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**Issuer:** SIA Engineering Company Limited

**Stock code:** S59

**Meeting details:**

Date: 23 July 2021

Time: 11.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

**Q1.** The COVID-19 pandemic caused unprecedented disruption to businesses and day-to-day lives, with the aviation sector hit especially hard. In FY2020/21, the group built on its position as one of the world’s leading maintenance, repair and overhaul (MRO) service providers and launched its Transformation Phase 2 programme to enhance its competitiveness and resilience post-COVID-19.

A new Engine Services Division was established to tap growth in the engine services market (CFM LEAP engines) while the group is also looking to acquire SR Technics Malaysia (A320, A330 and Boeing 737 aircraft). In August 2020, SIAEC acquired Airbus Services Asia Pacific’s 35% stake in its subsidiary, Heavy Maintenance Singapore Services and integrated the operations into its Base Maintenance unit. In the Philippines, the group acquired Cebu Pacific’s stake in SIA Engineering Philippines (Clark-based, for narrow-body aircraft MRO services) while divested its stake in Aviation Partnership (Philippines) Corporation (Manila-based line maintenance services) to Cebu Pacific. The joint venture with NokScoot Airlines, Line Maintenance Partnership (Thailand), is also currently in the process of dissolution.

- (i) **Can management elaborate further on the structural changes and technological trends in the aviation industry and identify the key growth drivers for the group in a post pandemic landscape?** For instance, it is expected that the narrow-body aircraft segment will lead the sector’s recovery in Asia while certain older engines may be retired early.
- (ii) **What changes to the strategic direction and the business model, if any, has the group made to position itself for long-term, sustainable growth?**
- (iii) **Is the group actively exploring opportunities to extend the group’s geographical footprint?**
- (iv) **Are there significant opportunities in “Aircraft preservation” and “Return to service checks”? If so, can management quantify the addressable market?**

The group’s numerous subsidiaries, joint ventures and strategic partnerships in its core businesses (namely “Airframe and line maintenance”, “Engine and component” and “Investment holding”) are shown on page 23 of the annual report (reproduced below).

**Subsidiaries, Joint Ventures and Strategic Partnerships**



(Source: company annual report)

The group stated that it has partnerships with the world’s leading engine and engine component manufacturers to provide a wide spectrum of engine overhaul services and will “continue to reshape its portfolio of partnerships and invest in new capabilities and services to emerge stronger and more competitive” (page 23).

- (v) **Given that technology lifecycle appears to be more compressed, would the group be constantly reshaping its partnerships to keep up with the latest technology advances?**
- (vi) **How does the group ensure that it achieves an appropriate return for its investments and that it maintains a sustainable competitive edge given the shorter technology lifecycle?**
- (vii) **Can management elaborate further on the reasons for the rationalisation of the joint ventures with Cebu Pacific? How does that impact the group’s strategic growth plans?**

**Q2.** The group's revenue for FY20/21 decreased by 55% to \$443 million as the COVID-19 pandemic brought passenger air travel to a near-complete standstill at the start of FY2020/21. Operating loss for the year was \$(25.0) million while the loss attributable to owners of the parent amounted to \$(11.2) million. The five-year financial summary can be found on page 215 of the annual report.

The group's financial performance was substantially cushioned by grants from government support schemes, most significantly, the Jobs Support Scheme ("JSS"). Without the government grants, the group would have recorded a loss of \$(192.4) million.

The disclosure of key executives' remuneration can be found on page 62 of the annual report. For FY2020/21, the aggregate total remuneration for the nine key executives listed amounted to \$4.72 million, which includes three KMPs who had joined, retired or were promoted in January 2021. The CEO's total remuneration package was \$1.53 million. In particular, the bonus component of the key executives ranged from 26% to 37% although it is also observed that the CEO's bonus was 12%.

A detailed disclosure of the remuneration matters can be found in the corporate governance report from pages 52 to 63, including the philosophy and principles of key executives' remuneration (page 54 and 55).

- (i) **Can the Compensation & HR Committee help shareholders understand the key performance indicators used to measure the performance of the key executive? How strong was the linkage of executive remuneration to the performance of the group and the company in FY2020/21?**
- (ii) **Given that the group's financial performance was boosted by over \$151.9 million of government jobs support programs (including \$143.8 million under the Jobs Support Scheme (JSS) implemented by the Singapore Government) (page 148), has the Compensation & HR Committee considered it prudent to exclude the government grants in the calculation of the bonus for the senior management team? The JSS was introduced to provide wage support to employers to help them retain their local employees during the period of economic uncertainty.**
- (iii) **The Economic Value Added (EVA) in FY20/21 dropped by 68% from \$770.1 million to \$247.5 million. Can the board clarify if the EVA of \$247.5 million achieved in FY2020/21 was calculated after factored in all the government grants?**
- (iv) **What deliberations did the Compensation & HR Committee have on replacing the EVA with NOPAT "for the COVID recovery period until end FY22/23 (page 55)? What is the impact of this change from EVA to NOPAT on the remuneration of key executives and the CEO?**

- (v) The board has acknowledged that the pandemic has adversely impacted the group’s performance and after taking into consideration the losses incurred, inter alia, the board will not be recommending a dividend for FY2020/21. **In addition, has the board considered if all stakeholders (including employees, directors and shareholders) should share the burden from the COVID-19 pandemic?**

**Q3.** The board comprises eleven directors, of which seven are independent directors. The biographies of the directors can be found on pages 6 to 13 of the annual report. Additional information on the 5 directors seeking re-election can be found on pages 230 to 239.

The directors’ expertise and experience are also shown on page 46 (reproduced below). The board has stated that it has the requisite balance and right mix of expertise, skills, knowledge, experience, attributes and other aspects of diversity such as gender and age to oversee the company’s growing businesses.



(Source: company annual report)

- (i) **Can the board/management help shareholders better understand how to interpret the chart above (page 46)?** For instance, it is shown that 7% of the board has experience in Aviation/MRO while 5% of the board has supply chain experience.

- (ii) **Can the nominating committee help shareholders understand if the independent directors have the appropriate balance and mix of skills, knowledge, experience, especially in aviation/MRO, to engage in effective and constructive debate with management/other directors?** Based on the profiles of the directors, the independent directors have strong experience in law, energy, real estate and audit while only one independent director has prior experience in aerospace.

^On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

**Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.**

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](#)

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation  
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)