



Securities Investors Association (Singapore)

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Issuer: Sakae Holdings Ltd.

Stock code: 5D0

Meeting details:

Date: 31 October 2022

Time: 3.00 p.m.

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

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

- (i) **Operational strategy:** In response to weaker consumer demand and restrictions in place for dine-in, management opted to reduce the number of physical outlets and to focus more on online ordering and delivery sales. Revenue for the year decreased to just \$17.2 million. The group focused on uncertain consumer demand and adopted a cautious and prudent approach in managing its operations and businesses. Revenue from Sakae Sushi decreased from \$10.3 million to \$6.1 million although revenue from Hei Sushi increased to \$8.3 million. **What silver lining did management see in the past 2.5 years of the pandemic?** It is observed that some of the other listed Japanese/F&B operators in Singapore have reported revenue growth and improving profitability. **Can management elaborate further on the growth plans considering that the country is transitioning quickly to the endemic stage?**
- (ii) **Delivery:** What are some of the key operational milestones achieved by the group in its delivery services? Does management see food delivery continuing to grow even as COVID-related safety measures are scaled back?
- (iii) **New brands:** It appears that the group introduced new brands and new concepts to the market, such as Ichigo Ichie (vegetarian Japanese-style cuisine), Sakae Go (Japanese-fusion pasta), Tendon Sekai (tempura), Umai Bento (bento), Sango Sando (a virtual brand specialising in onigirazu) (pages 11 to 14). **What is the process that the group goes through to conceptualise new brands to bring to the market? Would the market entry strategy involve substantial investment in marketing and promotion? What is the typical gestation period for a new-to-market brand?**
- (iv) **Sakae Corporate Advisory:** What are the operational and financial achievements by Sakae Corporate Advisory?
- (v) **Griffin Real Estate Investment Holdings Pte Ltd ("GREIH") and Gryphon Capital Management Pte Ltd ("GCM"):** As disclosed in Note 14 (page 99), the group received partial returns of capital from the liquidator of GREIH of \$7,654,000 (2021: \$2,716,000). The group also recognised fair value gains of \$2.31 million in FY2022 and \$2.67 million in FY2021. **Can the company help shareholders recall the underlying assets of GREIH and GCM? What were the reasons for the fair value gains? When does the board expect the liquidations to be completed?**

Q2. The “valuation of leasehold building” is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, the leasehold building is carried at revalued amount of \$90.0 million as at 30 June 2022.

The leasehold building is a 7-storey commercial building with an area of 209,851 sqft, located at 28 Tai Seng Street, Singapore 534106, and used as office, warehouse and central kitchen production (page 110). The property is held under a land use term for 30 years, up to 30 September 2037, with an option at expiry to extend for a further 30 years.

The revaluation gain of the leasehold building recognised in other comprehensive income during the financial year amounted to \$4.05 million, net of deferred tax liabilities recognised of \$830,000. This follows a revaluation gain of \$8.84 million in FY2021.

- (i) **Can the audit committee (AC) help shareholders better understand the practice of revaluing a leasehold building included in “property, plant and equipment” (PPE) every year?**
- (ii) **How much does it cost the group to carry out a yearly valuation? Would this be unnecessary unless management has the intention to sell the asset?**
- (iii) **How much of the leasehold building is retained for the group’s use and how much of it is leased out for rental income?**
- (iv) **Would it be more appropriate to recognise part of the building as PPE and the remaining portion that is rented out as investment property in accordance with SFRS(I) 1-40 Investment Property?**

Description	Fair value		Valuation technique	Significant unobservable input	Range	
	2022	2021			2022	2021
	\$'000	\$'000			\$	\$
<u>Singapore</u> Leasehold Building	90,000	87,000	Comparable sales method	Price per square foot *	428.88	414.58

* Any significant increases (decreases) in these inputs would result in a significantly higher (lower) fair value measurement.

(Source: company annual report)

As shown above, the leasehold building is stated at valuation based on the market valuation as at 30 June 2022 as determined by RHT Valuation Pte Ltd (2021: RHT Valuation Pte Ltd), an independent valuer not connected with the group. The market valuation was determined by adopting the comparable sales method, making reference to sales of similar properties in the vicinity and adjustments for differences such as type of use/specific.

- (v) **What was the role of the AC in the valuation of the leasehold building that was carried out by RHT Valuation Pte Ltd? How did the AC consider the adjustments needed, for example, tenure, rental yield (including sale and leaseback) of comparables properties?**

Q3. In the corporate governance report, the company disclosed the names and remuneration of employees who are substantial shareholders of the company, or are immediate family members of a director, the CEO or a substantial shareholder of the company, and whose remuneration exceeds \$100,000 during the year, in bands no wider than \$100,000, in its annual report (Provision 8.2 of the Code of Corporate Governance 2018).

The company stated on page 36 that Mr Foo Kia Hee, being the father of Mr Douglas Foo Peow Yong, the executive chairman, and Ms Foo Lilian, the chief executive officer, received remuneration of between \$100,000 and \$150,000 for FY2022.

- (i) **Can the company help shareholders better understand the roles, responsibilities and deliverables of Mr Foo Kia Hee?**
- (ii) **Does Mr Foo Kia Hee report to the executive chairman and/or CEO?**

In addition, following the review of the FY2020 annual report, the following observations regarding the group's (losses)/profits and the remuneration of the executive directors were shown. The table has been updated and reproduced below:

	(Losses)/Profits attributable to shareholders	Remuneration band of Mr Douglas Foo Peow Yong (% of salary: % bonus)	Remuneration band of Ms Foo Lilian (% of salary: % bonus)
FY2015 (12 months ended 31 Dec 2015)	\$(4,631,000)	\$500,000 to below \$750,000 (93% salary; 7% bonus)	\$250,000 to below \$500,000 (93% salary; 7% bonus)
FY2016 (12 months ended 31 Dec 2016)	\$(12,636,000)	\$500,000 to below \$750,000 (86% salary; 14% bonus)	\$500,000 to below \$750,000 (86% salary; 14% bonus)
FY2018 (18 months ended 30 June 2018)	\$5,493,000	\$750,000 to below \$1,000,000 (100% salary)	\$500,000 to below \$750,000 (100% salary)

FY2019 (12 months ended 30 June 2019)	\$(12,948,000)	\$500,000 to below \$750,000 (100% as salary)	\$250,000 to below \$500,000 (100% as salary)
FY2020 (12 months ended 30 June 2020)	\$(600,000)	\$500,000 to below \$750,000 (96% as salary; 4% bonus)	\$250,000 to below \$500,000 (96% as salary; 4% bonus)
FY2021 (12 months ended 30 June 2021)	\$2,317,000	\$500,000 to below \$750,000 (100% as salary)	\$250,000 to below \$500,000 (100% as salary)
FY2022 (12 months ended 30 June 2022)	\$1,060,000	\$750,000 to \$1,000,000 (64% as salary; 36% bonus)	\$500,000 to below \$750,000 (64% as salary; 36% bonus)

(Source: company annual reports)

- (iii) It would appear that the two executive directors would always receive the same bonuses. **Can the remuneration committee (RC) help shareholders better understand the key performance indicators used to measure the performance of the executive chairman and the CEO?**

The group has suffered a cumulative loss of \$(21.95) million from FY2015 to FY2022, even with the profits in the past two years.

- (iv) **Has the RC considered it prudent to set a high water mark in the remuneration/bonus framework so that the remuneration practices are more appropriate and proportionate to the sustained performance and value creation of the company (Principle 7 of the Code of Corporate Governance 2018)?**

[^]On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
 (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

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](http://www.sias.org.sg)

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