

Independent Auditor's Report

To the members of Sakae Holdings Ltd.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Sakae Holdings Ltd. (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 38 to 108.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at December 31, 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Qualified Opinion

- (a) As disclosed in Note 2 to the financial statements, the Group has not applied the equity accounting method to account for its share of results and net assets of its associates, Griffin Real Estate Investment Holdings Pte. Ltd. ("GREIH") and Gryphon Capital Management Pte. Ltd. ("GCM"), since the financial year ended December 31, 2012 and has made a full provision for impairment loss on its investment in GREIH amounting to \$6,642,000 and \$10,099,000 at the Company level and the Group level respectively and its investment in GCM amounting to \$150,000 and \$369,000 at the Company level and the Group level respectively as at December 31, 2016 and 2015.

The non-equity accounting of its investment in the associates, GREIH and GCM, for the financial years ended December 31, 2016 and 2015 is not in accordance with FRS 28 *Investments in Associates and Joint Ventures*.

As the unaudited management accounts of GREIH and GCM were considered by the management to be unreliable as described in Note 2, we have not been able to obtain sufficient appropriate audit evidence to enable us to determine what the Group's share of results and net assets of GREIH and GCM and the related disclosures under FRS 112 *Disclosure of Interests in Other Entities* should have been had the equity accounting method been applied.

- (b) As disclosed in Note 2 to the financial statements, the Group and Company have continued to provide full allowance for potential impairment loss on its investments in GREIH and GCM. Given the uncertainties in relation to the developments and outcome of (a) the present litigations involving GREIH and GCM, and (b) the Company's report on this matter relating to GREIH to the Commercial Affairs Department in 2013, we have not been able to obtain sufficient appropriate audit evidence to enable us to determine whether any provision for impairment loss is required, and if made, the amount of impairment loss that is required to be provided, on the investments in GREIH and GCM at the Company level and the Group level as at December 31, 2016 and 2015.

Our opinion on the auditors' report for the financial statements for the financial year ended December 31, 2015 was qualified on the same basis.

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis of Qualified Opinion* section above, we were unable to obtain sufficient appropriate audit evidence to enable us to determine (a) what the Group's share of results and net assets of GREIH and GCM and the related disclosures should have been had the equity accounting method been applied, and (b) whether any provision for impairment loss is required, and if made, the amount of impairment loss that is required to be provided, on the investments in GREIH and GCM at the Company level and the Group level as at December 31, 2016 and 2015. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis of Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters

How the matter was addressed in the audit

Loan covenant and going concern assumption

The Group is highly geared (total bank borrowings as at December 31, 2016 is \$50.6 million), has regular debt repayments and covenants as stipulated in the bank loan agreements.

As disclosed in Note 20 to the financial statements, as at December 31, 2016, the Group was not able to maintain a certain level of debt to equity ratio as required in the bank loan agreement. Subsequent to year end, the bank issued a revised facility letter to the Group to revise the covenant, such that the Group is in compliance with the revised covenant.

Impacted by the economic downturn and stiff competition in Food & Beverage industry, the Group incurred losses of a total amount of \$12.4 million during the year with a decline in revenue from prior year by 10.1%, generated a negative operating cash flow of \$2.4 million and is in the current liability position amounting to \$37.4 million as at year end.

Our audit approach included the following substantive procedures:

- Obtained an understanding of management's perspectives relating to the business;
- Challenged management's assessment of the appropriateness of the going concern assumption for reasonableness;
- Obtained confirmation reply from the lenders confirming the outstanding amount as at December 31, 2016;
- Obtained the cash flows and challenged the key assumptions used by the management;
- Checked the outstanding short-term revolving loans as at December 31, 2016, which were due subsequent to the year end, were approved by lenders for roll-over;
- Checked to the approval of the additional credit facility obtained subsequent to year end;

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Key audit matters

How the matter was addressed in the audit

Loan covenant and going concern assumption (cont'd)

As disclosed in Note 5(c)(iv) to the financial statements, management is of the view that the going concern assumption continues to be appropriate based on the following grounds:

- 1) Ability of the Group to continue to generate sufficient cash flows from its future operations in order to meet its day-to-day expenditure;
- 2) Credit facilities from the Group's lenders to be available over the next twelve months or as and when is required. As at December 31, 2016, the Group and the Company have short-term revolving bank loans of \$39,500,000 which are renewable at maturity; and
- 3) Subsequent to the end of reporting period, the Group and the Company have further obtained \$5,000,000 credit facilities from a bank for the Group and Company to carry out outlets rationalisation strategy.

- Reviewed management's assessment regarding compliance with loan covenants stipulated in the loan agreements and the revised facility letter received after year end; and
- Reviewed the related disclosures and classifications in the financial statements in accordance with FRSs, including financial risk management policies and objectives on liquidity management.

Impairment of assets - Freehold land, building on freehold land and leasehold building

Property, plant and equipment ("PPE") (Note 17) represents a significant portion of the Group's and Company's total assets and their proportion as at December 31, 2016 is 71% and 68% respectively.

Out of the total balance, freehold land, building on freehold land and leasehold building are stated at valuation based on the market valuation as at December 31, 2016. Their proportion to the Group's and Company's total PPE is 89% and 95% respectively.

As disclosed in Note 4(ii)(c) to the financial statements, these assets are revalued based on the valuation performed by independent professional valuers engaged by the Group.

In determining the fair value of these assets, the valuer has used comparable sales method which involve the making of certain assumptions, such as the market price of similar properties located in the vicinity.

In relying on the valuation report of a professional valuer, the Group has exercised judgment in arriving at a value which is reflective of the current market conditions.

Our audit approach focused on evaluating and challenging the key assumptions used by management which include the following procedures:

- Obtained valuation reports and discussed with valuers to understand the assumptions and valuation techniques used;
- Assessed the competency, capabilities, independence and objectivity of the valuers;
- Evaluated the appropriateness of the valuation techniques used by the valuer for the respective asset, taking into account the nature of each asset;
- Compared the market rental rate or market price of the respective investment property to comparable properties in the vicinity;

We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.

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Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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To the members of Sakae Holdings Ltd.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, except for the matters referred to in the *Basis for Qualified Opinion* paragraphs, the accounting and other records required by the Act to be kept by the Company and by the subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Chua How Kiat.



Public Accountants and
Chartered Accountants
Singapore

June 5, 2017