TECHNICS OIL & GAS LIMITED
Registration No: 200205249E
(Incorporated in Singapore)

REPLY TO SGX QUERY ON AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

The Board of Directors of Technics Oil & Gas Limited (the “Company", and together with its subsidiaries, the “Group”) refers to the query raised by the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 16 February 2016 and 25 February 2016 in relation to the discrepancies between unaudited and audited accounts for the financial year ended 30 September 2015 and wishes to provide the Company’s reply to the SGX query as follows:

SGX’s Query:

In the announcement on the “Discrepancies between unaudited and audited accounts for financial year ended 30 Sep 2015” made by the Company on 11 January 2016, we note that the “Other losses” in the income statement had a variance of (S$8,702,000). In the notes, it is explained that the variance is due to allowance for impairment loss made for the amount owing by and recoverable from a third party customer. This constitutes an approximate 55.85% increase in the Company’s losses after the accounts have been audited. Trade receivables and balance on construction contract costs also decreased by the same amount as a result.

Can the Company explain the reason(s) for the deviation in the accounts which had caused understatement of the Company’s losses and overstatement of the Company’s assets?

Can the Company provide an explanation for the unbilled revenue of $7,506k for the diving air spreads projects. Why was no provision made for the purpose of the unaudited financial statements for this item?

Answer:

The variance in other losses was due to Technics Offshore Engineering Pte Ltd (“TOE”), a 100% owned subsidiary of TOG, having made impairment on amount due from a third party customer for 5 units of diving air spreads projects.

The Driving Air Spreads projects had been completed as at end of FY2014 and revenue fully recognised. However, as at 30 September 2015, TOE had yet to bill the remaining amount as TOE project team made an error on the dimensions of the equipment causing a misfit on installation and the rectification work had not been completed. In reaching a final settlement of the project, TOE agreed to a 15% discount in the contract sum, amounting to $1.6 million. Both parties have also mutually agreed that the remaining cost of rectification will be borne by the third party customer and no liquidated damages will be imposed.

The unbilled revenue of $7,506k for the diving air spreads projects was unbilled in FY2015 as the dimensions error of the equipment was not rectified and the agreement on the discount given was not concluded. Upon agreement on the final settlement amount, a revised purchase order for each of the units dated 30 September 2015 was received on 5 November 2015. On 17 November 2015, TOE invoiced the third party customer based on the revised contract sum. Management was confident that there is no collectability issue as the customer had made regular payments on the rental and utilities charges in FY2015 and aimed to collect $1.5 million from this customer before 31 December 2015.

Unfortunately, according to the third party customer, they are unable to pay until the rectification work is completed and receive payments from their end users. In compliance with accounting standards, management re-assessed and fully provided for the trade receivable of $1,316k and unbilled revenue of $7,506k for the diving air spreads projects, with a total impact of $8,822k being charged against other losses.

We did not make provision in the unaudited financial statements as management did not foresee any collectability issues and expected to receive $1.5 million from the third party customer before 31 December 2015. The impairment loss of $8.8m was adjusted in books subsequently solely for the diving air spreads projects on prudent basis.

By Order of the Board

Ting Yew Sue
Executive Chairman
Date: 26 February 2016