

Operating Financial Review

# Land Systems



## Land Systems

### BREAKING NEW GROUND IN SPECIALTY VEHICLES AND TECHNOLOGIES

ST Kinetics is one of South East Asia's largest defence companies, with a growing portfolio of products and services for the defence, homeland security and commercial markets.

The year saw the Land Systems sector expanding its markets and range of products, and actively aligning business operations to consolidate its commercial specialty vehicles business. It continued to serve the evolving needs of the defence and homeland security markets.

ST Kinetics is in two strategic business segments.

#### Integrated Systems and Services

ST Kinetics achieved several milestones in 2006, chief of which was the commissioning of its Bionix II (BXII) infantry fighting vehicle by the Singapore Armed Forces (SAF). The BXII was designed with greater lethality, survivability and enhanced connectivity, enabling better response in today's fast-moving battlefield. ST Kinetics also showcased its integrated system of systems solutions at two major exhibitions, namely Asian Aerospace in Singapore and Eurosatory in France. Its joint participation with the Defence Science and Technology Agency, DSO National Laboratories (DSO) and the SAF at such events, under the banner of "Task Force Singapore", demonstrated how the Singapore defence ecosystem can come together to leverage emerging technologies in support of a 3rd Generation SAF.

Internationally, ST Kinetics forged further alliances with major Original Equipment Manufacturers (OEM) to establish a foothold in key markets around the world. These included partnership agreements with Cornell University of the US and Metal Storm of Australia, and a joint venture with Kalyani Group in India. Through such collaborations, ST Kinetics expanded

its product range and strengthened its capabilities in areas like unmanned technologies and advanced 40mm ammunition products, reinforcing its position as one of the few OEMs in the world to offer a comprehensive suite of 40mm weapon systems and their supporting ammunition.

Responding to the growing needs for homefront security, ST Kinetics engaged with civil and law enforcement agencies, both locally and in the region, to offer solutions for window and wall protection, emergency response vehicles as well as perimeter defence. Through partnerships, it imported unique technologies and commercialised them for the security market. An example is the People Portal, which uses a patented non-intrusive detection capability belonging to EMIT Technologies, a partner from the US.

#### Specialty Vehicles and Services

The Land Systems sector is harnessing its engineering expertise and growing network in China and the US to realise its vision of becoming a major specialty vehicles player. It is tapping on its value engineering inputs, and ability to aggregate resources and seek cheaper sources of supply, to enhance its efficiency and competitive edge. In 2006, an international procurement centre was formed to tap on China's global sub-components supplier status to reduce product costs for ST Kinetics worldwide. The formation of a sales and distribution group enabled ST Kinetics to promote and market itself globally.

ST Kinetics stayed focused in China and the US, given their market size and growth potential. In China, ST Kinetics' joint venture companies, Beijing Zhonghuan Kinetics (BZK) and Guizhou Jonyang Kinetics (GJK), launched new dump trucks and excavator products to meet the rising demand for higher grade specialty construction vehicles.

*The newly commissioned BXII infantry fighting vehicle demonstrates enhanced lethality, survivability and operational performance for today's fast-moving battlefield.*



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The newly acquired US-based VT LeeBoy, with its leadership position in commercial class asphalt pavers, brooms and related road construction and maintenance equipment, has significantly boosted the Land Systems sector's product range and strategic position in the construction market. The opening of its new and expanded production facility in Lincolnton, North Carolina, will provide ST Kinetics the capacity to meet its domestic and international growth needs in the years to come. Another US-based wholly-owned subsidiary, VT Specialized Vehicles Corporation (VT SVC), secured several contracts in 2006. It is the preferred or exclusive supplier to 15 of the top 20 US food service distributors with its range of multi-temperature trucks and trailer bodies. VT SVC expanded its homeland security offerings by selling a record number of emergency rescue bodies and trailers for municipal rescue departments.

In the automotive repairs business, ST Kinetics' STAR automotive centres in Guangzhou and Zhejiang responded well to the increased demand for quality after-sales service coupled with a growing car population in China. Both centres achieved authorised quality repair workshop status for the top five insurance companies in China and serve as independent damage assessment centres. In addition, STAR Automotive Centre (Zhejiang) secured a licence to import and export automotive spare parts in China for trading and repair, giving it an advantage over its competitors. In Guangzhou, STAR secured a major fleet maintenance contract from the Construction Bank of China.

### PERFORMANCE OF THE LAND SYSTEMS SECTOR

#### Half Yearly Performance

Compared to 1H2006, 2H2006 turnover increased by 48% or \$194m to \$598m. This was largely due to higher delivery of Bronco and BXII as well as higher weapon export and specialty vehicles sales.

Compared to 1H2006, 2H2006 PBT increased by 53% or \$14.6m to \$42.3m. This was attributable mainly to higher turnover, but this was partially offset by higher operating expenses.

#### Full Year Performance

The Land Systems sector's FY2006 turnover of \$1,002m was higher than that of FY2005 by 67% or \$402m. The higher turnover was largely contributed by Automotive (Auto) and Munitions & Weapon (M&W). The higher turnover in Auto was the result of higher specialty vehicles sales, while higher weapon export and munitions sales accounted for the higher turnover in M&W.

Compared to FY2005, the Land Systems sector's PBT of \$70m for FY2006 was higher by 8% or \$5m. This was mainly due to higher PBT in M&W, but this was partially offset by lower PBT in Auto and Services, Trading and Others (S&T). M&W's higher profit was in line with higher turnover, while the lower PBT in Auto was due to product mix and lower investment income, but this was partially offset by contribution from its specialty vehicles business. For S&T, the lower profit was due to the share of lower profits from an associated company, CityCab, but this was partially offset by increased contribution from higher turnover.



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### Major Acquisitions

Through VT Land Systems, ST Kinetics acquired B. R. Lee Industries at an enterprise value of US\$135m (\$212m). The acquired entity, renamed VT LeeBoy, is a leader in the road construction and maintenance equipment market and the number one OEM in the US by unit volume for commercial class asphalt pavers and brooms.

The joint venture with Kalyani Group to collaborate in research, development and manufacture of military land-based products and solutions, specifically in the area of large calibre guns and small arms, marked ST Kinetics' entry into the Indian defence market. ST Kinetics holds a 26% stake while Kalyani's unit, BF Utilities, holds the remaining 74% stake.

ST Kinetics also established Advanced Technology Research Centre, a 50-50 joint venture company with DSO, for further research and technology development in advanced materials for defence and commercial applications.

In addition, ST Kinetics enlarged its stake in its STAR automotive centre in Zhejiang to 86.24%, increasing the total capital injection to RMB13m (about \$2.6m), in line with the business growth in China.

### Major Projects

2006 saw the contractual delivery of major projects such as Bronco, BXII, SAR 21, Primus, Pegasus and munition products to the SAF. ST Kinetics also secured and delivered various munition and weapon contracts from overseas customers, penetrating new markets in the African continent and Latin America.

Another defence milestone was ST Kinetics' successful demonstration of a range of low velocity 40mm electrically ignited munitions jointly developed with Metal Storm. It also unveiled an array of products and competencies during Asian Aerospace that included a light armoured multi role vehicle, all terrain vehicle, multi role unmanned ground vehicle, new 40mm ammunition products and the People Portal, among others.

On the commercial front, specialised truck bodies and trailers, off-road dump trucks and excavators, road construction and maintenance equipment were successfully delivered to international customers.

ST Kinetics showcased its range of specialty vehicles at BAUMA, one of the world's largest exhibitions for the construction industry, held in Shanghai. It launched new dump trucks and excavators from BZK and GJK respectively, and introduced VT LeeBoy to the Chinese market. ST Kinetics also developed a new commercial articulated vehicle catered to search and rescue, mining, forestry as well as oil and gas industries around the world.

*(from left to right)  
ST Kinetics' commercial articulated vehicle made its debut to potential customers in the mining, oil, gas, forestry, and search and rescue industries around the world.*

*International partnerships with major OEMs like the Kalyani Group of India enable ST Kinetics to establish a foothold in key overseas markets and expand its product range.*

*The acquisition of VT LeeBoy, with its leadership position in commercial class asphalt pavers and brooms, enhanced ST Kinetics' range of specialty vehicle products for the construction industry.*

