Singapore Technologies Engineering

NewsRelease

Electronics

"Modest PBT Growth"

FINANCIAL HIGHLIGHTS
For the second quarter ended
30 June 2005

	2005 2Q	**2004** 2Q (Restated)	**Growth** %
Turnover ($m)	154	154	-
Investment, interest and other income ($m)	3.9	3.7	5
Earnings before interest and tax (EBIT) ($m)	13.1	12.7	3
Profit before tax ($m)	17.5	16.3	8
Profit attributable to shareholders ($m)	13.2	12.3	8

- Economic Value Added for first half of 2005 was $19.6 million

"The Electronics sector showed modest PBT growth in 2Q2005. Following the earlier contracts for the Maldives Info-communication Network project and Platform Screen Door for Taipei Mucha Line Extension, we secured additional contracts for our wireless MMDS product in Mexico, in-vehicle equipment in China and harbour craft identification system from MPA.

We see growth and investment opportunities in Greater China, US, India, Kazakhstan, Mexico and the Middle East."

Seah Moon Ming, President

N.B.: All currencies are in Singapore dollars.

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Electronics sector unaudited results for the second quarter ended 30 June 2005 :

		2Q2005 $'000	2Q2004 $'000 (Restated)	+ / (-) %
1. (a)	Turnover	154,425	153,892	0.3
(b)	Cost of sales	(120,367)	(116,532)	3.3
(c)	**Gross Profit**	**34,058**	**37,360**	**(8.8)**
(d)	Other operating income	3,448	3,086	11.7
(e)	Distribution and selling expenses	(5,767)	(7,866)	(26.7)
(f)	Administrative expenses	(11,456)	(12,278)	(6.7)
(g)	Other operating expenses	(3,723)	(4,499)	(17.2)
(h)	**Profit from continuing operations before tax, other income and financial expenses**	**16,560**	**15,803**	**4.8**
(i)	Other income, net	406	585	(30.6)
(j)	Financial expenses	(103)	(32)	221.9
		16,863	16,356	3.1
(k)	Share of results of associated companies and joint ventures	643	(91)	NM
(l)	**Profit before taxation**	**17,506**	**16,265**	**7.6**
(m)	Taxation	(3,970)	(4,372)	(9.2)
(n)	**Profit after taxation**	**13,536**	**11,893**	**13.8**
	Attributable to:			
(o)	Shareholders of the Company	13,248	12,279	7.9
(p)	Minority interests	288	(386)	(174.6)
		13,536	**11,893**	**13.8**

* NM - Not Meaningful

		2Q2005 $'000	2Q2004 $'000 (Restated)	+ / (-) %
2. (a)	Profit from continuing operations is arrived at after charging/(crediting) the following :			
	Depreciation and amortisation	2,080	2,181	(4.6)
	Provision / (write-back of provision) for doubtful debts & bad debts written off, net	(1,010)	1,427	(170.8)
	Provision / (write-back of provision) for stock obsolescence, net	531	183	190.2
	Provision / (write-back of provision) for impairment in value of investments	-	-	-
(b)	Other operating income and Other income, net, comprises :			
	Investment income	2,503	2,536	(1.3)
	Interest income	708	460	53.9
	Foreign exchange gain / (loss), net	122	112	8.9
	Other income, net	521	563	(7.5)
		3,854	3,671	5.0
3. (a)	Operating Profit [1(n) above] as a percentage of Turnover	8.8%	7.7%	
(b)	Operating Profit [1(o) above] as a percentage of Issued Capital and Reserves at end of period	9.9%	11.3%	

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	2005 $'000	2004 $'000 (Restated)	+ / (-) %
4. (a) Sales reported for first quarter	151,182	144,541	4.6
(b) Operating profit after tax before deducting minority interests reported for first quarter	9,976	8,532	16.9
(c) Sales reported for second quarter	154,425	153,892	0.3
(d) Operating profit after tax before deducting minority interests reported for second quarter	13,536	11,893	13.8
(e) Sales reported for first half year	305,607	298,433	2.4
(f) Operating profit after tax before deducting minority interests reported for first half year	23,512	20,425	15.1

5. (a) There was no adjustment for over or under provision of current and deferred tax in respect of prior years.

   (b) There was no disposal of property during the period.

   (c) There was no extraordinary item during the period.

6. **Business Grouping Information**

By Business Group

	Turnover			Profit before Tax		
	2005 $'000	2004 $'000	+ / (-) %	2005 $'000	2004 $'000 (Restated)	+ / (-) %
Second Quarter						
Large-Scale Systems Group	49,393	42,067	17.4	321	(1,428)	(122.5)
Communication & Sensor Systems Group	60,009	60,439	(0.7)	6,926	6,917	0.1
Software Systems Group	45,023	51,386	(12.4)	10,259	10,776	(4.8)
Total	154,425	153,892	0.3	17,506	16,265	7.6
Six Months Ended 30 June						
Large-Scale Systems Group	92,822	74,366	24.8	(367)	(2,733)	(86.6)
Communication & Sensor Systems Group	117,310	119,991	(2.2)	13,604	13,112	3.8
Software Systems Group	95,475	104,076	(8.3)	18,052	17,952	0.6
Total	305,607	298,433	2.4	31,289	28,331	10.4

	Turnover		
	2Q2005 $'000	2Q2004 $'000	+ / (-) %
By Country of Incorporation			
Asia	153,337	152,582	0.5
USA	423	492	(14.0)
Europe	-	-	-
Others	665	818	(18.7)
Total	154,425	153,892	0.3
By Geographical Areas			
Asia	146,204	131,499	11.2
USA	1,353	772	75.3
Europe	1,342	6,574	(79.6)
Others	5,526	15,047	(63.3)
Total	154,425	153,892	0.3

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7. Review of Performance

(a) Turnover

2Q2005 vs 2Q2004

2Q2005	2Q2004	Growth	
$154m	$154m	$0m	0%

The turnover of $154 million recorded in 2Q2005 was comparable with 2Q2004. **Large-Scale Systems Group's (LSG)** sales were higher with the milestone completions of the Land Transport Authority's (LTA) Circle Line project and Kaohsiung MRT projects. Sales for **Communication & Sensor Systems Group (CSG)** were comparable with the same period last year. **Software Systems Group's (SSG)** sales were lower as a result of fewer milestones completed in 2Q2005.

2Q2005 vs 1Q2005

2Q2005	1Q2005	Growth	
$154m	$151m	$3m	2%

The turnover of $154 million recorded in 2Q2005 was slightly higher than that in 1Q2005 by 2% or $3 million. The increase was from **LSG** and **CSG** as a result of higher value project milestone completions. Sales for **SSG** were lower mainly due to fewer milestones being completed in 2Q2005.

(b) Profitability

2Q2005 vs 2Q2004

2Q2005	2Q2004 (Restated)	Growth	
$17.5m	$16.3m	$1.2m	8%

The profit before tax of $17.5 million for 2Q2005 was higher than that in 2Q2004 by 8% or $1.2 million. At the business group level, **LSG** improved on its profitability mainly due to lower operating losses incurred by overseas subsidiaries. **CSG's** profit was comparable to the same period last year. The decrease in profit for **SSG,** due to lower sales, was partly offset by higher income from associated companies.

2Q2005 vs 1Q2005

2Q2005	1Q2005	Growth	
$17.5m	$13.8m	$3.7m	27%

The profit before tax of $17.5 million for 2Q2005 was higher than that in 1Q2005 by 27% or $3.7 million. The increase was contributed by all three business groups. **LSG** improved on its profitability mainly due to lower operating losses incurred by overseas subsidiaries. **CSG's** profit was higher due to higher sales and investment income. **SSG** recorded a higher profit due to better margins in project milestones completed and investment income.

8. Prospect

3Q2005

In 3Q2005, the Electronics sector expects several project milestone completions. Under **LSG**, these include the completion of milestones in LTA's Circle Line project. Under **CSG**, we expect the completion of milestones in CityCab's integrated taxi booking and dispatch system project and sales of VSAT and electro-optics equipment. Under **SSG**, the completion of milestones in simulator projects are expected.

The Electronics sector expects higher turnover and profit before tax in 3Q2005 as compared to 2Q2005.

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9. Balance Sheet

	30 Jun 2005 $'000	31 Dec 2004 $'000 (Restated)
Fixed Assets	30,572	32,179
Associated companies and joint ventures	63,423	40,301
Long-term investments	45,537	37,178
Intangible assets	4,675	2,850
Deferred expenditure	1,037	-
Long-term receivables	24,179	18,722
Deferred tax assets	10,181	10,740
Current assets	496,915	437,764
Less: Current liabilities	(483,577)	(410,375)
Net current assets	13,338	27,389
	192,942	169,359
Less: Non-current liabilities	(57,038)	(55,759)
	135,904	113,600
Share capital and reserves	133,748	108,095
Minority interests	2,156	5,505
	135,904	113,600

In 1Q2005, Sino Stride Technology (Holdings) Limited has become an associated company due to additional investment of $5.8m (Total investment $18.9m). This has mainly resulted in an increase of $23.1m in associated companies and joint ventures.

The increase in long term investments was mainly due to fair valuation of quoted investments as a results of the adoption of FRS 39 (see Note 11).

10. Cash Flow Statement for the second quarter ended 30 June 2005

	2Q2005 $'000	2Q2004 $'000
Net cash from operating activities	30,670	24,620
Net cash from / (used in) investing activities	5,610	(1,364)
Proceeds from sale of fixed assets	-	33
Dividends from investments	1,299	1,588
Proceeds from sale and maturity of investments	1,813	10,948
Proceed from convertible loan/promissory note redemption	4,872	-
Purchase of fixed assets	(1,380)	(11,277)
Purchase of investments	(31)	(1,716)
Net cash on dilution of interest in subidiary	(963)	-
Additional investment in associated companies	-	(940)
Net cash from used in financing activities	(22,062)	(21,072)
Proceeds from bank loans	1,122	-
Capital contribution from minority shareholdre of a subsidiary	133	570
Dividend paid to shareholder of the company	(23,214)	(21,381)
Dividend paid to minority shareholders of a subsidiary	-	(229)
Interest paid	(103)	(32)
Net increase in cash and cash equivalents	14,218	2,184
Cash and cash equivalents as at 1 April	123,555	206,552
Exchange difference on cash and cash equivalents	2	304
Cash and cash equivalents as at 30 June	137,775	209,040

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11. Accounting Policies

The Sector has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements as at 31 December 2004 except for the adoption of the following new Financial Reporting Standards (FRS) that are mandatory for financial years beginning on or after 1 January 2005.

FRS 39 Financial Instruments: Recognition and Measurement
FRS 102 Share-based Payment

The impact of the changes in accounting policies are as follows:

FRS 39
In accordance with the transitional provisions of FRS 39, the effect of recognition, derecognition and measurement of financial instruments, for periods prior to 1 January 2005, is not restated. Consequently, the comparative figures for 2004 have not been restated. On 1 January 2005, the following transitional adjustments were made.

	Fair Value Reserve	Retained earnings	Total
	$'000	$'000	$'000
Fair Valuation of:			
Investments	29,493	-	29,493
Derivatives	-	199	199
Hedge Accounting:			
Cash flow hedge	147	-	147
Fair value hedge	-	-	-
	29,640	199	29,839

The adoption of FRS 39 has resulted in an increase in equity as at 1 January 2005 of $29.8 million. This is after adjusting for the related deferred taxes. In accordance with the transitional adjustment rules, there is no restatement of the 2Q2004 profit and loss account for the Sector.

FRS 102
As a result of adopting FRS 102, the Sector adjusted downwards the opening retained earnings as at 1 January 2004 by $0.4 million; likewise, the opening other reserves were adjusted upwards by the same amount. Overall, as at 1 January 2004, there was no impact on the share capital and reserves of the Sector. Further, the Sector's profit and loss account for FY2004 was reduced by $1.2 million. The impact on the Sector's profit and loss account for 2Q2004 was $0.3 million.

Apart from the above, the Sector adopted various revisions in FRS, applicable from 1 January 2005. These do not have a financial impact on the Sector. Therefore, apart from the changes in accounting policies arising from the adoption of new FRS mentioned above, the Sector continued to adopt the same accounting policies as in 2004.

FRS 103
As announced in 3Q2004, the Sector had early adopted FRS 103 : Business Combinations with effect from 1 January 2004. FRS 103 requires goodwill acquired in a business combination to be measured at cost less any accumulated impairment losses. However, 1Q2004 and 2Q2004 announcements had stated the results of the Sector on the basis of amortising goodwill; these were restated in the results for the year ended 31 December 2004. The 2Q2004 comparative figures in this announcement have been restated to account for the impact of FRS 103. As such, the profit and loss account for 2Q2004 was increased by $0.2 million. Further, the negative goodwill of $0.3 million, as of 1 January 2004, was adjusted to opening retained earnings as at that date, in accordance with the transitional provisions of FRS 103.

12. Economic Value Added (EVA)

EVA for 1H2005 was $19.6 million, an increase of $2.0 million or 11% over 1H2004. The weighted average cost of capital was 6.1% for 2005 (2004 : 7.4%).

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