ST Kinetics
A company of ST Engineering

Singapore Technologies Kinetics Ltd
249 Jalan Boon Lay
Singapore 619523
Tel : (65) 6265 1066
Fax : (65) 6261 6932
http://www.stengg.com
(*Regn. No.: 197100263N*)

Sir David Tweedle
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M6XH
United Kingdom

Dear Sir David,

EXPOSURE DRAFT ED/2010/6
REVENUE FROM CONTRACTS WITH CUSTOMERS

Thank you for the opportunity to comment on the International Accounting Standards Board's Exposure Draft ED/2010/6 *Revenue from Contracts with Customers* ("ED").

Singapore Technologies Kinetics Ltd ("STK") is the land systems and specialty vehicles arm of Singapore Technologies Engineering Ltd, a company listed on the Singapore Stock Exchange. STK has businesses in the defence, homeland security and commercial markets, with capabilities including design and development, systems integration, production, operations & support and through life management of a wide range of specialised land systems equipment and specialty vehicles.

We wish to provide our comments in the form of responses to the Board's questions in this ED, addressing its practicality and feasibility as documented below.

Question 1: The ED proposes a principle (price interdependence) to help an entity determine whether:
(a) To combine two or more contracts and account for them as a single contract;
(b) To segment a single contract and account for it as two or more contracts; and
(c) To account for a contract modification as a separate contract or as part of the original contract.
Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

Question 2: The ED proposes that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. The ED proposes a principle for determining when a good or service is distinct.
Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

We operate with different strategic business units to support different performance obligations. Generally, there are separate contracts for (1) the design and development of a prototype, (2) manufacturing in large quantities once the prototype is proven, and (3) the subsequent maintenance, repairs and overhaul support for the products. It is common for us to receive variation orders from customers, subsequent to the original contract, for the production and deliveries of additional units of the approved prototype.

In view of the above, the volume of the contracts, transactions and the number of variation orders (depending on customers' needs), we may have a problem to combine 2 or more contracts and account them as one.

Question 5: The ED proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated.
Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

Question 6: The ED proposes that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit).
Do you agree? If not, why?

We looked at Question 5 and 6 in the context of STK's business in general.

There will be practical application issues in deriving estimates to account for adjustments relating to credit risks and time value of money, e.g. lack of reliable detailed information on credit assessments of customers and discount rates, changes in credit risk profile during periods of economic crisis. There is also subjectivity involved in the determination of those estimates.

By recognising the surplus of actual collections over the probability-weighted revenue recognised in income rather than revenue, users of the financial statements may be confused if they try to reconcile the contract sums to the revenue presented in the financial statements.

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Question 7: The ED proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations.
Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

It is not practical to recognise revenue based on separate performance obligations, especially in defence contracts where, generally, "fair value" information is not readily available. Our defence contracts are generally customised to customer's specifications. As such, there are usually no comparable stand-alone selling prices for the separate performance obligations.

Where there are prices for separate performance obligations in the contract as agreed with the customers, we should use them as appropriate.

Question 10: The objective of the ED's proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.
Do you think the proposed disclosure requirements will meet that objective? If not, why?

There is always an element of uncertainty and judgment involved with regards to application of estimates. Hence, the introduction of several estimates such as credit risk, time-value-of-money and warranty may result in variability in revenue recognition and may result in inconsistency amongst financial statements by different companies and in different reporting periods.

Question 11: The ED proposes that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.
Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

The proposed disclosure requirement in Question 11 provides meaningful information to the reader. However, we anticipate an increase in compliance cost as a result of the additional effort required to comply with the disclosure requirement.

In addition, we have several key customer contracts with the governmental agencies. Mandatory disclosure requirement by this standard may compromise confidentiality issues.

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Question 13: Do you agree that an entity should apply the proposed requirements retrospectively (ie as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why? Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.

We do not agree to the retrospective application of the ED requirements as the information required from prior periods may not be available. Also, retrospective application on existing contracts may have an impact on prior period tax assessments. The requirements should be applied to new contracts.

The will also be costs involved in assessing and determining the retrospective impact as there are many variables and subjective elements.

Question 15: The ED proposes that an entity should distinguish between the following types of product warranties:
(a) A warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
(b) A warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract. Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

While we can see the value of information offered by the distinction of product warranties as described in Question 15, we are concerned about practical application issues. Our products are normally customised and hence would not have historical trend data to support the estimates for product failures. There are also numerous components in most of our products which make deferment of revenue by defective components a practical application challenge.

In summary, we recognise the merits of the Board's initiation for adoption of this ED as a single reference point with respect to revenue recognition standard for use across all industries. However, we sincerely hope that you will agree with our opinion and re-examine the requirements prescribed in this ED in such a manner that they are useful to portray the commercial substance of our customer contracts. We do appreciate if the comments from companies such as ours are carefully considered.

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Should further clarifications be required, do not hesitate to contact us.

Thank you.

Yours sincerely,

Ng Bor Wee
Senior Vice President/Group Financial Controller

David Choo
Vice President, Finance