

THE STRATECH GROUP LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No: 201430212R)

**RESPONSES TO SGX-ST QUERIES ON HALF-YEAR FINANCIAL STATEMENT AND
DIVIDEND ANNOUNCEMENT FOR THE FINANCIAL PERIOD ENDED 30
SEPTEMBER 2015**

The Board of Directors of The Stratech Group Limited (the “Company”) wishes to announce the following responses to SGX-ST’s queries in relation to its Half-Year Financial Statement and Dividend announcement for the financial period ended 30 September 2015 (“1H2016”), announced on 13 November 2015.

QUERY 1:

In the Income Statement, “Administrative expenses” increased 11.22%. Please provide reasons for the increase in Administrative expenses despite the 77.24% fall in Revenue. Please also provide a breakdown and elaborate on material items.

REPLY:

The increase was mainly due to marginally higher operating expenses such as salaries and its related costs due to an increase in headcount in anticipation of higher level of business activities.

QUERY 2:

Under “Trade and other receivables”, the Company disclosed a “receivable in respect of a guarantee from a director-cum-shareholder” amounting to S\$1.56 million. Please provide details on this item and the reasons for the outstanding amount unpaid.

REPLY:

The receivable in respect of a guarantee from a director-cum-shareholder amounting to S\$1.56 million was a brought forward balance and sufficient disclosures were made in the Group’s annual report (see page 75 of the FY2015 annual report).

It was previously disclosed that two receivables due from third parties had the benefit of a guarantee by a director-cum-shareholder. One of the receivables was subsequently settled but resulted in a shortfall. The shortfall was recorded as a “receivable in respect of a guarantee from a director-cum-shareholder”, and remains outstanding as the Company is making continuing efforts to recover from the remaining receivable, in respect of which the Company has obtained a court judgement and the amount awarded was higher than the total amount guaranteed by the director-cum-shareholder (see reply to Query 8 below).

QUERY 3:

For paragraph 9, please disclose if there is any variance between the “21 July 2015 and 21 October 2015” announcements and the actual results announced by the Company.

REPLY:

In the announcement made on 21 July 2015 in regard to the contract to install and maintain iFerret™ at Miami International Airport, it was stated that “... *Subject to accounting treatment, progress of work and other factors, the Group expects the contract to contribute positively to its earnings for the current financial year ending 31 March 2016...*”

In the announcement made on 21 October 2015 in regard to the contract for the upgrade of iFerret™ for the second runway at Singapore Changi Airport (plus options for the installation of iFerret™ at the airport’s upcoming third runway, maintenance and other works), it was stated that “... *Pursuant to confidentiality reasons, the Group is not able to announce details of the contract, but estimates that barring unforeseen circumstances, subject to accounting treatment and final audit, the project will contribute positively to its financial results from FY2016 for 5 years...*”

In paragraph 10 of the 1H2016 results announcement, it was stated that “... *The Group has won and was awarded the contracts announced on 21 July 2015 to install and maintain iFerret™ at Miami International Airport and on 21 October 2015 for the upgrade of iFerret™ for the second runway at Singapore Changi Airport (plus options for the installation of iFerret™ at the airport’s upcoming third runway, maintenance and other works), but these have not contributed to the 1H2016 and are expected to contribute to the Group’s activities from 2H2016 and beyond...*”

As such, there is no variance between the 21 July 2015 and 21 October 2015 announcements and the actual results announced by the Company.

QUERY 4:

In paragraph 10, it was disclosed that “The Group has won and was awarded the contracts announced on 21 July 2015 to install and maintain iFerret™ at Miami International Airport and on 21 October 2015 for the upgrade of iFerret™ for the second runway at Singapore Changi Airport (plus options for the installation of iFerret™ at the airport’s upcoming third runway, maintenance and other works), but these have not contributed to 1H2016 and are expected to contribute to the Group’s activities from 2H2016 and beyond”.

Please provide details on how material are these contracts to its order books.

REPLY:

These contracts are material to its order books. Pursuant to confidentiality reasons, the Group is unable to provide the value of these contracts.

QUERY 5:

It was disclosed that the Group has “submitted proposals for tenders for several major international airports and is in the midst of preparing proposals for several other tenders in different countries”. Please provide details on when these tenders will be closed.

REPLY:

With respect to the submitted proposals for tenders for several major international airports, these tenders referred to have closed. With respect to those proposals in which the Group is in the midst of preparation for several other tenders in different countries, the tenders are expected to be closed in this financial year.

QUERY 6:

It was also disclosed in paragraph 10 that the Group “may continue to experience delays in the issue of tenders and award of contracts, and there is inherent uncertainty of success due to competition”. Is the Company expected to continue reporting losses based on its existing projects? Please provide an update on the prospects of announced projects.

REPLY:

With respect to the first question, the Group is not in the position to make a forecast statement. The prospects of announced projects have not changed.

QUERY 7:

In paragraph 17, the Company disclosed that there is a “receivable in respect of a personal guarantee from Dr. David K.M Chew (“Dr. Chew”)”. Please explain why this receivable has not been collected.

REPLY:

Please see reply to Query 2.

QUERY 8:

The Company also disclosed that there is an Interested Person Transaction (“IPT”) relating to “Dr. Chew’s continuing guarantee for the recovery of an outstanding debt from an external party”. Please provide details of this “external party” and the background of the debts owed by the Company.

REPLY:

This is not a debt owed by the Company; the outstanding debt is due to the Company from an external party and was a brought forward balance for which sufficient disclosures were made in the Group’s annual report (see page 75 of the annual report). This debtor is the Procurement Bureau of the Republic of China, Ministry of Taiwan National Defence (MOND).

The Group obtained judgement on 9 December 2002 against MOND with respect to a contract and the amount awarded then was approximately US\$1.57 million equivalent to S\$2.17 million. The Group has registered the judgement in several jurisdictions and is continuing to make efforts to enforce the judgement by tracing the debtor’s assets worldwide.

QUERY 9:

It was mentioned in the Announcement that “the Company has rendered consultancy service to the subsidiary with a fee of S\$49,800”. Please provide details on the nature of this consultancy advice given.

REPLY:

The Group would like to clarify that it is not the Company that has rendered consultancy service to the subsidiary with a fee of S\$49,800. In paragraph 17(b) of the announcement, the Group has disclosed *that “...During 1H2016, Mr. Lim Kim Choon, a director of the Company and a subsidiary of the Company has rendered consultancy service to the subsidiary with a fee of S\$49,800...”*

The Group has engaged Mr. Lim Kim Choon as consultant of the subsidiary purely for the company to draw upon his experience and knowledge with respect to his domain expertise namely in the aerospace and defence industries for the purpose of development of the company’s products, market and business. Mr. Lim Kim Choon has rendered the consultancy service to the subsidiary since 1 October 2010 and the relevant announcement was made.

QUERY 10:

The “Aggregate value of IPT in the year” represents more than 5% of the Company’s latest audited Net Asset value. Did the Company obtain shareholders’ approval for the IPTs?

REPLY:

In relation to the IPT disclosed in paragraph 17(a) of the announcement, the director-cum-shareholder provided a benefit to the Company by providing a continuing guarantee for the recovery of two receivables due from third parties. As the value of a transaction is the amount at risk to the issuer, and this IPT is provision of a benefit to the Company, the transaction does not fall under the SGX Rule 906 although the Company disclosed the full value of the receivables guaranteed.

In relation to the transaction disclosed in paragraph 17(b) of the announcement, Rule 906(1) does not apply as the transaction is below S\$100,000.

By Order of the Board
Leong Sook Ching
Company Secretary
27 November 2015