**Securities Investors Association (Singapore)**
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

**Issuer:** Katrina Group Ltd.

**Stock code:** 1A0

**Meeting details:**
Date: 26 June 2020
Time: 2.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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**Q1**. The group's financial highlight is shown on page 9 of the annual report and reproduced below:



FINANCIAL HIGHLIGHT

| | FY2016 | FY2017 | FY2018 | | FY2019 | |
|---|---|---|---|---|---|---|
| | F&B | F&B | F&B | Hospitality | F&B | Hospitality |
| Sales Revenue ($'000) | 56,823 | 57,966 | 64,308 | 485 | **68,915** | **15,441** |
| Gross profit ($'000) | 8,411 | 5,712 | 6,102 | 73 | **5,833** | **1,742** |
| Net profit ($'000) | 2,368 | 1,002 | 491 | (60) | **(3,988)** | **(2,334)** |
| Earnings per ordinary share ("**EPS**") (cents) | 1.12 | 0.43 | 0.21 | (0.02) | **(1.72)** | **(1.01)** |
| Net Asset Value ("**NAV**") (S$'000) | 14,575 | 14,175 | 13,543 | 440 | **4,589** | **3,105** |
| NAV per ordinary share (cents) | 6.30 | 6.12 | 5.85 | 0.19 | **1.98** | **1.34** |

(Source: company annual report)

As seen in the table above, the profitability of the F&B segment has declined from $2.37 million in FY2016 to $491,000 in FY2018, and to a loss of $(3.99) million in FY2019. This was before the Singapore economy came to a standstill during the circuit breaker period to stop the spread of COVID-19 in the community.

(i) **With a 25-year successful track record of running restaurants, can management help shareholders understand the particular challenges in the last two years that have caused the group's profit in the F&B segment to slide?**

In particular, despite its experience, the group has had to close several non-performing outlets in each of the past two years. As at 31 December 2019, the group had a total of 44 outlets in Singapore, of which 4 were new outlets. 3 non-performing outlets were closed in FY2019, and an additional outlet was rebranded. In FY2018, three non-performing outlets were closed as well.

(ii) **How is the group carrying out its due diligence before opening its stores? What is the group's success rate with new store openings in the past 2-3 years?**

In the financial review, the group had stated that existing outlets contributed a decrease in turnover of $0.8 million in FY2019 as compared to FY2018.

(iii) **What were the main reasons for the drop in same-store sales?**

Since the first week of April 2020, the government has put in place circuit breaker measures to stop the spread of COVID-19 in the community. Dining-in at F&B outlets were banned.

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(iv) **What assistance has the group received from the landlords? With just cash and cash equivalents of $5.7 million as at 31 December 2019, will the group have enough working capital to tide it over this challenging period?** Lease payment in FY2019 was $25.8 million and interest on finance lease liabilities was $4.6 million.

(v) **What are management's strategies to reverse the down trend in net profit?**

It can also be seen from the table above, the group's hospitality business reported a substantial loss as well. In FY2018, over a short period of ownership, the company recognised a loss of $(60,000) which has increased to $(2.3) million for the whole of FY2019. When the company acquired the hospitality business, it showed a profit after tax of $64,273 for a 10-month period. The acquisition was said to "enhance shareholders' value".

(vi) **Similarly, can management elaborate further on the operational performance of SOPL, including the occupancy rate? What were the reasons for the loss and what are management's plans to turn it profitable?**

**Q2.** In April 2019, Mr Chow Wen Kwan retired as a director of the company at the conclusion of the annual general meeting. Mr Chow has been a director for less than three years. In August 2019, Mr Eric Low Siak Meng resigned as an independent director "due to personal reasons" and became an advisor to the group with effect from 1 September 2019. Mr Eric Low has been a director for just over three years from his date of appointment of 29 June 2016.

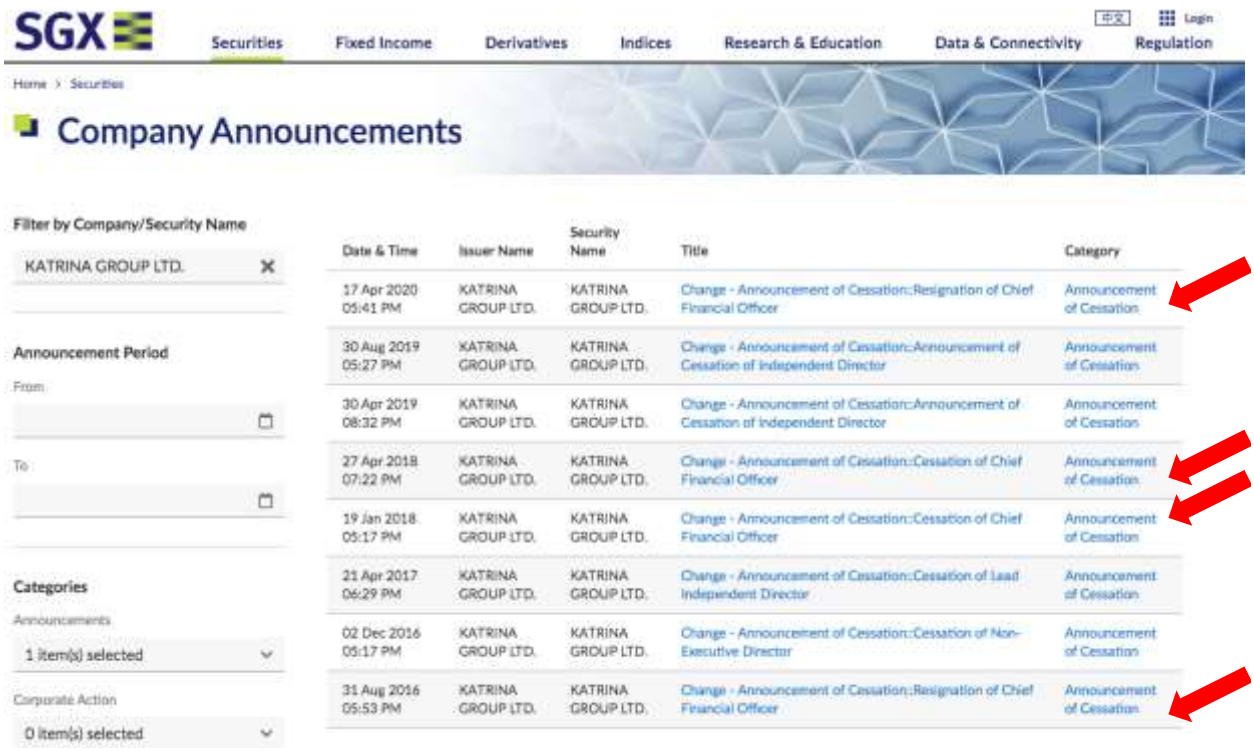
The company has appointed Ms. Joan Lau Sau Chee on 1 May 2019 and Mr. Tan Kong King on 1 September 2019. The profiles of the two new directors can be found on page 12 of the annual report.

(i) **Can the board help shareholders understand if there is sufficient continuity and stability on the board to provide guidance to management?**

(ii) **Would the board benefit from having independent directors with a good track record in running F&B/dining and/or hospitality operations?**

In addition, as shown in the company's announcements on SGX, in less than four years since the company's listing, there has been four cessations of the chief financial officer. The company newly appointed a CFO on 20 April 2020.

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(Source: https://www.sgx.com/securities/company-announcements?value=KATRINA%20GROUP%20LTD.&type=company&ANNC=ANNC04)

(iii) **Do the audit committee/independent directors think it is opportune to review the circumstances leading to the resignations of the CFOs and make commendations on how to improve the retention of key finance personnel?** The shortest tenure of its CFO was just over 3 months.

**Q3.** As noted in the Corporate Governance report, the group appointed BDO LLP to carry out the internal auditor function in FY2019. The role of the internal auditors is to assist the audit committee ("AC") in ensuring that the controls are adequate, effective and functioning as intended, to undertake investigations as directed by the AC and to conduct regular in-depth audits of high risk areas.

As a result of the internal audit, the internal auditors highlighted an issue to ensure compliance with the relevant regulations arising from early termination of stay by its tenants. In addition, other issues were highlighted such as controls of rental rates, rental agreements, cash collections, staff claims and disbursements; management of receivables and data protection policy.

(i) **Is the board satisfied with the adequacy and effectiveness of its risk management and internal control systems, especially in the hospitality segment? When will the implementation of the recommended control measures be completed?**

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The AC had also commissioned BDO LLP to facilitate the development of a risk management framework ("ERM") for the group.

(ii) **Did the AC consider if there would be any threat of self-review by the internal auditors?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

**Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.**

**Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website**

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)