. ²
BG Bernard Tan Kok Kiang	3,951	N.A. ²
SembCorp Logistics Ltd		
Ordinary Shares		
Professor Lui Pao Chuen	105,070	N.A. ²
SembCorp Marine Ltd		
Ordinary Shares		
Professor Lui Pao Chuen	60,000	N.A. ²

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	HOLDINGS IN THE NAME OF THE DIRECTOR, SPOUSE OR INFANT CHILDREN	
	1 JANUARY 2006 OR DATE OF APPOINTMENT IF LATER	31 DECEMBER 2006
SIA Engineering Company Limited		
Ordinary Shares		
Professor Lui Pao Chuen	40,000	40,000
Singapore Airlines Limited		
Ordinary Shares		
Professor Lui Pao Chuen	8,000	8,000
Winston Tan Tien Hin	4,000	–
Venkatachalam Krishnakumar	4,000	4,000
BG Bernard Tan Kok Kiang	1,000	1,000
Singapore Airport Terminal Services Ltd		
Ordinary Shares		
Professor Lui Pao Chuen	50,000	90,000
Singapore Computer Systems Limited		
Ordinary Shares		
Quek Poh Huat	15,000	15,000
BG Bernard Tan Kok Kiang	1,000	1,000
Singapore Food Industries Limited		
Ordinary Shares		
Professor Lui Pao Chuen	20,000	20,000
Singapore Telecommunications Limited		
Ordinary Shares		
Peter Seah Lim Huat	3,180	3,040
Tan Pheng Hock	3,500	3,350
Koh Beng Seng	1,600	1,520
LG Ng Yat Chung	1,430	1,360
Dr Tan Kim Siew	2,990	2,850
Professor Lui Pao Chuen	3,370	3,210
Winston Tan Tien Hin	105,223 ³	137,980 ⁴
Lucien Wong Yuen Kuai	4,800	4,580
Dr Philip Nalliah Pillai	49,800	47,320
Quek Poh Huat	3,370	5,210
BG Bernard Tan Kok Kiang	380	380
SMRT Corporation Ltd		
Ordinary Shares		
Quek Poh Huat	8,000	8,000

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	HOLDINGS IN THE NAME OF THE DIRECTOR, SPOUSE OR INFANT CHILDREN	
	1 JANUARY 2006 OR DATE OF APPOINTMENT IF LATER	31 DECEMBER 2006
SP AusNet		
Stapled Securities		
Quek Poh Huat	206,000	206,000
SNP Corporation Ltd		
Ordinary Shares		
Winston Tan Tien Hin	54,494 ⁵	54,494 ⁵
StarHub Ltd		
Ordinary Shares		
Peter Seah Lim Huat	60,000	133,720
Tan Pheng Hock	32,000	27,430
Venkatachalam Krishnakumar	20,000	17,144
TeleChoice International Limited		
Ordinary Shares		
Peter Seah Lim Huat	50,000	50,000
Tan Pheng Hock	30,000	30,000
Vertex Technology Fund Ltd		
Ordinary Shares		
Winston Tan Tien Hin	10	10
Vertex Technology Fund (II) Ltd		
Ordinary Shares		
Tan Pheng Hock	5 ⁺	5 ⁺
Koh Beng Seng	15	15
Winston Tan Tien Hin	20	20
Redeemable Preference Shares		
Koh Beng Seng	15	15
Winston Tan Tien Hin	20	20
Vertex Investment (II) Ltd		
Ordinary Shares		
Professor Lui Pao Chuen	20	20

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	1 JANUARY 2006 OR DATE OF APPOINTMENT IF LATER	31 DECEMBER 2006	EXERCISE PRICE \$	EXERCISABLE PERIOD	
The Company					
Options to Subscribe for Ordinary Shares					
Peter Seah Lim Huat	89,000	89,000	1.92	13.8.2003	to 12.8.2007
	44,500	44,500	1.79	7.2.2004	to 6.2.2008
	40,500	40,500	1.86	12.8.2004	to 11.8.2008
	44,500	44,500	2.09	10.2.2005	to 9.2.2009
	44,500	44,500	2.12	11.8.2005	to 10.8.2009
	44,500	44,500	2.37	8.2.2006	to 7.2.2010
	44,500	44,500	2.57	11.8.2006	to 10.8.2010
	–	44,500	3.01	10.2.2007	to 09.2.2011
	–	44,500	2.84	11.8.2007	to 10.8.2011
Tan Pheng Hock	5,000	5,000	1.29	8.8.2000	to 7.8.2008
	400,000	400,000	1.418	10.2.2001	to 9.2.2009
	5,000	5,000	2.00	11.8.2001	to 10.8.2009
	400,000	400,000	2.26	10.2.2002	to 9.2.2010
	225,000	225,000	2.72	20.2.2002	to 19.2.2011
	227,500	227,500	2.68	11.8.2002	to 10.8.2011
	175,000	175,000	2.29	8.2.2003	to 7.2.2012
	175,000	175,000	1.92	13.8.2003	to 12.8.2012
	200,000	200,000	1.79	7.2.2004	to 6.2.2013
	200,000	200,000	1.86	12.8.2004	to 11.8.2013
	200,000	200,000	2.09	10.2.2005	to 9.2.2014
	200,000	200,000	2.12	11.8.2005	to 10.8.2014
	200,000	200,000	2.37	8.2.2006	to 7.2.2015
	200,000	200,000	2.57	11.8.2006	to 10.8.2015
	–	200,000	3.01	10.2.2007	to 9.2.2016
	–	200,000	2.84	11.8.2007	to 10.8.2016
Koh Beng Seng	19,500	19,500	2.09	10.2.2005	to 9.2.2009
	19,500	19,500	2.12	11.8.2005	to 10.8.2009
	27,500	27,500	2.37	8.2.2006	to 7.2.2010
	27,500	27,500	2.57	11.8.2006	to 10.8.2010
	–	27,500	3.01	10.2.2007	to 9.2.2011
	–	27,500	2.84	11.8.2007	to 10.8.2011
Professor Lui Pao Chuen	21,500	21,500	1.79	7.2.2004	to 6.2.2008
	21,500	21,500	1.86	12.8.2004	to 11.8.2008
	21,500	21,500	2.09	10.2.2005	to 9.2.2009
	25,250	25,250	2.12	11.8.2005	to 10.8.2009
	29,000	29,000	2.37	8.2.2006	to 7.2.2010
	–	29,000	3.01	10.2.2007	to 9.2.2011

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	1 JANUARY 2006 OR DATE OF APPOINTMENT IF LATER	31 DECEMBER 2006	EXERCISE PRICE \$	EXERCISABLE PERIOD	
The Company					
Options to Subscribe for Ordinary Shares					
Winston Tan Tien Hin	115,000	–	2.72	20.2.2002	to 19.2.2006
	105,000	105,000	2.29	8.2.2003	to 7.2.2007
	56,500	56,500	1.79	7.2.2004	to 6.2.2008
	46,500	46,500	1.86	12.8.2004	to 11.8.2008
	48,500	48,500	2.09	10.2.2005	to 9.2.2009
	37,000	37,000	2.37	8.2.2006	to 7.2.2010
	37,000	37,000	2.57	11.8.2006	to 10.8.2010
	–	37,000	3.01	10.2.2007	to 9.2.2011
	–	37,000	2.84	11.8.2007	to 10.8.2011
Lucien Wong Yuen Kuai	75,000	–	2.72	20.2.2002	to 19.2.2006
	59,000	59,000	2.29	8.2.2003	to 7.2.2007
	23,500	23,500	1.79	7.2.2004	to 6.2.2008
	19,500	19,500	1.86	12.8.2004	to 11.8.2008
	19,500	19,500	2.09	10.2.2005	to 9.2.2009
	19,500	19,500	2.12	11.8.2005	to 10.8.2009
	19,500	19,500	2.37	8.2.2006	to 7.2.2010
	19,500	19,500	2.57	11.8.2006	to 10.8.2010
	–	21,500	3.01	10.2.2007	to 9.2.2011
	–	21,500	2.84	11.8.2007	to 10.8.2011
Dr Philip Nalliah Pillai	75,000	–	2.72	20.2.2002	to 19.2.2006
	62,000	62,000	2.29	8.2.2003	to 7.2.2007
	31,000	31,000	1.79	7.2.2004	to 6.2.2008
	29,000	29,000	1.86	12.8.2004	to 11.8.2008
	31,000	31,000	2.09	10.2.2005	to 9.2.2009
	31,000	31,000	2.12	11.8.2005	to 10.8.2009
	31,000	31,000	2.37	8.2.2006	to 7.2.2010
	31,000	31,000	2.57	11.8.2006	to 10.8.2010
	–	33,000	3.01	10.2.2007	to 9.2.2011
	–	33,000	2.84	11.8.2007	to 10.8.2011
Quek Poh Huat	43,000	12,750	1.92	13.8.2003	to 12.8.2007
	35,000	14,750	1.79	7.2.2004	to 6.2.2008
	33,000	33,000	1.86	12.8.2004	to 11.8.2008
	33,000	33,000	2.09	10.2.2005	to 9.2.2009
	33,000	33,000	2.12	11.8.2005	to 10.8.2009
	33,000	33,000	2.37	8.2.2006	to 7.2.2010
	33,000	33,000	2.57	11.8.2006	to 10.8.2010
	–	33,000	3.01	10.2.2007	to 9.2.2011
	–	33,000	2.84	11.8.2007	to 10.8.2011

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	1 JANUARY 2006 OR DATE OF APPOINTMENT IF LATER	31 DECEMBER 2006	EXERCISE PRICE \$	EXERCISABLE PERIOD	
Venkatachalam Krishnakumar	25,250	25,250	2.37	8.2.2006	to 7.2.2010
	25,250	25,250	2.57	11.8.2006	to 10.8.2010
	–	25,500	3.01	10.2.2007	to 9.2.2011
	–	25,500	2.84	11.8.2007	to 10.8.2011
Related Corporations					
Chartered Semiconductor Manufacturing Ltd					
<i>Options to Subscribe for Ordinary Shares</i>					
Peter Seah Lim Huat	23,443	23,443	3.46	22.2.2003	to 22.2.2007
	46,887	46,887	1.86	30.8.2003	to 30.8.2007
	40,000	40,000	0.72	28.2.2004	to 28.2.2008
	45,000	45,000	1.10	29.8.2004	to 29.8.2008
	85,000	85,000	1.70	27.2.2005	to 27.2.2009
	85,000	85,000	1.16	26.8.2006	to 26.8.2010
	–	95,000	1.21	25.8.2007	to 25.8.2011
Koh Beng Seng	5,860	–	4.05	28.3.2002	to 28.3.2006
	11,721	–	4.26	15.8.2002	to 15.8.2006
	29,304	29,304	1.86	30.8.2003	to 30.8.2007
Global Crossing Limited					
<i>Options to Purchase Common Shares of US\$0.01 each</i>					
Peter Seah Lim Huat	40,000	40,000	10.16	12.1.2005	to 11.1.2014
PT Indosat Tbk					
<i>Options to Subscribe for Ordinary Shares of Rp100 each</i>					
Peter Seah Lim Huat	150,000	–	3702.6	1.8.2005	to 31.7.2006
SembCorp Industries Ltd					
<i>Options to Subscribe for Ordinary Shares</i>					
Peter Seah Lim Huat	140,000	N.A. ²	1.50	20.4.2002	to 19.4.2006
	70,000	N.A. ²	1.54	8.5.2003	to 7.5.2007
	70,000	N.A. ²	0.93	18.10.2003	to 17.10.2007
	70,000	N.A. ²	1.09	3.6.2004	to 2.6.2008
	70,000	N.A. ²	1.24	19.11.2004	to 18.11.2008
	70,000	N.A. ²	1.30	18.5.2005	to 17.5.2009
	70,000	N.A. ²	1.47	23.11.2005	to 22.11.2009
	70,000	N.A. ²	2.68	2.7.2006	to 1.7.2010
	70,000	N.A. ²	2.67	22.11.2006	to 21.11.2010

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	1 JANUARY 2006 OR DATE OF APPOINTMENT IF LATER	31 DECEMBER 2006	EXERCISE PRICE \$	EXERCISABLE PERIOD	
SembCorp Marine Ltd					
<i>Options to Subscribe for Ordinary Shares</i>					
Tan Pheng Hock	20,000	N.A. ²	0.66	28.9.2002	to 27.9.2006
	40,000	N.A. ²	0.90	8.11.2003	to 7.11.2007
	50,000	N.A. ²	0.99	9.8.2004	to 8.8.2008
	50,000	N.A. ²	1.04	11.8.2005	to 10.8.2009
	35,000	N.A. ²	2.96	12.8.2006	to 11.8.2010
StarHub Ltd					
<i>Options to Subscribe for Ordinary Shares</i>					
Peter Seah Lim Huat	37,500	–	0.88	30.11.2003	to 29.11.2007
	18,750	–	0.88	31.5.2004	to 30.5.2008
	18,750	6,250	0.88	29.11.2004	to 28.11.2008
	18,750	6,250	0.96	3.4.2005	to 2.4.2009
	18,750	12,500	0.985	27.11.2005	to 26.11.2009
	25,500	17,000	1.52	31.5.2006	to 30.5.2010
STT Communications Ltd					
<i>Options to Subscribe for Ordinary Shares</i>					
Peter Seah Lim Huat	2,000	–	0.50	29.6.2003	to 28.6.2012
	19,500	9,750	0.57	30.7.2004	to 29.7.2013
	130,000	65,000	1.08	29.7.2005	to 28.7.2014
Singapore Telecommunications Limited					
<i>Options to Subscribe for Ordinary Shares</i>					
Quek Poh Huat	60,000	–	1.42	9.9.2003	to 9.9.2007
Global Crossing Limited					
<i>Restricted Stock Units of US\$0.01 each</i>					
Peter Seah Lim Huat	6,750	5,625	5,625	8.3.2005	to 8.3.2009
	–	3,294	3,294		15.8.2007

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

	HOLDINGS IN THE NAME OF THE DIRECTOR, SPOUSE OR INFANT CHILDREN	
	1 JANUARY 2006 OR DATE OF APPOINTMENT IF LATER	31 DECEMBER 2006
The Company		
Conditional Award of 250,000 performance shares to be delivered after 2005		
Tan Pheng Hock	0 to 500,000 #1	–
Conditional Award of 250,000 performance shares to be delivered after 2006		
Tan Pheng Hock	0 to 500,000 #2	0 to 500,000 #2
Conditional Award of 250,000 performance shares to be delivered after 2007		
Tan Pheng Hock	0 to 375,000 #3	0 to 375,000 #3
Conditional Award of 250,000 performance shares to be delivered after 2008		
Tan Pheng Hock	–	0 to 375,000 #4

*1 Includes deemed interest in 200,000 shares held in the name of Winmark Investments Pte Ltd, a company in which Winston Tan Tien Hin has a 50% interest.

*2 SembCorp Industries Ltd, SembCorp Logistics Ltd and SembCorp Marine Ltd ceased to be related corporations of Temasek Holdings (Private) Limited during the financial year.

*3 Includes deemed interest in 100,000 shares in Singapore Telecommunications Limited, held by Winmark Investments Pte Ltd, a company in which Winston Tan Tien Hin has a 50% interest.

*4 Includes deemed interest in 133,000 shares in Singapore Telecommunications Limited, held by Winmark Investments Pte Ltd, a company in which Winston Tan Tien Hin has a 50% interest.

*5 Includes deemed interest in 366 shares in SNP Corporation Ltd, held by Winmark Investments Pte Ltd, a company in which Winston Tan Tien Hin has a 50% interest.

† Held in trust by a trustee company on behalf of a director.

#1 The actual number of shares to be delivered will depend on the achievement of set targets over a three-year period from 2003 to 2005. Achievement of targets below 80% target level will mean no performance shares will be delivered, while achievement up to 200% will mean up to twice the number of performance shares can be delivered. For this period, Mr Tan Pheng Hock was awarded 87,500 new shares on 20 February 2006 upon partial achievement of targets set. The balance of the conditional performance shares award covering the period from 2003 to 2005 has thus lapsed.

#2 The actual number delivered will depend on the achievement of set targets over a three-year period from 2004 to 2006. Achievement of targets below 80% target level will mean no performance shares will be delivered, while achievement up to 200% will mean up to twice the number of performance shares can be delivered.

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DIRECTORS' INTERESTS IN SHARES OR DEBENTURES (continued)

- #3 A minimum threshold performance over a three-year period from 2005 to 2007 is required for any performance shares to be released and the actual number of performance shares to be released is capped at 150% of the conditional award.
- #4 A minimum threshold performance over a three-year period from 2006 to 2008 is required for any performance shares to be released and the actual number of performance shares to be released is capped at 150% of the conditional award.

DIRECTORS' INTERESTS IN CONTRACTS

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit or any fixed salary of a full-time employee of the Company included in the aggregate amount of emoluments shown in the financial statements, or any emoluments received from related corporations and share options granted pursuant to the ST Engineering Share Plans) 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 in which the director has a substantial financial interest, except for professional fees paid to a firm of which a director is a member as shown in the financial statements.

SHARE PLANS

The Executive Resource and Compensation Committee ("ERCC") is responsible for administering the Singapore Technologies Engineering Share Option Plan ("ESOP"), the Singapore Technologies Engineering Performance Share Plan ("PSP") and the Singapore Technologies Engineering Restricted Stock Plan (collectively "Share Plans").

The Committee members are Mr Peter Seah Lim Huat (Chairman), Mr Venkatachalam Krishnakumar and Dr Philip Nalliah Pillai.

Following approval of the new Share Plans by shareholders at the Extraordinary General Meeting held on 23 November 2000, the Singapore Technologies Engineering Executives' Share Option Scheme ("ESOS") was terminated.

As at 31 December 2006, no options have been granted to controlling shareholders of the Company or associates of the Company and no employees have received 5% or more of the total options available under the Share Plans.

The number of options granted and accepted under the ESOP and the number of conditional awards under the PSP is within the 15% limit allowed under the Share Plans.

During the financial year, except as disclosed below, there were no options granted by the Company to any person to take up unissued shares of the Company:

(a) Options granted under the ESOS/ESOP

- (i) During the financial year, the following options were granted under the ESOP:

DATE OF GRANT	EXERCISABLE PERIOD	NO. OF SHARES GRANTED UNDER OPTIONS	EXERCISE PRICE \$
9.2.2006	10.2.2007 to 9.2.2016	15,148,936	3.01
9.2.2006	10.2.2007 to 9.2.2011	504,250	3.01
10.8.2006	11.8.2007 to 10.8.2016	16,313,523	2.84
10.8.2006	11.8.2007 to 10.8.2011	402,000	2.84

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SHARE PLANS (continued)**(a) Options granted under the ESOS/ESOP** (continued)

(ii) The options granted to directors under the ESOS/ESOP are as follows:

NAME OF PARTICIPANT	OPTIONS GRANTED AND ACCEPTED DURING THE FINANCIAL YEAR UNDER REVIEW	AGGREGATE OPTIONS GRANTED AND ACCEPTED SINCE COMMENCEMENT OF ESOS/ESOP TO END OF FINANCIAL YEAR	AGGREGATE OPTIONS EXERCISED SINCE COMMENCEMENT OF ESOS/ESOP TO END OF FINANCIAL YEAR	AGGREGATE OPTIONS OUTSTANDING AS AT END OF FINANCIAL YEAR
Director of the Company				
ESOS				
Tan Pheng Hock	–	1,699,864	889,864	810,000
ESOP				
Peter Seah Lim Huat	89,000	441,000	–	441,000
Tan Pheng Hock	400,000	2,402,500	–	2,402,500
Koh Beng Seng	55,000	149,000	–	149,000
Professor Lui Pao Chuen	29,000	147,750	–	147,750
Winston Tan Tien Hin	74,000	519,500	115,000	404,500
Lucien Wong Yuen Kuai	43,000	298,000	75,000	223,000
Dr Philip Nalliah Pillai	66,000	387,000	75,000	312,000
Quek Poh Huat	66,000	309,000	50,500	258,500
Venkatachalam Krishnakumar	51,000	101,500	–	101,500

(iii) In respect of options granted to employees of related corporations, no options were granted during the financial year. The total options granted from the commencement of the ESOS/ESOP to the end of the financial year is 631,479.

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

(v) No share options had been offered at a discount during the financial year ended 31 December 2006.

(b) Issue of shares under option

During the financial year, 30,953,004 ordinary shares in the Company were issued pursuant to the exercise of options to take up unissued shares of the Company.

(c) PSP

The PSP is established with the objective of motivating senior executives to strive for sustained long-term growth and performance in ST Engineering and its subsidiaries ("the ST Engineering Group"). Awards of performance shares are granted conditional on performance targets set based on the ST Engineering Group corporate objectives.

Pursuant to the PSP, the ERCC has decided to grant awards on an annual basis, conditional on targets set for a performance period, currently prescribed to be a three-year performance period. The performance shares will only be released to the recipient at the end of the performance qualifying period. A specified number of performance shares shall be released by the ERCC to the recipient and the actual number of performance shares will depend on the achievement of set targets over the respective performance period. For achievements that are below 80% of these targets, no performance shares will be given while for achievements that exceed targets by more than 100%, more performance shares than the original award will be delivered up to a maximum of 200% of the conditional award.

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SHARE PLANS (continued)

(c) PSP (continued)

The medium-term stretched targets measured over a three-year performance period are set based on ST Engineering Group corporate objectives. The performance measures used in PSP grant up to financial year 2004 are ST Engineering Group Total Shareholders' Return ("TSR") against the MSCI Asia Pacific ex Japan Industrial Index, Value Added per Employment Cost and EVA Spread.

Pursuant to the PSP for the financial year 2006, conditional awards aggregating 2,450,000 performance shares were made to 40 key executives of the ST Engineering Group, as part of the incentives plan to motivate key executives of the ST Engineering Group. The key executives include Mr Tan Pheng Hock, an executive Director of the Board, who was conditionally awarded 250,000 performance shares. This conditional award is for the performance qualifying period of 2006 to 2008.

With effect from financial year 2005, the performance measures are ST Engineering Group TSR against the MSCI Asia Pacific ex Japan Industrial Index, EVA Spread and EPS Growth.

A minimum threshold performance is required for any performance share to be released and the actual number of performance shares to be released is capped at 150% of the conditional award.

On 20 February 2006, 805,000 new shares were awarded upon the partial achievement of one of the three targets set for a grant of conditional award relating to the performance cycle from 2003 to 2005. The balance of the conditional award covering the period from 2003 to 2005 has thus lapsed.

The total number of shares in the remaining awards which are granted conditionally for the performance periods 2004 to 2006, 2005 to 2007 and 2006 to 2008 respectively, not due to be released yet, total 6,740,000. Depending on the actual performance, the total release of awards will range from zero to a maximum of 11,175,000 shares.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, one of whom is also the Chairman of the Committee. The members of the Audit Committee at the date of this report are as follows:

Koh Beng Seng (Chairman)
 Dr Philip Nalliah Pillai
 Venkatachalam Krishnakumar

The financial statements, accounting policies and system of internal accounting controls are the responsibility of the Board of Directors acting through the Audit Committee. The Audit Committee met during the year to review the scope of the internal audit functions and the scope of work of the statutory auditors, and the results arising therefrom, including their evaluation of the system of internal controls. The Audit Committee also reviewed the assistance given by the Company's officers to the auditors. The consolidated financial statements of the Group and the financial statements of the Company were reviewed by the Audit Committee prior to their submission to the directors of the Company for adoption.

In addition, the Audit Committee has reviewed the requirements for approval and disclosure of interested person transactions, reviewed the procedures set up by the Group and the Company to identify and report and where necessary, seek approval for interested person transactions and, with the assistance of the internal auditors, reviewed interested person transactions.

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

Directors' Report AS AT 31 DECEMBER 2006

(Currency – Singapore dollars unless otherwise stated)

AUDITORS

Ernst & Young have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors



Peter Seah Lim Huat
Director



Tan Pheng Hock
Director

Singapore
13 February 2007

Statement by Directors

We, Peter Seah Lim Huat and Tan Pheng Hock, being directors of Singapore Technologies Engineering Ltd, do hereby state that, in the opinion of the Directors:

- (a) the financial statements set out on pages 105 to 195 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006, and changes in equity of the Company and of the Group, the results of the business and cash flows of the Group for the 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 of Directors



Peter Seah Lim Huat
Director



Tan Pheng Hock
Director

Singapore
13 February 2007

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SINGAPORE TECHNOLOGIES ENGINEERING LTD

We have audited the accompanying financial statements of Singapore Technologies Engineering Ltd (the "Company") and its subsidiary companies (collectively the "Group") set out on pages 105 to 195, which comprise the balance sheets of the Group and the Company as at 31 December 2006, the statements of changes in equity of the Group and the Company, and the statement of profit and loss and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, Chapter 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 December 2006 and 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

Singapore
13 February 2007