

Dear Shareholders,

Overall View

MAE has made good progress in the goals set out in our last report. The non-core businesses have all ceased or divested. The Group has also started to pursue engineering business mostly in the regional markets.

We are glad to report to you that the Group has been able to improve on her previous performance through prudent financial management and cost restraining exercises. We are also gradually re-developing our technical skills and expertise towards services in process engineering and EPC (Engineering, Procurement and Construction) packaging mainly associated with the bio-technology field.

On 31 December 2005, MAE announced the proposed Acquisition of a 38% equity stake in Lereno Sdn Bhd ("Lereno") a Specialist Biodiesel manufacturer in Malaysia. We wish to report that the Group is currently carrying out a due diligence of Lereno, and if the acquisition is eventually completed, it is expected to have a significant business impact on the Group's performance in future.

Since last year, the Company has been in negotiations with potential Chinese partners for the acquisition of a substantial share in a Beijing company, Beijing Equipment Installation Engineering Corporation (BEIEC), an established firm in Mechanical and Electrical Contracting. The negotiations has been delayed due to the need for resolutions to certain terms yet to be agreed by both parties. We will update shareholders once decisions have been

achieved at the negotiations.

We anticipate that the local and regional outlook for the construction industry will improve but will be tempered by the rapid rises in fuel and materials costs. However, the proposed new investment in bio-technologies, over the medium and longer term, is expected to enjoy a strong and robust growth. As business opportunities evolve, we also anticipate that process engineering services in the bio-technology field and biodiesel manufacturing may too gradually grow to be a part of the Group's overall business.

Business Operations And Financial Review

During the financial year, the Group has been very cautious in taking on new projects in Singapore, which remains a very competitive environment for the construction industry. The effects of the fast oil price increases dominated the market for the year. As an engineering contractor, we have managed to avoid, during this period, many of the usual contractor's problems associated with rapid material price escalation.

The Group reported operating revenues of \$11.5 million for the year, a decrease from \$22.2 million for the previous year. This decrease was mainly due to lower construction income taken in, and the re-focusing of business development efforts to outside Singapore. The net loss of the Group has been further reduced from previous year's loss of \$8.6 million to \$7.1 million this year. The continued reduction in other operating expenses



Vision & Growth



Bio-diesel



of up to 53% (from \$9.8 million in FY 2005 to \$4.6 million in FY 2006) is in line with the Group's efforts to restrain and control costs.

Following the guidelines of the FRS, the Group has reclassified \$1.3 million of "fixed assets" to "assets classified as held for sale". We have also transferred the Share Premium to the Share Capital following the recent changes in the Companies (Amendment) Act 2005, whereby the par value concept was abolished on 30 January 2006.

The Group is in the process of implementing several corporate exercises to strengthen its financial base. These include the upcoming proposed Rights and Warrants Issue (approved in principle by SGX and announced on 19 May 2006) and the proposed Acquisition of Leren. These exercises when successfully completed will return the Group to a much stronger financial position with a potentially strong growth prospect.

The Group will also be considering the possibility of Creditor Share Placement to reduce further outstanding debts and to strengthen the Balance Sheet.

The Board is currently not recommending any dividends for the year.

Stability And Growth Strategy

MAE has optimized and improved its operations by making many changes to the previous senior management and staff. The repositioning of the Group's business also necessitates this. The selected staff will form the core of the future MAE management in preparation for the new opportunities in engineering and biotechnologies.

The Group's strategy is therefore to build on MAE's skills and experience in engineering, procurement, construction and its related businesses. The acquisition of new bio-technology expertise can then be leveraged off by combining these technical skills to form the foundation for a new and higher level of technology and engineering capability in the form of process engineering services.

Acknowledgement

I would like to express my deepest appreciation to all our staff and management for their continued dedication and effort to manage the Group's turn-around during the past three years and to help develop new business directions despite a particularly difficult time. I also express my gratitude to all my fellow directors for their invaluable advice, guidance and support.

Finally, I wish to express the Group's gratitude to our bankers, lawyers, business associates, clients and shareholders for their confidence and continued support to the Group.

Tan Sri Dato' Kamaruzzaman Bin Shariff
Chairman, MAE Engineering Ltd

