Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Katrina Group Ltd.

Security: Katrina Group Ltd.

Meeting details:
Date: 30 April 2019
Time: 2.00 p.m.
Venue: 4 Robinson Road, #04-01 The House of Eden, Singapore 048543

Company Description

Katrina Group Ltd. operates chains of restaurants and cafes under different food and beverage (F&B) brands and concepts. The Company serves cuisines of different ethnicity, namely Indonesian, Thai, Hong Kong, Yunnan, northern Chinese cuisine, Mexican and Vietnamese. The Company operates in Singapore and People's Republic of China. It operates a chain of 32 restaurants in Singapore and two restaurants in the PRC under its own nine brands. Its F&B brands include Bali Thai, Streats, Honguo, So Pho, Indobox, Muchos, RENNthai, Bayang and Hutong. The Bali Thai brand offers Indonesian and Thai cuisine. The Streats brand offers contemporary Hong Kong cuisine. The Honguo brand offers specialties from Yunnan. The So Pho brand offers Vietnamese cuisine. The Indobox brand offers Indonesian cuisine. The Muchos brand offers Mexican cuisine. The RENNthai brand offers Thai cuisine. The Bayang brand offers Traditional Indonesian cuisine. The Hutong brand offers Traditional northern Chinese cuisine.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=1A0)

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Q1. Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **Non-performing outlets: Given the experience of the management team, how can the group do better in site selection for its brands (and reduce having to close down non-performing outlets)? Does management consider re-badging a non-performing outlet to another brand within the portfolio?**

(ii) **Ajisen China: When does the group expect the joint venture with Ajisen China to operate So Pho in China to breakeven? What is the level of oversight and influence in the joint venture company?**

(iii) **Tomo Izakaya Pte. Ltd. (TIPL):** The initial purchase price of TIPL was S$952,767, being the sum of S$575,000 plus the estimated net tangible assets value of TIPL as at 30 September 2018. **Would management help shareholders understand how the premium over net tangible asset value ($575,000) of the target was determined? What was the 9-month profit/(loss) of TIPL?**

(iv) **Straits Organization Pte. Ltd. ("SOPL"): How is SOPL being managed? With the group's lean management team, is there sufficient management time (and experience) to oversee and drive the SOPL business?**

Q2. In FY2018, from the group's existing outlets, the $1.2 million increase in online delivery revenue was far greater than the growth in dine-in revenue of $0.8 million.

In addition, the company disclosed that online delivery almost tripled in revenue to S$7.9 million for FY2018 from FY2016.

(i) **What is the group's strategy to collaborate with the food delivery service providers to capture more value for shareholders?** While food delivery service providers help to increase sales and improve the utilisation, hefty commissions have to be paid to these food delivery service providers as well. **How does management ensure that the tie-up is beneficial to the group?**

(ii) **Has the company reviewed if the offering of food delivery services led to any cannabalisation of sales from the outlets?**

(iii) **How does management ensure that the service standard in the outlets (e.g. waiting time, food quality and availability of dishes) is not affected especially during the peak hours?**

(iv) **Has management analysed how it could cross-sell the group's other brands to its food delivery customers?**

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Q3. On 12 April 2019, the company announced that there are material differences between the unaudited results (first announced by the company on 1 March 2019) and the audited financial statements for FY2018 after the finalisation of audit.

Profit attributable to equity holders of the company increased to $431,000 (from $272,000).

The company had completed the acquisition of Straits Organization Pte. Ltd. ("SOPL") and its subsidiaries on 10 December 2018. Management needed time to familiarise themselves with the accounting records and treatments within a tight timeline (to the end of the reporting period) as SOPL was a new business to the group.

The audit of the existing F&B business was also more complex as the business volume has increased.

The audit adjustments/reclassifications included:

- The lower cost of sales of $7,000 was due mainly to over-accrual of payroll related costs
- The higher other income of $18,000 was due to the adjustment to government grant and finance costs on discounting of rental deposits to present value, which were offset by rental income received in advance previously recognized as other income
- Administration expenses reduced by $39,000 due to overprovision of bonus and professional fee
- Finance costs reduced by $6,000 due to the impact of discounting refundable rental deposits to present value
- Other expenses increased by $35,000 due mainly to additional impairment for loss-making outlets
- Income tax expenses reduced by $88,000 due mainly to the adjustment of $85,000 for over-provision of income tax in respect of prior year
- Intangible asset increased by $16,000 due to the purchase price allocation adjustments on acquisition of Tomo Izakaya Pte. Ltd. ("TIPL")
- Other receivables increased by $13,000 due mainly to additional government grant receivable
- Other payables decreased by $3,000 due to reclassification of accrued expenses to other liabilities.

(i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

(ii) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

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(iii) Would the members of the AC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?

(iv) Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Katrina%20Group%20Ltd&cid=6706,4469

The company's response could be found here: ------