



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Sakae Holdings Ltd

Security: Sakae Holdings Ltd

Meeting details:

Date: 29 October 2018

Time: 3.00 p.m.

Venue: 28 Tai Seng Street, Sakae Building, Level 7, Singapore 534106

Company Description

Sakae Holdings Ltd., together with its subsidiaries, operates as a food and beverage company. The company operates through Sakae Sushi, and Other Products and Services segments. It operates restaurants, kiosks, and cafes primarily in Singapore, China, Indonesia, Malaysia, the Philippines, Vietnam, and Chile. The company operates approximately 200 outlets under the Sakae Sushi, Sakae Delivery, Sakae Teppanyaki, Sakae Shoppe, Hei Sushi, Hei Delivery, Senjyu, Nouvelle Events & Catering, Sachi, and Crepes & Cream brand names. It is also involved in trading, sushi processing, catering, and franchising activities; provision of corporate advisory, cleaning, cold storage warehousing and logistics, corporate finance advisory, and fund management advisory services; investment property holding activities; and trading of canned and frozen seafood products. The company was formerly known as Apex-Pal International Ltd. and changed its name to Sakae Holdings Ltd. in 2010. Sakae Holdings Ltd. was founded in 1996 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5D0)

1. On 21 December 2017, the company changed its financial year end from December 31 to June 30. Accordingly, the current financial period covers a period of 18 months from 1 January 2017 to 30 June 2018 (“FY2018”). The preceding financial period covered a period of 12 months from 1 January 2016 to 31 December 2016 (“FY2016”).

In the Message to shareholders, the chairman said the following (page 2):

Our Group revenue from 1 January 2017 to 30 June 2018 (“FY2018”) totalled \$94.2 million, an increase of 8.9% compared to \$86.4 million in the previous year from 1 January 2016 to 31 December 2016 (“FY2016”). The increase in revenue was due to intense competition in the Food & Beverage industry, rationalisation of non-performing outlets, increased food and labour costs, heightened interest rates and bank loans.

- (i) Would the board help shareholders understand if it is meaningful to compare the performance achieved in a 18-month period with the results from a 12-month period?** All things being held constant, the revenue over 18 months should increase by 50%, before factoring for seasonality. The “increase” of 8.9% could be interpreted as a shortfall from the estimated 1.5x FY2016 revenue.

- (ii) Would the company also elaborate further how (a) intense competition, (b) rationalisation of non-performing outlets, (c) increased food and labour costs, (d) heightened interests rates and bank loans led to “the increase in revenue”?**

In addition, it is also noted that the company’s communications with shareholders (including SGXNet announcements and annual reports) could be further improved. Some recent examples include:

Source	Example																																							
2018 Annual report- page 6 (emphasis added)	Administrative expenses increased by 4% from \$39.3 million in FY2016 to \$40.9 million in FY2018, mainly due to the 18 months period costs incurred for FY2018. Other operating expenses decreased by 3.3% from \$28.6 million in FY2016 to \$29.5 million in FY2018, mainly due to provision of \$3.4 million for early termination of leases as the group carries out rationalisation of non-performing outlets by the first half of 2017.																																							
SGXNet announcement – Twelve months results ended 31 December 2017 (dated 15 February 2018)	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">4th Quarter ended 31 December</th> </tr> <tr> <th style="text-align: center;">2017</th> <th style="text-align: center;">2016</th> </tr> <tr> <th style="text-align: center;">S\$'000</th> <th style="text-align: center;">S\$'000</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">Net profit/(loss) for the period</td> <td style="text-align: right;">114 (5,093)</td> </tr> <tr> <td style="text-align: right;">.....</td> <td></td> </tr> <tr> <td style="text-align: right;">(loss</td> <td></td> </tr> </tbody> </table> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2" style="text-align: center;">4th Quarter ended 31 December</th> <th style="text-align: center;">Increase / (Decrease)</th> </tr> <tr> <th style="text-align: center;">2017</th> <th style="text-align: center;">2016</th> <th style="text-align: center;">%</th> </tr> <tr> <th></th> <th style="text-align: center;">S\$'000</th> <th style="text-align: center;">S\$'000</th> <th style="text-align: center;">%</th> </tr> </thead> <tbody> <tr> <td>Depreciation</td> <td style="text-align: right;">1015</td> <td style="text-align: right;">1,555</td> <td style="text-align: right;">(34.7)</td> </tr> <tr> <td>Loss on disposal of plant and equipment (net)</td> <td style="text-align: right;">100</td> <td style="text-align: right;">3</td> <td style="text-align: right;">N.M.</td> </tr> <tr> <td>Write off of plant and equipment</td> <td style="text-align: right;">50</td> <td style="text-align: right;">379</td> <td style="text-align: right;">(86.8)</td> </tr> <tr> <td>(Reversal of) Provision for impairment of property, plant and equipment</td> <td style="text-align: right;">-322</td> <td style="text-align: right;">(81)</td> <td style="text-align: right;">N.M.</td> </tr> </tbody> </table> <p>(Inconsistent formatting)</p> <p>Details of any collateral</p> <p>The Group obtained loan facilities to finance the construction of its headquarters with the lending bank as a form and short term loans for working capital. of collateral.</p> <p>5. If there are any changes required by an account of the change.</p> <p>Not applicable.</p> <p><pls amend></p>	4th Quarter ended 31 December		2017	2016	S\$'000	S\$'000	Net profit/(loss) for the period	114 (5,093)		(loss			4th Quarter ended 31 December		Increase / (Decrease)	2017	2016	%		S\$'000	S\$'000	%	Depreciation	1015	1,555	(34.7)	Loss on disposal of plant and equipment (net)	100	3	N.M.	Write off of plant and equipment	50	379	(86.8)	(Reversal of) Provision for impairment of property, plant and equipment	-322	(81)	N.M.
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SGXNet announcements - “Annual General Meeting Matters” and update announcement (dated 21 7 and September 2018) respectively	Investigation relating to “highly questionable” sales transaction; Filing of police report on the sales transaction																																							

(iii) Would the directors help shareholders understand their individual and collective efforts in the review and approval of the company’s announcements on SGXNet, including the periodic financial results announcements and the annual report?

(iv) What are the company and board’s plans to further raise the quality of its communications with shareholders and market participants?

2. In FY2013 and FY2014, the group’s flagship Sakae Sushi reported a net profit of \$10.6 million and \$10.5 million respectively. This slipped to \$6.7 million in FY2015 and then a loss of \$(3.1) million in FY2016. For the 18 month period ended 30 June 2018 (FY2018), the segment turned profitable, with net profit of \$474,000. In 2017, the group recognised a provision for \$3.4 million for early termination of leases as the group carried out the rationalisation of non-performing outlets. Management has also said that going forward, the group will continue to review and consolidate its F&B operations to optimise efficiencies so as to manage challenges better.

- (i) Would management provide shareholders with a holistic overview of its strategic plans and an operational update for its core F&B business, especially for Sakae Sushi? Please update shareholders on the number of outlets by brands and by country, the specific expansion and rationalisation plans and the key operational metrics.**
- (ii) Can management also disclose the same-store sales figures to help shareholders understand the performance of the core business?**

With its roots in its flagship brand, Sakae Sushi, the group has diversified into the following areas:

New business	Name/Initiative
Cybersecurity	Sakae Security
Fintech	Sakae Fintech – including forex trading (SakaeForex)
F&B digital token	Bitecoin
Food supply chain	Sakae Global Food Resources – Cocosa
Real estate	Griffin Real Estate Investment Holdings Pte. Ltd. and Gryphon Capital Management Pte. Ltd.
Corporate advisory services	Sakae Corporate Advisory
Fund management advisory services	Sakae Fund Management
Corporate finance advisory services	Sakae Financial Services
Commodity trading	Sakae Capital

As stated in the Corporate Governance report: Principle 1: Board’s conduct of affairs (page 17), the principal functions of the board include approving the group’s key business strategies and financial objectives; and approving major investments and divestments, and funding proposals.

- (iii) What is the level of attention and focus of the management team on the core business? With the executive chairman taking up a major appointment as nominated member of parliament, would he be able to commit sufficient time, energy and attention to the group’s matters? In addition, what is the depth and experience of the management team to oversee and drive all the new and diverse businesses in the group?**

- (iv) Did the board deliberate and approve the group's new ventures? What was the level of due diligence carried out prior to the approval? Did the board consider the amount of management and oversight resources available to safeguard shareholders' interests?**
- (v) In addition, is the lawsuit (relating to the real estate investments) taking up significant amount of management's time and attention away from the core business?**
- (vi) In addition to the Corporate structure (page 4), would the company provide better clarity on the management/reporting structure?**

3. In the disclosure on Risk management and internal controls (pages 25 and 26), the group has disclosed that the CEO and CFO did not formally provide the board with sufficient assurance relating to the internal controls of the group.

This was due to the internal control weaknesses identified which required improvement and rectification as stated in Note 2 and 10 to the Financial Statements in the Annual Report. These relate to the matters concerning:

- (a) the company's associate companies - Griffin Real Estate Investment Holdings Pte. Ltd. ("GREIH") and Gryphon Capital Management Pte. Ltd. ("GCM"); and
- (b) the highly questionable sugar transaction carried out by a representative appointed by Sakae Capital Pte Ltd (SCPL) leading to a full provision of \$5.7 million

The Board had concurred with the audit committee (AC) that the internal control systems pertaining to financial and operational controls as well as the risk management systems can be further improved as at 30 June 2018.

- (i) Would the board elaborate further on its framework and approach to assess risks in the core business and in the new ventures?**
- (ii) Does the board/management incorporate the findings from its risk assessment (if any) in the approval process of the group's proposed new ventures?**
- (iii) What are the improvements made to the group's internal control systems and the risk management systems in the past 6 months? Going forward, what are the changes that will be implemented, if any?**
- (iv) Would the board consider halting all new non-core business ventures/investments until the board is fully satisfied with adequacy and effectiveness of the group's internal controls and risk management systems?**