

Issuer: The Stratech Group Limited

Security: The Stratech Group Limited

Meeting details:

Date: 11 Aug 2016

Time: 09:00 AM

Venue: Seminar Room, 31 International Business Park, Level 1, Creative Resource (Lobby C), Singapore 609921

Company Description

The Stratech Group Limited, through its subsidiaries, engages in the design, development, integration, implementation, maintenance, and project management of information technology and advanced technology systems in Singapore and internationally. It delivers mission critical systems in the areas of intelligent vision, intelligent transport systems, and e-systems for governments and businesses. The company's intelligent vision products include iFerret, an airfield/runway surveillance, and foreign object and debris detection system; intelligent vehicle access control systems; Super BullsEye II, a weapons scoring system for air, sea, and land forces, as well as for weapons development agencies; vessel identification and positioning systems; vessel height surveillance systems; and SuperTrack, a video surveillance and analysis system. Its intelligent transport systems comprise intelligent border crossing systems; SmartFleet, a fleet management system; SmartTranz, a real-time public transport travel information system; Parkvasive for parking management and vehicle/driver access control; and electronic toll collection and electronic road pricing systems. The company's e-systems products comprise Dynamic Pricing and Secure Payment, an online certificate of entitlement auction and payment engine; SmartCare, an online medical/healthcare claims/payment processing and proration system; SmartReports, an integrated knowledge management system for parliament and court reporting; facilities management and disaster recovery solutions; and Web 2.0, a second generation Web development and design that facilitates communication, information sharing, inter-operability, and collaboration on the world wide Web. It serves aerospace and defense, financial services, government, healthcare, and homeland security, as well as air, land, and sea transportation industries. The Stratech Group Limited was founded in 1989 and is headquartered in Singapore.

Source: http://sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?page=1&code=BRR&lang=en-us

1. The auditor has included an emphasis of matter in relation to the financial statements for the financial year ended 31 March 2016. The group incurred a net loss of \$9.6 million and reported net cash outflows from operating activities of \$8.7 million. Cash and bank balances at the FY end were \$15,000. Current liabilities exceeded the current assets by \$5.4 million. **Can the board elaborate detailed immediate plans to turn-around the operations of the group and improve on the cash generative ability?** Despite the potential of iFerret and all the innovative solutions, shareholders are concerned that the group is insolvent and is unable to meet its liabilities as they fall due. The group has not made repayment of a bank trade line that was due on 30 June 2016. **Other than seeking external sources of funding, the board, and especially the Audit and Risk Management Committee (ARMC), should highlight the insolvency risks to the management team and establish a concrete plan to improve the financial position of the group. Can the ARMC comment on this?** We note that the Chairman's message highlighted all the potential of the group's technologies and all the possible opportunities but mentioned nothing about generating operating cashflow. Without management's commitment and focus to turn opportunities and projects into operating cash (in)flow, the risk of insolvency will persist. Even if shareholders approve the proposed convertible note, the S\$10 million from the first tranche will tide the group for just twelve months if the situation remains the same.

2. As at 29 July 2016, the market capitalization of the group is about S\$23 million. The proposed Convertible note (page 60 of the annual report) issue is for an aggregate principal amount of up to S\$50 million in four tranches. This proposed issue would appear to be hugely dilutive and seems like a very expensive source of financing for the group. As disclosed in the announcement dated 30 May 2016, the notes will be converted into new shares at the discretion of the Subscriber at the higher of the floating conversion price and 50% of the volume-weighted average price for the business day preceding the conversion. The subscriber has a track record of converting the notes into equity at a discount to the prevailing market price and selling them into the market. This will put pressure on the share price and creating a downward spiral. **Can the board explain the rationale of entering into the proposed convertible note issue? Can the board also explain the use of such expensive source of financing versus the projected returns from the business operations?**

3. For the financial year ended 31 March 2016, share options were issued to all the non-executive directors. On page 39 of the annual report, it was disclosed that “the RC has established a framework ... the annual grants to each of the Non-Executive directors shall comprise shares not exceeding 0.4% of the total shares available under the scheme in any one year”. The number of options granted was shown on page 50:

- Chew Hai Chwee (Member of RC): 493,652 options
- Sajjad Ahmad Akhtar (Chairman of RC): 740,478 options
- Chew Heng Ching (Member of RC): 246,826 options
- Lim Kim Choon (Non-executive director): 493,652 options

In summary, a total of 1.97 million share options with an exercise price of \$0.023 per share were issued to the three independent directors and one non-executive director.

On page 37 where the remuneration of the directors are shown, note (2) stated that the “Value of share options granted under the Company’s Share Option Scheme is not included in the above table”.

With the formal framework of granting share options to the non-executive directors, **could the RC consider adding up the total remuneration of the non-executive directors and to show it in the “Disclosure of remuneration” of the Corporate Governance report?**

In addition, shareholders are asked to approve the payment of additional Directors’ fees of S\$96,000 for the financial year ended 31 March 2016 (resolution 2). On page 36, it was mentioned that the director fee for non-executive director for FY2016 is \$48,000. **Can the RC explain in detail how the “fee structure” (on page 36) was determined and how the additional fees for serving on the board committee are justified?** The implication of the fee structure is that the directors’ fees have increased to \$288,000 a year.

On page 36, it was further mentioned that “The RC has decided that going forward, with effect from the financial year ended March 2017 (“FY2017”), Director’s fees will be paid to Non-Executive Directors of each of the Group’s direct and indirect subsidiaries, save for SSL, at 90% of the annual fees of the Company. Non-Executive Directors of SSL will not be entitled to fees.” **Can the RC explain the rationale of paying 90% of the annual fees to the directors of the subsidiaries? Who are the directors of the subsidiaries and what is the potential impact of this decision for FY2017?** Shareholders would like to understand the scope of the duties of the directors of the subsidiaries.