

**SAKAE HOLDINGS LTD.**

Company Registration Number 199604816E  
(Incorporated in the Republic of Singapore)

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**COMPLETION OF COCOSA EXPORT INDEPENDENT AUDIT AND UPDATE ON INTRAGROUP DIFFERENCES**

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**1. INTRODUCTION**

- 1.1 The Board of Directors of Sakae Holdings Ltd. (“Company” or together with its subsidiaries, the “Group”) refers to the Company’s previous announcements dated 21 October 2019, 14 February 2020, 15 May 2020, 30 August 2020, 15 October 2020, 13 November 2020 and 11 February 2021 (collectively, the “Previous Announcements”). Unless otherwise defined, the capitalised terms used herein shall have the same meanings as defined in the Previous Announcements.
- 1.2 By way of background, as stated in the Previous Announcements, the Audit Committee of the Company had appointed KPMG Services Pte. Ltd. (“KPMG”) to conduct an independent audit of the Company’s investment in Cocosa Export S.A. (“Cocosa Export”). The Company also appointed its previous statutory auditor, Deloitte & Touche LLP (“Deloitte”) to perform an Agreed Upon Procedure (“AUP”) in relation to the reconciliation of the intragroup differences of \$1,540,000 as identified in the auditor’s report of the Company and its subsidiaries for the year ended 30 June 2019 (“Intragroup Differences”).
- 1.3 As Deloitte was also the statutory auditor for the Company for FY2020, the process of reconciliation and rectification of the intragroup differences running in parallel with the statutory audit for FY2020 resulted in adjustments being made to the audited financial statements and the resolution of the matter as stated in the auditor’s report for FY2020.
- 1.4 Both KPMG and Deloitte have issued their respective final reports to the Company on 12 May 2021. The observations arising from both reports have also been reported to the Company’s Audit Committee and the Singapore Exchange Regulation Pte. Ltd. (the “Exchange”). This Announcement is an update of both the above matters. The executive summary of KPMG report (Appendix 1) and AUP report by Deloitte (Appendix 2) are attached to this announcement. Kindly note that trade sensitive information has been redacted in the reports.

**2. ACTIONS TAKEN AND COMPLETED**

- 2.1 The Audit Committee, together with the Board, observe that both reports resolutely do not indicate fraudulent or dishonest impropriety in relation to both matters that were the subjects of the respective reviews.
- 2.2 Notwithstanding the above, the Company is cognisant that internal control processes can be further improved. In fact, even before the reports of both the above respective reviews were concluded, the Company had already appointed an external consultant in April 2019 to review its internal control policies. Taking into account the recommendations of both the KPMG and Deloitte reports, as well as that of the said consultant, management has presented the following amended policies to the Board for approval:

	Policy	Enhancement to processes
a)	Payments processing policy	Amended policy to provide for the event that if the second group of authorized signatories are not around to process urgent transactions, a request for written approval (via email) should be sent to the relevant authorized signatory. The exception, the reason for requesting the exception, the compensating controls and the time period for which the exception is requested should be formally documented. The exception should only be executed upon receipt of written approval from the relevant authorized signatory/signatories. The relevant documentation for ratification should be prepared upon his / her return. This will not be applicable for processing online transactions and payments, as online payments can be approved anywhere.
b)	Internal accounting control policy	<p>New internal accounting control policy that consolidates and documents the Company's internal accounting policies and procedures.</p> <p>The policy has also been bolstered to provide that the Finance Manager is required to review the monthly intercompany reconciliations and bank reconciliations by the specified timeline of each month. If such review is incomplete, the Chief Financial Officer will follow up with the Finance Manager to ensure the completion by the specified timeline of each month. If the review cannot be completed by then, the Chief Executive Officer will be informed and action will be taken accordingly to ensure the monthly financial statements can be completed by the specified timeline of the month. Chief Financial Officer will work closely with the finance team and update Chief Executive Officer accordingly monthly.</p> <p>Further, in order to enhance the ability to continuously monitor the financial performance and position of overseas subsidiaries, monthly timelines for the monthly, quarterly and annual reporting to the Group Finance have been specified.</p>
c)	Employee retention & training policy	The introduced policy formally documents staff retention practices such as periodic review by management of the staff work scope and competency, staff remuneration packages, health benefits and insurance plans so as to maintain the Company's competitiveness as an employer in the job market. Also, the policy highlights that it is a priority to invest in the employees' staff training programme to improve and enhance their technical proficiency and professional development. The cost of such staff retention programme and staff training programme will be adequately budgeted for.

d)	New business and new projects policy	<p>The introduced policy requires that management considers, inter alia, the experience and expertise required when executing new businesses/projects and that management implements internal controls to ensure that the Company's interests are protected.</p> <p>The policy also includes that the various costs of due diligence, namely market due diligence, commercial due diligence, financial due diligence, tax due diligence and integrity/anti-corruption due diligence should be adequately budgeted for future investments.</p> <p>In addition, the policy also includes the enhancement of shareholder protection measures in future investments, with provisions for representation on the board or executive management team of the target investment and specific obligations to furnish detailed financial reportings to ensure proper monitoring of investments.</p> <p>Further, the policy includes onboarding the accounting books and record of its subsidiaries onto the Company's SAP system or leverage a continuous monitoring system to enable efficient and effective financial oversight of its subsidiaries. This would complement management review and internal audit programmes to enhance the governance and oversight of its subsidiaries, particularly new investments.</p>
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2.3 The Board has since approved for the Company to proceed with the changes stated above. Implementation of the policies has been done progressively since July 2019 and will continue to be refined and implemented taking into consideration the recommendations stated in the above reports.

### 3. ACTIONS GOING FORWARD

3.1 To ensure accountability and adherence to the above implemented policies, the processes stated in the policies will be included in the scope of the internal audit function to be performed by independent professional service providers reporting directly to the Audit Committee. The Company will continue to strengthen its work processes and policies to improve its internal control environment.

#### By Order of the Board

Chan Lai Yin  
Company Secretary

12 May 2021



## 2 Executive summary

### 2.1 Introduction

- 2.1.1 On 7 February 2020, Sakae Holdings Ltd. (“SHL” or “Company”) appointed KPMG Services Pte. Ltd. (“KPMG”) to conduct an independent audit of the Company’s investment in Cocosa Export S.A. (“Cocosa Export”), a Chilean entity which is primarily engaged in the production and trading of canned and frozen seafood. The observations arising from our work will be reported to the Company’s Audit Committee and Singapore Exchange Regulation Pte. Ltd. (the “Exchange”). The audit was conducted in accordance with the terms of our engagement letter dated 7 February 2020 (the “Engagement Letter”).
- 2.1.2 In March 2016, SHL, through its subsidiaries<sup>5</sup>, acquired a 51% shareholding in Cocosa Export from Julio Leonardo Pérez Gutiérrez (“JLPG”), formerly the ultimate shareholder of Cocosa Export. JLPG continued to hold the remaining 49% of Cocosa Export.
- 2.1.3 In March 2019, SHL assessed that it had lost control over Cocosa Export and derecognised the investment in the 2019 financial statements, even though the Company continued to hold a 51% shareholding. The Company also made a loss allowance of SGD 2,791,000 against the gross receivables due from Cocosa Export totalling SGD 5,412,000 and recorded a related party receivable due from a company owned by JLPG totalling SGD 1,337,000. In SHL’s 2019 annual report, the Company’s statutory auditor issued a disclaimer of opinion on the loss of control in Cocosa Export and the receivables.

### 2.2 Objective and scope of work

- 2.2.1 The objective of our work was to substantiate the circumstances surrounding the investment in Cocosa Export and related transactions (the “Transactions”), uncover any undisclosed relationships among the parties involved, the circumstances resulting in the loss of control, the non-receipt of the outstanding receivables and the nature of the receivables, to highlight any internal control lapses and provide recommendations for improvements, where applicable, as well as to highlight any potential breaches of listing rules, laws or regulation, where applicable, and irregularities, if any.
- 2.2.2 The scope of work to achieve our objective is summarised below:
- Obtain an understanding of the policies and procedures in relation to investments, accounts receivables and sales, and fund administration, which include payments and receipts of the Company;
  - Conduct background checks on certain key management and staff members, Cocosa Export, JLPG and, any other related companies and individuals;
  - Obtain and peruse the supporting documents in connection with the Company’s investment in Cocosa Export in March 2016;

<sup>5</sup> Apex-Pal Investment, Sakae Global Resources Pte. Ltd. and Cocosa Holdings Pte. Ltd.



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- Obtain and peruse the supporting documents in connection with the Company's transactions with Cocosa Export and its related companies;
- Obtain and peruse the supporting documents in connection with the receivables from Cocosa Export and its non-controlling shareholder and its associates;
- Obtain and analyse forensic images of computer systems, mobile devices and other electronic storage devices assigned to relevant employees; and
- Conduct interviews with relevant parties.

## **2.3 Fieldwork performed**

- 2.3.1 Our fieldwork was primarily conducted at SHL's offices at the Sakae Building, 28 Tai Seng Street, Singapore from 14 February 2020 to 11 March 2020.
- 2.3.2 We conducted background searches on relevant parties (nine entities and thirteen individuals) involved in the investment in Cocosa Export in Singapore and Chile up to 17 March 2020. This included conducting corporate registry searches in Chile on three entities affiliated with JLPG and three individuals, including JLPG.
- 2.3.3 Particularly, we acquired forensic images of computer systems assigned to and email databases of seven personnel, including the Chairman, Chief Executive Officer ("CEO"), Chief Finance Officer ("CFO") and former members of the Finance team of SHL. We applied keyword searches and reviewed 15,228 relevant emails and electronic documents created during the period from 1 January 2015 to 28 February 2020<sup>6</sup>.

## **2.4 Limitations of our observations**

- 2.4.1 Although SHL maintained the accounting books and records of Cocosa Holdings Pte. Ltd. ("Cocosa Holdings") and Cocosa Asia Pte. Ltd. ("Cocosa Asia"), it did not have access to the accounting books and records of Cocosa Export as these were maintained by JLPG in Chile. The Company has limited information on Cocosa Export's accounting books and records. The Company conducted periodic reconciliations of its balances with Cocosa Export with JLPG who, in turn, provided management accounts and Excel workings. However, in spite of several requests from management from March 2019 for supporting documents related to Cocosa Export's transactions, emails record that JLPG did not provide the information.
- 2.4.2 We made several attempts to access the accounting books and records of Cocosa Export but, at the date of this report, we were unable to access these. We tried to contact JLPG by email and telephone unsuccessfully. As at the date of this report, we have not been able to access Cocosa Export's offices at Don Carlos 2939, Las Condes, Santiago de Chile.
- 2.4.3 We did not have access to the statutory auditor's working papers. As such, we are not able to comment on or assess the statutory audit of the Company with respect to the Cocosa Group.

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<sup>6</sup> Being the date when the final image was acquired.



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## 2.5 Summary of observations

### *The Cocosa Group*

- 2.5.1 The Cocosa Group consists of three entities:
- Cocosa Holdings – an investment holding company that was established for the purpose of investing in Cocosa Export (a 99% shareholding) and Cocosa Asia (a 100% shareholding);
  - Cocosa Export – a Chilean company that produces and markets canned and frozen seafood; and
  - Cocosa Asia – a wholesale trading company that purchases canned and frozen seafood from Cocosa Export for onward sale to supermarket chains and restaurants in Singapore and overseas.
- 2.5.2 A shareholders' agreement between Sakae Global Resources Pte. Ltd. ("Sakae Global Resources"), JLPG and Cocosa Holdings was executed on 4 March 2016 ("Shareholders' Agreement"). The Shareholder's Agreement states that SHL shall represent two-thirds of Cocosa Holding's board (i.e., Mr. Foo and Ms. Foo being the two SHL directors and JLPG being the third director) and that the Chairman of Cocosa Holdings shall be an SHL director. The Shareholder's Agreement also states that all resolutions shall be passed by a majority of votes and that, in the event of an equality of votes, the Chairman of Cocosa Holdings shall have the casting vote. Management stated that the purpose of the Shareholders' Agreement was to give Cocosa Holdings, and ultimately SHL, control over the Cocosa Group.
- 2.5.3 Cocosa Export's financial statements were audited by international accountancy firms. The audited financial statements for the year ended 31 December 2016 state that Cocosa Export made a net loss after tax for the year of CLP 27.9 million (approximately SGD 60,000<sup>7</sup>) and net assets of CLP 1.1 billion (SGD 2.4 million) as at 31 December 2016. A qualified audit opinion was issued on Cocosa Export's financial statements in 2016 because the functional currency<sup>8</sup> in which they were presented was Chilean pesos instead of US dollars and there was an unreconciled intercompany balance with SHL of CLP 190,386,000 (SGD 411,233). The Company did not receive financial statements from Cocosa Export for the year ended 30 June 2018<sup>9</sup>. The minutes of Board meetings held in February 2019 and May 2019 record that the statutory auditor qualified Cocosa Export's financial statements in 2018 because the company was not able to provide supporting documents in relation to its retained earnings, inventory, receivables and fixed assets (i.e., property, plant and equipment). The emails and minutes reviewed did not indicate that Cocosa Export was in financial distress during the 2018 statutory audit.

<sup>7</sup> Converted to SGD at the rate of CLP 1 = SGD 0.00216 at 31 December 2016 according to xe.com.

<sup>8</sup> International Accounting Standard 21: *The Effects of Changes in Foreign Exchange Rates* defines the functional currency as the currency of the primary economic environment in which the entity operates.

<sup>9</sup> After the 2016 audit, the Company changed its financial year-end to 30 June 2018. An audit for the 18-month period-ended 30 June 2018 was performed thereafter (i.e., there were no audited financial statements in 2017). Management stated that Cocosa Export also changed its financial year-end to 30 June to align with the Company.



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2.5.4 Cocosa Asia's financial statements were audited by local accountancy firms in Singapore which, in turn, issued unqualified audit reports from 2016 to 2019. Cocosa Asia's audited financial statements state that its profit after tax decreased from 0.5 million in 2016 (SGD 0.7 million<sup>10</sup>) in 2016 to USD 0.2 million (SGD 0.3 million<sup>11</sup>) in 2018 and then to approximately USD 45,000 (SGD 61,000<sup>12</sup>) in 2019. Its main expenses were costs of sales (i.e., the purchase of finished goods from Cocosa Export), and other expenses such as storage costs, rent and professional fees (e.g., audit and secretarial).

#### *Investment in Cocosa Export*

2.5.5 The potential investment in Cocosa Export was introduced by a consultant who sources deals and business opportunities for the Company. Background searches performed on the consultant on 25 February 2020 showed that he is involved in the food and beverage industry. Management stated that this investment was the only transaction executed by the Company that was sourced by the consultant. The emails reviewed and background searches performed on the consultant on 25 February 2020 did not indicate that he was involved in other investments of the Company or that he had conflicts of interest with Cocosa Export, its management or customers. The rationale for investing in Cocosa Export was to further expand the Company's overseas trading and distribution business, as announced by the Board via SGXNet on 6 March 2016.

2.5.6 The background searches performed on the parties involved in the acquisition of Cocosa Export up to 17 March 2020 and the review of extracted emails did not indicate impropriety in relation to the investment, conflicts of interest, undisclosed relationships, and any breaches of Chapter 9 of the *SGX-ST Listing Manual*.

2.5.7 The emails reviewed showed that the procedures undertaken by management in relation to the acquisition of Cocosa Export were consistent with the Company's policies. Pre-acquisition due diligence, including a risk assessment, was conducted on Cocosa Export (including its shareholders and management) with assistance from external legal advisors in Singapore and Chile. The external legal advisors also assisted the Company in drafting and reviewing the investment-related agreements. Emails and Board meeting minutes record that the Board held frequent discussions on the investment in Cocosa Export and approved the investment proposal.

2.5.8 Emails and Board meeting minutes from March 2019 record that there were frequent discussions on the challenges SHL faced when Cocosa Export appeared to be in financial difficulty and when JLPG appeared to be uncooperative with management. Emails record that JLPG was appealing for financial assistance in 2019 and that SHL stopped providing fresh funds to Cocosa Export after January 2019. Following the Board's direction in May 2019 to review the recoverability of the investment and loans made to Cocosa Export, management sought external legal advice on the Company's potential exposure if the bank foreclosed on Cocosa Export's loans and any remedial actions that it could take. In August 2019, the Board concluded that further cash injections would not remedy Cocosa Export's cash flow situation and, in November 2019,

<sup>10</sup> Converted to SGD at the rate of USD 1 = SGD 1.4473 at 31 December 2016 according to xe.com.

<sup>11</sup> Converted to SGD at the rate of USD 1 = SGD 1.3373 at 31 December 2017 according to xe.com.

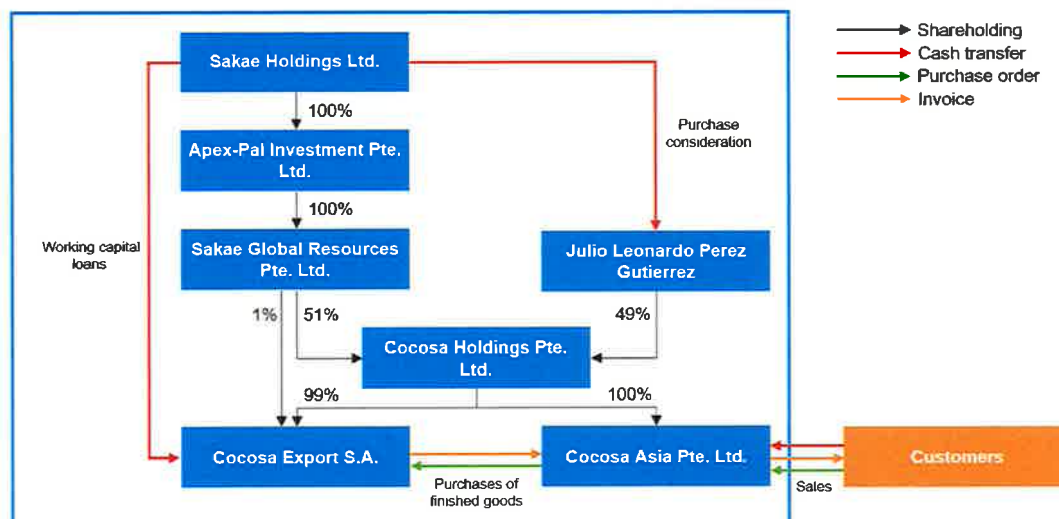
<sup>12</sup> Converted to SGD at the rate of USD 1 = SGD 1.3623 at 31 December 2018 according to xe.com.

the Board instructed an independent audit to be conducted of the Transactions, after which a decision would be taken on the impairment of the receivables.

- 2.5.9 The emails reviewed showed that local law firms in Singapore advised management that the Company and its immediate subsidiaries (Sakae Global Resources and Apex-Pal Investment Pte. Ltd. (“Apex-Pal Investment”)) should not be affected by any liabilities or liquidation proceedings that Cocosa Export may be subject to. These law firms also advised management that the Company may wish to seek Chilean legal advice.
- 2.5.10 The emails reviewed showed that management made enquiries with a Chilean law firm from July 2019 to December 2019. Management sought advice on the implications for SHL if Cocosa Export was liquidated and the protection over the Company’s interest (i.e., recoverability of its investment, including its rights from the sale of Cocosa Export’s land and the possibility of filing injunctions). The emails reviewed showed that the discussions between management and the Chilean law firm were exploratory in nature (i.e., advice was not obtained from the Chilean law firm). Management stated that it did not proceed further in discussions to engage the Chilean law firm because management intended to wait until conclusion of the independent audit before doing so.

*Transactions with Cocosa Export, Cocosa Asia and JLPG*

- 2.5.11 An overview of the investment structure and transaction flow is below:



- 2.5.12 The business model of the Cocosa Group is described below:

- SHL would provide funds to Cocosa Export for its working capital requirements (i.e., the production of finished goods for supermarket chains and restaurants in Singapore and overseas).
- Cocosa Asia would purchase the finished goods from Cocosa Export. A master set-off and netting agreement was executed between SHL and its subsidiaries on 1 November 2016 and, in turn, the cost of these finished goods was offset against the funds provided by SHL to Cocosa Export.





- Cocosa Export would ship the finished goods directly to the customers.
- Cocosa Asia would invoice the customers for the finished goods and receive payment from them to recover the funds provided by SHL to Cocosa Export.

2.5.13 Management maintained a running list of the Company's transactions with Cocosa Export and JLPG (the "Cocosa Transaction Listing") to monitor the funds provided to and receivable from Cocosa Export. The transactions in this list were traced to the Company's general ledger and the supporting documents substantiating the transactions were perused. A summary of these transactions as at 31 March 2019 is below:

Description	USD	SGD <sup>13</sup>
Working capital loans (described at paragraph 2.5.14 below)	10,367,298	14,099,525
Purchases of finished goods (described at paragraph 2.5.15 below)	(8,787,324)	(11,950,761)
Sales proceeds of finished goods collected by Cocosa Export (described at paragraph 2.5.16 below)	3,526,577	4,796,145
Purchase consideration (described at paragraphs 2.5.17 and 2.5.18 below)	(3,000,000)	(4,080,000)
<b>Net balance due from Cocosa Export</b>	<b>2,106,551</b>	<b>2,864,909</b>

2.5.14 The Cocosa Transaction Listing showed that the Company made 39 payments to Cocosa Export between February 2015 and January 2019 totalling USD 10,367,298 (SGD 14,099,525). These funds were provided to assist Cocosa Export with its working capital requirements (i.e., the production of finished goods for sale) and recorded as receivables in the Company's accounting records. The emails and customer orders reviewed showed that JLPG provided details of the orders from the supermarket chains and restaurants in Singapore and overseas when he requested those funds from SHL and that the Company only released the funds upon those orders being furnished by JLPG. The emails reviewed also showed a presentation of the Chairman's visit to Cocoa Export's factory in March 2017, and the background checks performed on Cocosa Export up to 17 March 2020 showed that the company had operating facilities at Bernardo O'Higgins 300, Calbuco, Chile. The Company's bank statements and bank transfer forms perused substantiate these working capital loan transactions which were approved by the CEO and CFO. The emails reviewed did not indicate impropriety in relation to the working capital loans. The bank statements and bank transfer forms showed that the funds were remitted directly to Cocosa Export's company bank account with the exception of three transactions totalling USD 278,854 (SGD 385,330<sup>14</sup>) which were paid

<sup>13</sup> Transactions with Cocosa Export were based on USD values. The transactions have been converted to SGD using the exchange rate applied by the Company of USD 1 = SGD 1.3600 at 31 March 2019.

<sup>14</sup> As recorded in the Company's general ledger.



to Conservas y Congelados y Cia Limitada (“CYC”)<sup>15</sup>. The Company took out trust receipts<sup>16</sup> to finance these three payments. Management stated that the funds were remitted to CYC because the bank’s internal process did not allow trust receipt financing for intercompany transactions, and that the bank was aware of this arrangement (i.e., the funds transferred to CYC were meant for Cocosa Export). The emails reviewed did not indicate impropriety in relation to these three payments. Management stated that it was aware of the use of the funds (i.e., to produce finished goods to fulfil customer orders received) and the underlying customer orders. The emails, shipping documents and bank statements reviewed record that the finished goods in relation to these transactions were received by the customers and that Cocosa Asia received the monies from the sales.

- 2.5.15 The Cocosa Transaction Listing showed that Cocosa Asia made 55 purchases of finished goods from Cocosa Export between May 2015 and January 2019. The invoices related to these purchases totalled USD 8,787,324 (SGD 11,950,761). Cocosa Asia purchased the finished goods for onward sale to supermarket chains and restaurants in Singapore and overseas. The emails and documents reviewed record that the finished goods were shipped directly to the customers. The cost of these finished goods was offset against the working capital loans provided by SHL to Cocosa Export<sup>17</sup>. The emails reviewed did not indicate any impropriety in relation to these purchases.
- 2.5.16 Cocosa Asia on-sold the finished goods above to supermarket chains and restaurants in Singapore and overseas. There were 57 such sales transactions between May 2015 and March 2019 totalling USD 9,784,479 (SGD 13,306,891<sup>18</sup>)<sup>19</sup>. Some customers of Cocosa Asia, involving 16 sales transactions between May 2015 and December 2016, made payments totalling USD 3,526,577 (SGD 4,796,145) to Cocosa Export instead of Cocosa Asia. These direct payments to Cocosa Export were recorded as receivables due from Cocosa Export in the accounting records of Cocosa Asia and the Company. Management explained that those instances of direct payments to Cocosa Export were knowingly made to help with the company’s cash flow on an urgent basis. Management stated that these direct payments were treated as additional working capital loans and that JLPG had agreed with those customers to make payment to Cocosa Export directly, even though the invoices stated instructions for payment to be made to Cocosa Asia’s bank account. The emails reviewed showed that JLPG, with assistance from his daughter, managed all sales activities of Cocosa Asia. The emails reviewed showed that JLPG had periodically reported such instances of direct payments to management for financial reconciliation purposes and did not indicate any impropriety in relation to the direct payments.

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<sup>15</sup> A Chilean entity owned by JLPG that is also engaged in the production and trading of canned and frozen seafood. CYC is not part of the Cocosa Group.

<sup>16</sup> Trust receipts are short-term import loans which provide the buyer with financing to pay for goods. The title of the goods is held by the lending bank. The buyer is permitted to take possession of the goods on trust for resale before paying the bank on the trust receipt financing due date.

<sup>17</sup> A master set-off and netting agreement was executed between SHL and its subsidiaries on 1 November 2016.

<sup>18</sup> Using the exchange rate applied by the Company of USD 1 = SGD 1.3600 at 31 March 2019.

<sup>19</sup> Sales in Singapore totalled USD 6,623,511 (SGD 9,007,975) and sales overseas totalled USD 3,160,968 (SGD 4,298,916).



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2.5.17 The purchase consideration of USD 3 million for the 51% interest in Cocosa Holdings (“Purchase Consideration”) was pursuant to a framework agreement dated 4 March 2016 (“Framework Agreement”) between SHL, Sakae Global Resources, JLPG and Cocosa Holdings. The Framework Agreement states that the Purchase Consideration would be paid in cash by Sakae Global Resources to Cocosa Holdings in two tranches – USD 1 million upon completion of the acquisition of Cocosa Export and the remaining USD 2 million within the second year of completion (i.e., by 2018). The terms of the Purchase Consideration were subsequently amended<sup>20</sup> as follows:

- In 2016, management and JLPG agreed to treat USD 1 million of the Purchase Consideration as a capital injection into Cocosa Holdings. On this basis, the first amendment was made in a supplemental agreement to the Framework Agreement dated 18 October 2016 (“Supplemental Framework Agreement”). The first USD 1 million would be capitalised from the outstanding working capital loans due from Cocosa Export upon completion of the acquisition of Cocosa Export and the remaining USD 2 million would be paid in cash to Cocosa Holdings within the second year of completion.
- During the 2018 statutory audit, management reassessed and agreed with JLPG to treat the Purchase Consideration as a payment to JLPG for him to dilute his shareholdings in Cocosa Export from 100% to 49%, instead of a capital injection. On this basis, the second and final amendment was made in an addendum to the Framework Agreement dated 2 October 2017 (“Addendum”) to reflect the dilution of JLPG’s shareholding in Cocosa Export. The Purchase Consideration would be paid in cash in two tranches to JLPG (instead of Cocosa Holdings) to dilute his shareholding in Cocosa Export from 100% to 49% – USD 1 million upon completion of the acquisition of Cocosa Export and the remaining USD 2 million within the second year of completion.

2.5.18 Although the Addendum stated that the Purchase Consideration would be payable to JLPG, the Cocosa Transaction Listing stated that it was offset against the working capital loans provided by SHL to Cocosa Export. Management stated that, instead of paying additional funds to JLPG for the Purchase Consideration, it was agreed with JLPG that he would take USD 3 million from the working capital loans that had already been provided to Cocosa Export and, in turn, reduce the working capital loans due from Cocosa Export by the same amount. Minutes of meeting record that management apprised the Board of the arrangements made with JLPG in relation to the payment of the Purchase Consideration. The Purchase Consideration was treated as an investment in the Company’s accounting records. The emails reviewed did not indicate any impropriety in relation to the offset made in lieu of the Purchase Consideration and showed that the offset was agreed between management and JLPG. The statutory auditor was also aware of the offset when the matter was discussed with management.

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<sup>20</sup> The Company’s *New Business and New Project Policy* states that the Board’s approval is required for new business/projects that may have a financial impact or exposure exceeding SGD 1.5 million. There is no requirement in the Policy for investment-related agreements to be ratified by the Board. Management stated that, once the investment has been approved by the Board, the execution of that investment is to be performed by the Company’s management. Management will update the Board but that there is no requirement for investment-related agreements to be approved by the Board.



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### *Receivables due from Cocosa Export and a related party*

- 2.5.19 As described at paragraph 2.5.13 above, the net receivables balance due from Cocosa Export was USD 2,106,551 (SGD 2,864,909).
- 2.5.20 Management stated that CYC is a Chilean entity owned by JLPG and is also engaged in the production and trading of canned and frozen seafood. USD 1 million of the working capital loans made to Cocosa Export was transferred to CYC in 2016 to help CYC with its bank loans with Rabobank Chile. The Framework Agreement stated that a condition precedent was for JLPG to transfer CYC's business, contracts, assets and bank loans to Cocosa Export. A business transfer agreement between CYC and Cocosa Export was executed on 28 June 2016 to effect the transfer. The transfer of the real estate assets and the bank loans were confirmed by the legal due diligence report dated 16 October 2016. The emails reviewed also showed that JLPG had requested assistance from the Company to repay CYC's bank loans of approximately USD 3 million and that, in consultation with the Company's external legal advisors, the CEO and former CFO approved USD 1 million of working capital loans earmarked for Cocosa Export to be transferred to CYC instead. Minutes of meeting record that management apprised the Board of the conditions precedent in the Framework Agreement and the arrangements made with JLPG in relation to the payment of the Purchase Consideration. An accounting adjustment agreed with SHL's statutory auditors (known as an "audit adjustment") was posted on 30 June 2018 to reflect the transfer of USD 1 million from Cocosa Export's working capital loans to CYC. This audit adjustment effectively transferred a receivable amount of USD 1 million (SGD 1,336,710<sup>21</sup>) from Cocosa Export to other receivables in the Company's general ledger.
- 2.5.21 The Purchase Consideration of USD 3 million was treated as an investment and the working capital loans provided to Cocosa Export were reduced by the same amount (as described at paragraph 2.5.18 above). The Board meeting minutes for the November 2017 meeting record that the investment in Cocosa Export was considered a risk, making up SGD 5 million of the Company's total receivables and prepayments of SGD 13 million at the time. At that meeting, it was discussed that Cocosa Export owned land in Chile valued at USD 4 to 5 million, from which the investment could be recovered, if necessary. Minutes record a similar discussion at a Board meeting in February 2018 where it was again questioned whether the Purchase Consideration was recoverable. The former CFO was of the view that the Purchase Consideration could be recovered from the eventual disposal of that land. The emails and minutes reviewed did not indicate that Cocosa Export was in financial distress at the time. An audit adjustment of USD 3 million (SGD 4,044,000<sup>22</sup>) was posted on 30 June 2018 to transfer the investment to a receivable due from Cocosa Export to reflect the recoverability of the Purchase Consideration.
- 2.5.22 Following the audit adjustments in relation to CYC and the Purchase Consideration, the outstanding receivables recorded in the Company's general ledger due from Cocosa

<sup>21</sup> Being the audit adjustment posted to other receivables in the Company's general ledger.

<sup>22</sup> Being the audit adjustment posted to receivables due from Cocosa Export. The Purchase Consideration of USD 3 million was converted using the exchange rate applied by the Company of USD 1 = SGD 1.3480 at 30 June 2018.



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Export were USD 1,106,551<sup>23</sup> (SGD 1,368,048<sup>24</sup>) and USD 3,000,000 (SGD 4,044,000). The emails reviewed did not indicate impropriety in relation to the audit adjustments and the accounting of the receivables due from Cocosa Export.

- 2.5.23 The 2019 annual report states that “in March 2019, [JLPG] informed [SHL] that the bank [gave] a final deadline for Cocosa Export to make partial repayments of its bank loans or else face liquidation [procedures] or be wound up. Given the financial conditions of Cocosa Export, the Company thus decided to impair the goodwill and other receivables due from Cocosa Export.” The emails and minutes reviewed did not indicate that Cocosa Export was in financial distress prior to this. Minutes of a meeting in May 2019 record that management informed the Board of the Cocosa Export’s financial condition. At this meeting, the Board instructed management to fully impair the goodwill and receivables related to Cocosa Export, and to continue reviewing the recoverability of monies from Cocosa Export, including the disposal of the land in Chile. Corporate registry searches conducted in Chile on Cocosa Export up to 17 March 2020 showed that the bank had foreclosed on Cocosa Export’s loans and forced it into liquidation in November 2019. These loans were secured by Cocosa Export’s properties. The legal due diligence report dated 16 October 2016 also state that these were encumbered with a mortgage in favour of Rabobank Chile. As described at paragraphs 2.5.9 and 2.5.10 above, management sought advice from law firms in Singapore and made enquiries with a Chilean law firm.
- 2.5.24 Management assessed the recoverability of the outstanding receivables totalling SGD 3,958,000<sup>25</sup> during the 2020 audit and impaired these in full.

#### *Control over Cocosa Export*

- 2.5.25 Singapore Financial Reporting Standard (International) (“SFRS(I)”) 10: *Consolidated Financial Statements* states that “an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and *has the ability to affect those returns through its power over the investee*” [our emphasis].
- 2.5.26 Although the emails reviewed showed Cocosa Export being largely operated by JLPG without SHL involvement, they showed that the Company appeared to have exerted influence over Cocosa Export’s ability to operate and generate returns for the SHL prior to March 2019 (i.e., management only provided funds for Cocosa Export’s working capital requirements upon JLPG furnishing customer orders and SHL recovered those monies via Cocosa Asia from the sales of the finished goods produced by Cocosa Export). Management stated that, on this basis, SHL had control over Cocosa Export.
- 2.5.27 In consultation with the Company’s external legal advisors, powers of attorney were granted to JLPG to run Cocosa Export and establish an agency of Cocosa Holdings in Chile on 24 June 2016 and 11 August 2016, respectively. The emails reviewed between the Company’s management and legal advisors state that a foreign company seeking to

<sup>23</sup> Being the balance of USD 2,106,551 less USD 1,000,000 loaned to CYC.

<sup>24</sup> The emails showed that this was the balance confirmed by JLPG during the 2018 audit. JLPG subsequently confirmed a balance of USD 1,368,787 (SGD 1,845,125) but no further adjustments were posted.

<sup>25</sup> Being the gross receivables due from Cocosa Export of SGD 5,412,000 less the loss allowance of SGD 2,791,000, and receivables due from CYC of SGD 1,337,000, as reported in the 2019 annual report.



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establish an agency in Chile would need to grant its representative a power of attorney under Chilean law to operate the company and act on Cocosa Holdings' behalf. For tax purposes, the agent has to be resident in Chile and be domiciled within Santiago's county. JLPG's powers included buying and selling assets, taking out loans, setting up premises, granting and delegating powers, and executing agreements and documents on its behalf. A letter of undertaking was signed by JLPG in on 17 August 2016 stating that he would only exercise those powers required for the purpose of establishing the agency. In addition, any transactions or agreements exceeding USD 1 million for Cocosa Export would require prior approval from the Company's Chairman and Chief Executive Officer. The emails reviewed and audited financial statements of Cocosa Export did not contain any indications that Cocosa Export executed any transactions exceeding USD 1 million.

- 2.5.28 Board meeting minutes dated 13 May 2019 state that "management had asked JLPG repeatedly to furnish a detailed list of documents supporting the accounts and transactions [of Cocosa Export] but JLPG was unwilling or unable to provide the required documents to [SHL]." The minutes of this meeting also state that "management now considers that the Company has no control of the subsidiaries and related companies of Cocosa Export and [CYC], and thus has no control of [Cocosa Export's] accounts as well." The emails reviewed show several instances between March 2019 and May 2019 where the management repeatedly requested and chased JLPG for information on the transactions of Cocosa Export, which was not provided. The emails and minutes reviewed did not indicate that Cocosa Export was in financial distress prior to this period and suggested that JLPG stopped all communication with the Company from this period. On this basis, it appears that the Company did not have control over Cocosa Export from this period. The 2019 annual report states that "management has also assessed and is of the view that the costs outweighs the benefits of taking any legal action against [Cocosa Export]." Management confirmed its position during our fieldwork.
- 2.5.29 Management sent a memorandum to the statutory auditor on 22 August 2019 setting out its assessment on the loss of control over Cocosa Export. The memorandum highlighted that the Company had no power over Cocosa Export and provided explanations that JLPG "knows the full operations of the business" and "runs the business and entire company", SHL is "unable to access bank information", SHL has "no authority to meet or negotiate contracts with customers and suppliers", and SHL "is unable to intervene [in] all operation/business matters".
- 2.5.30 Management assessed that the Company had lost control over Cocosa Export and fully impaired the outstanding receivables during the 2020 audit.

## 2.6 Observations on internal controls

- 2.6.1 Since 2016, the Company has had three CFOs – Ms. Voon (the "First CFO", who was employed by the Company from 18 April 2011 to 30 November 2017), Ms. Ng (the "Second CFO", who was employed by the Company from 1 September 2017 to 30 June 2018) and Mr. Shu (the "Current CFO", who has been employed by the Company since



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5 March 2018) – and high turnover in the Finance department<sup>26</sup>. The emails reviewed showed that the First CFO oversaw and managed the investment and the transactions of Cocosa Export until her departure in November 2017. A series of erroneous accounting entries, which primarily occurred after the First CFO's departure, were identified during our fieldwork:

- The three payments made to CYC (as described at paragraph 2.5.14 above) were incorrectly recorded in the Company's accounting records during the Current CFO's tenure. USD 152,333 (SGD 209,284) was recorded as a receivable due from Cocosa Asia in the 2019 general ledger on 23 July 2019. The other USD 126,521 (SGD 176,046)<sup>27</sup> was posted to the suspense account in the 2018 general ledger on 13 August 2018.
- As described at paragraph 2.5.18 above, the Cocosa Transaction Listing stated that the Purchase Consideration payable to JLPG was offset against the working capital loans provided by SHL to Cocosa Export. The Purchase Consideration was treated as an investment in the Company's accounting records but, instead of reducing receivables due from Cocosa Export, an intercompany balance was erroneously reduced. The erroneous posting was made to the 2018 general ledger during the Current CFO's tenure on 18 October 2018.
- As described at paragraph 2.5.20 above, USD 1 million (SGD 1,336,710) from Cocosa Export's working capital loans was transferred to CYC. Other debtors in the general ledger were increased by SGD 1,336,710 but, instead of reducing receivables due from Cocosa Export, an intercompany balance was erroneously reduced. The erroneous posting was made to the 2018 general ledger during the Current CFO's tenure on 18 October 2018.
- As described at paragraph 2.5.21 above, an audit adjustment of USD 3 million (SGD 4,044,000) was posted to transfer the investment to a receivable due from Cocosa Export to reflect the recoverability of the Purchase Consideration. Receivables due from Cocosa Export in the general ledger were increased by SGD 4,044,000 but, instead of reducing the investment, an intercompany balance was erroneously reduced. The erroneous posting was made to the 2018 general ledger during the Current CFO's tenure on 18 October 2018.
- From June 2017, and throughout all of the three CFOs' tenures, there were instances where working capital loans provided to Cocosa Export were erroneously recorded as receivables due from Cocosa Asia, Cocosa Holdings and other group companies, instead of from Cocosa Export. Adjustments were subsequently posted in the 2018 general ledger during the Current CFO's tenure to correct the balance due from Cocosa Export but the corresponding entries were again erroneously posted interchangeably between costs of sales and the suspense account between 27 July 2018 and 14 August 2018, and then to an intercompany balance on 18 October 2018.

<sup>26</sup> SHL's staff listing showed that the Finance department had 73 personnel (including the CFOs) between 1 January 2016 and 30 June 2019. During the same period, 71 of these personnel left the Company.

<sup>27</sup> Made of two tranches – USD 75,913 (SGD 106,014) on 17 May 2018 during the Second CFO's tenure and USD 50,608 (SGD 70,032) on 13 July 2018 during the Current CFO's tenure – which were not recorded in the general ledger until 13 August 2018.



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- Goodwill of SGD 3.225 million, being the Purchase Consideration less the Company's share of Cocosa Export's net assets, was erroneously recognised as goodwill in the Company's 2018 financial statements. This error was highlighted in the Company's 2019 financial statements, and the goodwill was restated to amounts due from subsidiaries and eventually impaired in the Company's 2019 financial statements.
- 2.6.2 The emails record the difficulties the Finance team had in rectifying the transaction records and reconciling the receivables due from Cocosa Export during this time. Management stated that the audit adjustments made during the 2018 statutory audit (as described in paragraphs 2.5.20 and 2.5.21 above) were made as a result of the difficulties reconciling the receivables due from Cocosa Export. On this basis, it appears that the governance and management of Cocosa Export's transactions deteriorated after her departure.
- 2.6.3 The investment was structured for JLPG to oversee the operations of the Cocosa Group, in which the core and primary business was Cocosa Export. Although management attempted periodically to reconcile the Company's balances with JLPG throughout the investment period, the financial management of Cocosa Export appeared dependent on JLPG and his finance team, which was in Chile. This subsequently led to challenges for management in reconciling the receivables due from Cocosa Export after the First CFO left the Company in November 2017 (as described at paragraph 2.6.1 above) and difficulties in obtaining information from JLPG on Cocosa Export's transactions when he stopped all communication with the Company.

## 2.7 Internal control recommendations

- 2.7.1 Rule 719(1) of the SGX Listing Rules requires an issuer to have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. The Company's Board is responsible for the governance of risk and ensures that management maintains risk management and internal controls systems. The Company has policies in place to support its internal control environment and has hired external service providers to conduct internal audits periodically.
- 2.7.2 The observations described at section 2.6 above nonetheless highlight instances of control weaknesses and lapses in relation to the Company's investment in Cocosa Export. Although there appear to be no indications that the Board and management did not act in good faith towards the Company, have a conflict of interest or profit from their position, the observations highlight a need for improvement in the Company's processes.

### *Split payments*

- 2.7.3 Four working capital loan transactions exceeding SGD 50,000 were split (i.e., divided into several cheques of SGD 49,000 each plus a cheque for the residual balance)<sup>28</sup>. This

<sup>28</sup> SGD 408,600 was paid on 24 February 2015 (eight cheques of SGD 49,000 each plus a cheque for the remaining balance of SGD 16,600); SGD 682,250 was paid on 5 March 2015 (13 cheques of SGD 49,000





was not in accordance with the *Payments Processing Policy* effective 1 September 2014 which states that the authorised signatories for approving payments of SGD 50,000 and above require joint approval from at least two of the following parties – the Chairman (Mr. Foo), CEO (Ms. Foo) or CFO. The total of these payments was USD 1,475,000 (SGD 2,036,753). These cheques were signed by the CEO who stated that the Chairman was aware of these payments, which were for urgent orders, but not physically present at the time to sign the cheques because he was overseas. Personnel records showed that the CFO was also absent (i.e., maternity leave and annual leave) when these payments were made. The Chairman confirmed that he was aware of these payments and that he would have signed the cheques if he was present at the time. The Chairman also approved the payments subsequently on 30 June 2020. Based on recommendations provided by the internal auditors, the Company implemented the requirement for dual banking signatories in 2017, including the authorisation of payments above SGD 1.5 million by a member of the Audit Committee. The emails reviewed did not indicate impropriety in relation to these four transactions.

- 2.7.4 SHL should establish a policy exceptions procedure for the processing of urgent transactions in the event that a second authorised signatory is not present. A request for written approval of the exception (e.g., by email) should be sent to the relevant authorised signatory and document the exception, the reason for requesting the exception, the compensating controls, and the time period for which the exception is requested. The exception should only be executed upon receipt of written approval from the relevant authorised signatory. The relevant documentation should be prepared upon his/her return.

#### *Continuous monitoring mechanism*

- 2.7.5 The accounting books and records are maintained across various systems. SHL's accounting records are maintained on SAP, Cocosa Asia's accounting records are maintained in Excel, and Cocosa Export's accounting records are maintained in Excel. Management should have the ability to continuously monitor the financial performance and position of its subsidiaries, particularly those operating outside of Singapore. SHL should consider onboarding the accounting books and records of its subsidiaries onto its SAP system or leverage a continuous monitoring system to enable efficient and effective financial oversight of its subsidiaries.

#### *Management review and internal audit function*

- 2.7.6 The emails reviewed showed that the Chairman conducted a site visit at Cocosa Export in March 2017. There were no subsequent visits by management and an internal audit was not performed on the operations of Cocosa Export. The minutes of a Board meeting held in February 2019 record that the Audit Committee suggested to management that the Company leverage on its internal auditors to review the internal processes at Cocosa

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each plus a cheque for the remaining balance of SGD 45,250); SGD 696,300 was paid on 18 March 2015 (14 cheques of SGD 49,000 each plus a cheque for the remaining balance of SGD 10,300); and USD 175,000 (SGD 249,603) was paid on 30 November 2016 (five cheques of SGD 49,000 each plus a cheque for the remaining balance of SGD 4,603).



Export. These minutes record that the CFO planned to travel to Chile in March 2019 to discuss improvement areas with Cocosa Export's management and that the Chairman suggested to the Board that an internal audit would be best performed after Cocosa Export has implemented the necessary internal controls. The CFO's visit to Cocosa Export did not occur after JLPG became uncooperative with management between March 2019 and May 2019 and stopped all communication with the Company.

- 2.7.7 Internal audits are conducted periodically by external service providers. From 2015 to 2020, the processes in scope covered food and beverage management, inventory management, accounts payable, procurement, sales, human resources and the Company's general internal control environment. Management stated that the scope of the internal audits is agreed collectively between management and the Audit Committee (management will propose the scope and the Audit Committee will approve). Management explained that the processes in scope were considered a priority because of the nature of the Company's business (i.e., a food and beverage and cash business).
- 2.7.8 SHL should establish management review and internal audit programmes to enhance the governance and oversight of its subsidiaries, particularly new investments. The resources for such management reviews and internal audits should be adequately budgeted.

#### *Staff retention programme*

- 2.7.9 During our fieldwork, we observed that the Finance department had seven personnel and was in the process of recruiting more. SHL should consider implementing a staff retention programme, aimed at reducing turnover within its Finance team, which is critical to control over the assets of the company. The cost of such a staff retention programme should be adequately budgeted.

#### *Staff training programme*

- 2.7.10 As described at paragraph 2.6.1 above, a series of erroneous accounting entries were identified during our fieldwork. Management stated that the Company worked with its statutory auditor to rectify the intercompany balances. The rectification of the intercompany balances commenced after a disclaimer of opinion was issued by the statutory auditor in the 2019 annual report. The audited 2020 annual report stated that the reconciliations had been completed and that resultant adjustments were made to the financial statements.
- 2.7.11 Similarly, the Cocosa Transaction Listing showed that Cocosa Asia made 55 purchases of finished goods from Cocosa Export between May 2015 and January 2019 totalling USD 8,841,636 (SGD 12,024,625). However, the invoices related to these purchases totalled USD 8,787,324 (SGD 11,950,761), indicating potential data entry errors involving eight transactions amounting to USD 54,312 (SGD 73,864).
- 2.7.12 While the evidence from our procedures did not indicate impropriety in relation to these accounting entries and data entry errors, they highlight a need to enhance the technical proficiency of the Finance team. SHL should consider implementing a staff training



programme to improve the technical proficiency of its Finance team. The cost of such a staff training programme should be adequately budgeted.

#### *Shareholder protection measures*

- 2.7.13 The Shareholders' Agreement<sup>29</sup>, which was signed by the Chairman on behalf of the Company, does not provide SHL with representation on the board or executive management team of Cocosa Export, the main operating entity of the investment. SHL should consider enhancing the shareholder protection measures in future investments such as board and/or executive management team representation and specific obligations to furnish detailed financial reporting (e.g., financial, commercial, operation and tax information) to enable proper monitoring of such investments.

#### *Acquisition due diligence*

- 2.7.14 The Company engaged a Singapore law firm, which collaborated with a local Chilean law firm, to conduct legal due diligence on Cocosa Export. Some tax structuring advice was also obtained on the investment structure. However, limited market entry analyses, which may be important when investing in an emerging market, were undertaken. SHL should consider developing and implementing a more comprehensive due diligence programme for its future investments, particularly higher risk investments in emerging markets, to include the analyses below. The cost of the due diligence programme should be adequately budgeted.

- Market entry assistance or market due diligence: to understand the local market size of the industry a target company operates in and market share, competitive environment, regulatory and political landscape, and major players and market profile;
- Commercial due diligence: to understand a target company's market and competitive positioning, products and services as well as operating performance and trends, threats and opportunities;
- Financial due diligence: to understand the financial performance and position after quality of earnings, net debt and net working capital adjustments, quality of assets and risks of undisclosed commitments and contingencies;
- Tax due diligence: to understand the risks of potential unrecorded tax exposures, tax audit history and general conduct of tax affairs; and
- Integrity/anti-corruption due diligence: to understand integrity and corruption risks associated with a target company that can be potentially damaging to an organization.

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<sup>29</sup> The Company's *New Business and New Project Policy* states that the Board's approval is required for new business/projects that may have a financial impact or exposure exceeding SGD 1.5 million. There is no requirement in the Policy for investment-related agreements to be ratified by the Board. Management stated that, once the investment has been approved by the Board, the execution of that investment is to be performed by the Company's management. Management will update the Board but that there is no requirement for investment-related agreements to be approved by the Board.



## 2.8 Conclusion

- 2.8.1 The background searches performed on the parties involved in the Acquisition of Cocosa Export up to 17 March 2020 and the review of the extracted emails did not indicate impropriety in relation to the investment, conflicts of interest, undisclosed relationships, and any breaches of Chapter 9 of the *SGX-ST Listing Manual*.
- 2.8.2 The Shareholders' Agreement states that SHL shall represent two-thirds of Cocosa Holding's board and that the Chairman of Cocosa Holdings shall be an SHL director. Management stated that the purpose of the Shareholders' Agreement was to give Cocosa Holdings, and ultimately SHL, control over the Cocosa Group. Although the emails reviewed showed Cocosa Export being largely operated by JLPG without SHL involvement, they showed that the Company appeared to have exerted influence over Cocosa Export's ability to operate and generate returns for the SHL prior to March 2019. In March 2019, SHL assessed that it had lost control over Cocosa Export and derecognised the investment in the 2019 financial statements, even though the Company continued to hold a 51% shareholding. The emails reviewed showed Cocosa Export being largely operated by JLPG without SHL involvement in the operations of Cocosa Export and record the difficulties management had in reconciling the Company's balances with JLPG. There were several instances between March and May 2019 where management repeatedly requested and chased JLPG for information on Cocosa Export's transactions, which was not provided. This leads to the conclusion that the Company lost control over Cocosa Export during this period when JLPG stopped all communication with the Company.
- 2.8.3 The supporting documents for the transactions executed with Cocosa Export, Cocosa Asia and JLPG from February 2015 to January 2019 record a net receivables balance due from Cocosa Export as at 30 June 2019 of USD 2,106,551 (SGD 2,864,909). The gross receivables due from Cocosa Export totalling SGD 5,412,000 and related party receivable due from a company owned by JLPG totalling SGD 1,337,000 in the 2019 annual report arose from audit adjustments posted during the 2018 statutory audit. The differences are due to the following:
- The gross receivables balance due from Cocosa Export in the 2019 annual reporting including the Purchase Consideration of SGD 4,044,000<sup>30</sup>, which was impaired during the 2020 audit; and
  - Foreign exchange differences.

## 2.9 Limitations and use of our report

- 2.9.1 Our report is prepared solely for the use of SHL and the Exchange under the terms of the Engagement Letter, and should not be used, quoted, referred to or relied upon, in whole or in part, without our prior written permission, by any third party or for any other purposes. We do not assume responsibility for loss and expressly disclaim any liability to any party whatsoever, however arising, from the use of this report other than for the purposes as set out in the Engagement Letter.

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<sup>30</sup> Being the balance posted directly to the Company's general ledger.



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- 2.9.2 Our scope of work does not constitute an audit, a review, or an assurance engagement in accordance with *Singapore Standards on Auditing*, *Singapore Standards on Review Engagements* or *Singapore Standards on Assurance Engagements*. Consequently, no opinion or assurance has been expressed under such standards, and we have not provided an opinion under those standards on the nature of any issues identified in the course of our work.
- 2.9.3 The observations in our report are based on the information made available to us in the course of our work. Except where expressly stated, the information has not been independently verified, and reliance has been placed on the integrity, accuracy and completeness of the information therein.
- 2.9.4 The observations set out in our report are based on our understanding of the relevant laws, regulations and guidelines applicable at the time of the engagement and should not be construed as legal advice.

To: Board of Directors  
Sakae Holdings Ltd ("Company")  
28 Tai Seng Street  
Level 7  
Singapore 534106

Cc: SGX Regulation Pte. Ltd.  
11 North Buona Vista Drive  
#06-07 The Metropolis Tower 2  
Singapore 138589

Attention: The Board of Directors of the Company/ SGX Regulation Pte. Ltd.

Dear Sirs

### Report of Factual Findings on Agreed-upon Procedures

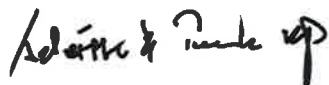
We have performed the procedures agreed with you as set out in the terms of the engagement letter dated 7 July 2020 (**Appendix D**) with respect to the directive issued by SGX Regulation Pte. Ltd. ("SGX RegCo") to the Company on its reconciliation of the intragroup differences of \$1,540,000 as identified in the auditor's report of the Company and its subsidiaries for the year ended 30 June 2019. Our engagement was undertaken in accordance with the Singapore Standard on Related Services applicable to agreed-upon procedures engagements.

The procedures performed and our findings thereon are set out in **Appendix A** to this report.

Because the procedures performed do not constitute an audit or review made in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements, we do not express any assurance.

Had we performed additional procedures, or had we performed an audit or a review in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used, for any other purpose or to be distributed to any other parties. This report relates only to the balances and items specified above and does not extend to any financial statements of the Company, taken as a whole.



Public Accountants &  
Chartered Accountants  
Singapore

12 May 2021

## Appendix A

In accordance with our engagement letter dated 20 July 2020, with respect to the reconciliation of the intragroup differences of S\$1.54 million as at 30 June 2019, we have performed the following procedures that have been established based on discussions with the Company and with SGX RegCo:

1. We have obtained the reconciliation prepared by management and their external consultant, KLP LLP ("KLP" or "the External Consultant") on the S\$1.54 million differences that were noted in the intra-group balance at 30 June 2019.
2. We have inquired of management and KLP on their findings on the reconciliation of the \$1.54 million difference, and performed further procedures as listed in item 2 below.
3. We have inquired of management and KLP on the procedures performed by management and KLP in arriving at the reconciliation of the S\$1.54 million difference, and performed further procedures as listed in item 3 below.
4. We have inquired of management and KLP on the control deficiencies identified from procedures performed above in (2) and (3), root causes of the intragroup differences of \$1.54 million noted at 30 June 2019 and provided recommendations to the Company. Our internal control recommendations are limited to those matters that were identified during this engagement and do not necessarily include all deficiencies in internal control that may exist in which a more extensive special examination of the system of internal accounting controls might uncover.
5. We have inquired of management if they are aware of any breach of Rule 719 of the Listing Manual of the Singapore Exchange Securities Trading Limited and Section 199 of the Companies Act, Chapter 50, and performed further procedures as listed in item 5 below.

We report our findings below:

The Company appointed an external consultant – KLP LLP ("KLP" or "the External Consultant") to assist with the reconciliation of the intragroup differences of S\$1.54 million as at 30 June 2019.

1. We obtained the following reconciliation prepared by management and their external consultant, KLP LLP, on the S\$1.54 million differences that were noted in the intra-group balance at 30 June 2019:

	Debit (Credit) to intragroup balance S\$	Impact to Income statement Debit (Credit) S\$	Management and KLP Findings
Unrealised exchange losses overstated	111,252	(111,252)	(a)
Intercompany management fee over-recognised	84,000	(84,000)	(b)
Intercompany management fee income under-recognised	36,000	(36,000)	(c)
Understatement of revenue	55,156	(55,156)	(d)
Fund transfer to Cocosa Export S.A. wrongly recorded in Cocosa Asia Pte. Ltd.	(273,003)	-	(e)
Amount due from Cocosa Export S.A. wrongly classified as intercompany	(1,352,000)	-	(f)
Amount due to Cocosa Export S.A. wrongly classified as intercompany	170,339	-	(f)

	Debit (Credit) to intragroup balance S\$	Impact to Income statement Debit (Credit) S\$	Management and KLP Findings
Amount due to Sakae Holdings Ltd wrongly recorded as a third party payable	(422,409)	-	(g)
Amount due from an external customer ("Customer A") wrongly recorded as amount due from intercompany	(128,000)	-	(h)
Others	178,665	(178,665)	(i)
<b>Net differences</b>	<b>(1,540,000)</b>	<b>(465,073)</b>	

Management has restated the comparatives in the FY June 2020 financial statements for the above transactions and recorded the full amount of \$465,073 in the income statement for the year ended 30 June 2019.

2. We inquired of management and KLP on their findings on the reconciliation of the \$1.54 million difference. We set out management's and KLP's findings below, and our procedures and findings arising thereon:

Management and KLP findings based on our inquiries	DT procedures and findings
<p>(a) (i) Amount due to Sakae Holdings Ltd. ("SHL") amounting to S\$7,456,104 mainly pertaining to management and license fees was recorded in Apex-Pal Malaysia Sdn. Bhd.'s ("Apex-Pal Malaysia") books, and the amounts were denominated in Singapore Dollars. Apex-Pal Malaysia's books were denominated in Malaysian Ringgit (RM).</p> <p>In revaluing the amount at 30 June 2019 from S\$ to RM in Apex-Pal Malaysia's books, management should be using a group wide exchange rate table which is 0.327 for S\$ to RM. Accordingly, the revalued amount of S\$7,456,104 in RM should be RM22,800,844 instead of RM23,125,729. The difference of RM324,885 (S\$106,241) was an overstatement of unrealised exchange losses that was wrongly recognized in Apex-Pal Malaysia's books.</p> <p>(ii) The remaining S\$5,011 arose from similar fact pattern as (a)(i) above and was related to Swift Equity Sdn Bhd, a wholly-owned subsidiary.</p>	<p>(a) (i) We have agreed the intercompany balance of S\$7,456,104 denominated in Singapore Dollars (S\$) to schedule prepared by KLP and to the general ledger of SHL.</p> <p>We have recomputed the revaluation at 30 June 2019 from S\$ to RM in Apex Pal Malaysia's books, and noted that the computation was appropriate and there was an overstatement of unrealised exchange difference of RM324,800 (S\$106,241).</p> <p>(a) (ii) No procedure was performed on this as the amount was immaterial.</p>



Management and KLP findings based on our inquiries	DT procedures and findings
<p>(b) In accordance with a "Management fee Agreement" dated 1 June 2018 between SHL and Sakae Fintech Pte. Ltd. ("Sakae Fintech"), a wholly-owned subsidiary, SHL was to charge S\$36,000 per annum to Sakae Fintech for the period from 1 July 2018 to 30 June 2019.</p> <p>Management and KLP noted that Sakae Fintech recorded management fee expenses based on a monthly fee of S\$10,000 i.e. recorded an annual management fee expense of S\$120,000, resulting in an overstatement of expenses and amount due to SHL by S\$84,000.</p>	<p>(b) (i) We obtained and read the signed "Management Fee Agreement" between SHL and Sakae Fintech, and noted that the annual management fee was S\$36,000 per annum.</p> <p>(ii) We obtained the general ledger of Sakae Fintech and noted that they have recorded management fee expenses of S\$120,000 for the year ended 30 June 2019.</p> <p>(iii) We recomputed and noted that the management fee expenses and amount due to SHL recorded by Sakae Fintech for the year ended 30 June 2019 was overstated by S\$84,000.</p>
<p>(c) This pertained to the same Management Fee Agreement in (b) above. SHL did not record the S\$36,000 management fee income for the year ended 30 June 2019. Accordingly, the management fee income and amount due from Sakae Fintech recorded in SHL's books were understated by S\$36,000.</p>	<p>(c) We obtained the general ledger of SHL and noted that management did not record the management fee income of \$36,000 for the year ended 30 June 2019. Accordingly, we also noted that the amount due from Sakae Fintech was understated by S\$36,000.</p>

Management and KLP findings based on our inquiries	DT procedures and findings
<p>(d) (i) Management and KLP noted that HEI Restaurants Chain Pte. Ltd. ("HEI") had not recorded sales transaction with an external customer ("Customer B"), amounting to S\$21,821.</p> <p>For the above transaction, Nouvelle Events Holdings Pte. Ltd. ("NEH") collected the receipts of S\$21,821 from Customer B on behalf of HEI. Upon receipt, NEH has recorded this as cash and as an amount payable to HEI.</p> <p>Accordingly, HEI would need to record revenue and amount due from NEH of S\$21,821.</p> <p>(d) (ii) Management and KLP noted that HEI recorded sales transactions of S\$33,335 with various external customers. Receipts from these customers were received and recorded correctly by HEI. However, management and KLP noted that NEH posted an entry in its books which debited revenue and credited amount due from HEI amounting to S\$33,335. They thus noted that this entry by NEH was incorrect.</p> <p>The combination of (d)(i) and (d)(ii) above was thus an understatement of revenue and intercompany balances of S\$55,156. These contributed to the differences noted in the intercompany balances at 30 June 2019.</p>	<p>(d) (i) (1) We obtained the relevant third party sales invoices issued by HEI to Customer B amounting to S\$21,821 (exclusive of GST). We also obtained the general ledger of HEI and noted that management has not recorded these revenue transactions.</p> <p>(2) We agreed the cash receipts from Customer B to NEH's bank statements and noted no exceptions. We also obtained the general ledger of NEH and noted that management has correctly recorded the cash receipts on behalf of HEI.</p> <p>(d) (ii) (1) We obtained the relevant third party sales invoices issued by HEI to the various external customers amounting to S\$33,335 (exclusive of GST). We also obtained the general ledger of HEI and noted that management has correctly recorded these revenue transactions.</p> <p>(2) We agreed the cash receipts from the various external customers to the respective bank statements and noted no exceptions. We also obtained the general ledger of HEI and noted management has correctly recorded the cash receipts.</p> <p>(3) We obtained the general ledger of NEH and noted the 2 erroneous entries of debiting of revenue amounting to S\$33,335 as noted by management and KLP.</p> <p>We noted that the above resulted in revenue and intragroup balances being understated by S\$21,821 and S\$33,335 (total of S\$55,156) in HEI's and NEH's books respectively, for the year ended 30 June 2019.</p>

Management and KLP findings based on our inquiries	DT procedures and findings
<p>(e) Management and KLP noted that SHL made a fund transfer of US\$200,456 (S\$273,003) on 3 July 2018 to Cocosa Export S.A. ("Cocosa Export") for working capital purposes.</p> <p>Management recorded the above transaction as an amount due from Cocosa Asia Pte Ltd ("Cocosa Asia"), a 51% owned subsidiary of SHL.</p> <p>Management has confirmed that Cocosa Export was considered a third party as at 30 June 2019 as they have assessed that they have lost control over Cocosa Export as disclosed in the FY2019 financial statements. Accordingly, the amount due from Cocosa Export of S\$273,003 should not be part of the intercompany balances. Management thus noted that the classification of the amount as part of the intercompany balances at 30 June 2019 was incorrect. This contributed to the differences noted in the intercompany balances at 30 June 2019.</p>	<p>(e) (i) We obtained SHL's July 2018 bank statement and agreed the fund transfer to Cocosa Export of US\$200,456 for working capital purposes.</p> <p>(ii) We obtained the general ledger of SHL and noted that management has recorded the fund transfer as amount due from Cocosa Asia.</p> <p>We noted that the amount due from Cocosa Asia was overstated by US\$200,456 (S\$273,003) as this should be reflected as an amount due from Cocosa Export.</p>
<p>(f) (i) Management and KLP noted as of 30 June 2019, there was an amount due from Cocosa Export of S\$1,352,000 recorded in SHL's 51% owned subsidiary, Cocosa Holdings Pte Ltd's ("Cocosa Holdings") books. This amount was a brought forward balance from FY2018.</p> <p>(f) (ii) Management and KLP also noted there was an amount due to Cocosa Export arising from purchases of canned seafood of S\$170,399 recorded at Cocosa Asia's books.</p> <p>The above balances were classified as part of the intercompany balances at 30 June 2019. Management has confirmed that Cocosa Export was a third party as at 30 June 2019 as they have assessed that they have lost control over Cocosa Export as disclosed in the FY2019 financial statements.</p> <p>Accordingly, they noted that the classifications of the recorded balances were incorrect as these should be reflected as amount with an external party. This contributed to the differences noted in the intercompany balances at 30 June 2019.</p>	<p>(f) (i) We obtained the FY2019 consolidation workings and agreed the amounts due from Cocosa Export of US\$1,000,000 (S\$1,352,000) recorded in Cocosa Holdings' book.</p> <p>(f) (ii) We obtained the FY2019 management accounts of Cocosa Asia and agreed the amounts due to Cocosa Export of US\$125,989 (S\$170,399).</p> <p>We noted that on the basis that management has confirmed that Cocosa Export is a third party at 30 June 2019, the above amounts due from/due to Cocosa Export were incorrectly classified as intercompany balances.</p>

Management and KLP findings based on our inquiries	DT procedures and findings
<p>(g) As of 30 June 2019, there was an amount due to SHL of S\$422,409 recorded in a wholly-owned subsidiary, Apex-Pal Investment Pte. Ltd.'s ("Apex-Pal") books.</p> <p>Management and KLP noted that the above amount due to SHL was recorded as a third party liability in Apex-Pal's books. Accordingly, they noted that the classification of the recorded balance was incorrect and contributed to the differences noted in the intercompany balances at 30 June 2019.</p>	<p>(g) We obtained the FY2019 management accounts of both SHL and Apex-Pal and agreed the amounts due to SHL of S\$422,409 from Apex-Pal in the respective general ledgers. We also obtained the FY2019 consolidation workings and noted that the above amount was wrongly classified as a third party payable in Apex-Pal's books.</p> <p>We noted that the above amount due to SHL was incorrectly classified as a third party liability in Apex-Pal's books.</p>
<p>(h) In preparing the 30 June 2020 year end reconciliation of third party receivables, management noted that an amount due from Customer A, of S\$128,000 was incorrectly recorded as an amount due from SHL in NEH's book. The incorrect entry existed since 30 June 2019 and this contributed to the differences noted in the intercompany balances at 30 June 2019.</p>	<p>(h) We obtained Customer A's 30 June 2020 reconciliation prepared by management and agreed the balances to Customer A's statement of account for the same period end with no exception. We also obtained NEH general ledger and noted the amount due from Customer A of S\$128,000 was wrongly recorded as an amount due from SHL in the general ledger.</p> <p>We noted that the above amount due from Customer A was incorrectly recorded as an intercompany receivable since 30 June 2019.</p>
<p>(i) Management and KLP were not able to reconcile a remaining difference of \$178,665, and has written off the amount to the income statement.</p>	<p>(i) This formed one of the basis for qualified opinion for the financial statements for the year ended 30 June 2020 issued on 14 October 2020.</p>

3. We inquired of management and KLP on the procedures they have performed in arriving at the reconciliation that was presented in (1) above. We set out management's and KLP's procedures below, and our procedures and findings arising thereon:

Management and KLP procedures	DT procedures and findings
<p>(a) KLP obtained the available general ledgers for respective entities, either via the SAP system or accounting records prepared via excel from management. KLP prepared an initial intercompany matrix based on the extracted balances to identify the intragroup differences at 30 June 2019.</p>	<p>a) We obtained the initial intercompany matrix prepared by KLP at 30 June 2019.</p>
<p>(b) Based on the intercompany matrix prepared by KLP in (a) above, they identified the differences. For these differences identified between the respective companies, KLP matched on a line by line basis, the individual respective general ledger line transactions' descriptions and amount to identify the specific transactions giving rise to the difference (the "unmatched transactions").</p> <p>KLP then categorised the unmatched transactions by nature namely:</p> <ol style="list-style-type: none"> <li>a. Intercompany fund transfers</li> <li>b. Payments made on behalf of intercompany</li> <li>c. Receipts on behalf of intercompany</li> </ol> <p>KLP traced the material transactions (&gt;S\$50,000) in the categorisation above and vouched to the relevant supporting documents (i.e. third party invoices, bank statements and intercompany billings).</p> <p>KLP also traced the material transactions (&gt;\$50,000) to the general ledger of individual entities and group consolidation workings to identify if the transactions were recorded at each individual company level or as a late adjustment made at the group consolidation level.</p> <p>KLP noted that certain amount due from/to within the Group are netted-off, and the net amount presented in the management account as SHL has a Master Set-off and Netting Agreement with the subsidiaries within the Group.</p> <p>Based on the above procedures, KLP prepared the reconciliations for the S\$1.54 million differences as shown in (1) above.</p>	<p>b) We obtained the summary of unmatched transactions prepared by KLP.</p> <p>Based on the summary of unmatched transactions prepared by KLP, we haphazardly selected 12 samples for Intercompany fund transfers, 2 samples for Payments on behalf and 3 samples for Receipts on behalf. For each sample selected, we further selected material transactions with amount that is greater than \$50,000 and vouched to the supporting documents (which may include third party invoices, bank statements and intercompany billings). We noted no exceptions.</p> <p>We traced to the general ledgers of the individual entities and noted that the transactions omitted from recording is in line with KLP's findings.</p> <p>We have obtained and read the signed "Master Set-Off and Netting Agreement" between SHL and its subsidiaries and noted the Group has a legally enforceable right to set off the recognised amounts.</p>

Management and KLP procedures	DT procedures and findings
<p>(c) KLP noted from the general ledger for the year ended 30 June 2019 that, accounting entries were posted to "Suspense Account" to reflect the transactions in the various SHL's bank accounts' balances. The suspense account was zeroed at 30 June 2019.</p> <p>KLP inquired of management on the adjusting entries affecting the bank balances, and noted that management did not prepare proper bank reconciliations as of 30 June 2019. They have effectively adjusted the differences between bank balances in general ledger and bank statements to "Suspense Account".</p>	<p>c) We obtained the FY2019 general ledger and noted that there were numerous entries passed to suspense account including the adjustment of bank balances. We also noted that the ending balance of the suspense account as at 30 June 2019 was nil.</p> <p>We obtained from management the bank reconciliations of various bank accounts as at 30 June 2019 and noted that for five of the bank accounts, the difference noted between the bank balance per general ledger and that reflected on the bank statement was posted to the suspense account.</p>
<p>(d) Management engaged another external consultant ("Consultant A") to prepare the various bank reconciliations as at 30 June 2019. Consultant A noted net reconciliation items of \$186,000 across the bank reconciliations that they have prepared as at 30 June 2019, resulting in an overstatement of bank balances and payables by S\$186,000 at 30 June 2019.</p>	<p>d) We obtained the various revised bank reconciliations as at 30 June 2019 from Consultant A. Based on the revised bank reconciliation prepared by Consultant A, we have haphazardly selected 3 samples for uncredited deposits and 2 samples for unpresented cheques by vouching to the subsequent bank statements. We noted no exceptions.</p> <p>We noted the bank balances and payables as of 30 June 2019 were overstated by \$186,000. This was not adjusted in the comparatives of the FY June 2020 financial statements as the amount was immaterial.</p>
<p>(e) KLP prepared a revised intercompany matrix after taking into account the reconciling items set out in (1) above.</p>	<p>e) We obtained the revised intercompany matrix at 30 June 2019 and this is presented in <b>Appendix B</b>.</p>

4. We inquired of management and KLP on the control deficiencies identified from procedures performed above in (2) and (3), root causes of the intragroup differences of \$1.54 million noted at 30 June 2019 and provided recommendations to the Company:

Control deficiencies identified by management and KLP	Details of the control deficiencies	DT recommendations
<p>Lack of review of journal entries leading to utilisation of temporary accounts like "Suspense" and "Contra-Interco Billing"</p>	<p>Notwithstanding that the company's internal procedures require the finance manager or CFO to review the journal entries, we noted that there was generally lack of evidence of review for the journals that we have seen.</p> <p>This led to several accounting errors and the use of temporary accounts. These accounts termed "Suspense" and "Contra" were used in the recording of numerous transactions including, but not limited to, intercompany fund transfers and receipts on behalf of related companies. Entries were initially passed into the temporary accounts as the finance team were uncertain of the correct account to pass against. These entries were also not reconciled on a timely basis.</p>	<p>We recommend that management implement controls to ensure timely reviews of journal entries are performed to minimise accounting errors.</p> <p>We also recommend that the company discontinue the use of temporary accounts in the recording of its transactions. We also recommend that the company should set up a framework on how to deal with transactions whereby the finance team is not certain of the journal entries e.g. to institute a policy whereby such journals should be posted within 3 working days.</p> <p>Management may want to enhance the tone at the top with regard to the importance of having effective internal controls.</p>
<p>Monthly intercompany reconciliations</p>	<p>The intercompany balances and transactions listing was not prepared and maintained on a timely basis. It was observed that there is no policy to perform monthly reconciliation of intercompany balances and transactions. The agreement and matching of balances and transactions between the intercompanies is an important exercise in preparing the consolidated financial statements as all intercompany balances and transactions should be properly eliminated.</p>	<p>We recommend that management implement the practice of performing monthly reconciliations of the intercompany balances on a timely basis.</p>

Control deficiencies identified by management and KLP	Details of the control deficiencies	DT recommendations
High staff turnover, competency and skillsets of finance team	<p>The company has high turnover rate for its finance staff. These staff may be unaware of past agreements, recorded or unrecorded payments and invoices, resulting in double-recording or overlooking certain accounting entries. Most of the current finance team members only joined the Company for less than 12 months.</p> <p>Based on the past accounting practices, it appears that some of the finance staff (mostly have left) may not be competent and thus, leading to the erroneous entries.</p>	<p>We recommend that the company revisit its hiring policy and to have proper handing/taking over procedures in place for new hires.</p> <p>We also recommend that the company should ensure it hires finance personnel who is competent and is a good fit for the role.</p>

5. We also inquired with management if they are aware of any breach of Rule 719 of the Listing Manual of the Singapore Exchange Securities Trading Limited and Section 199 of the Companies Act, Chapter 50 (**Appendix C**). We set out management's assessment and our procedures and findings arising thereon:

Management's assessment	DT procedures and findings
<p>a) Internal controls and risk management systems (Rule 719(1))</p> <p>The Board notes that the system of internal controls (including financial, operational, compliance and information technology controls) is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board also noted that the finance team has been able to continue to close the books monthly and quarterly, its accounts receivable, accounts payable and treasury functions continue to be operational in accordance with Section 199 of the Companies Act, Chapter 50.</p> <p>However, in order to enhance their internal controls, the management has already put in additional resources to engage external consultants to enhance and strengthen policies in order to build robust internal control systems as well as risk management systems. Management has:</p> <ul style="list-style-type: none"> <li>• Hired a competent assistant finance manager in March 2020 to assist in overseeing the finance function and ensuring prompt reviews of journal entries.</li> <li>• Reconciled entries passed in "Suspense" and "Contra" accounts and discontinued utilisation of these temporary accounts from 1 April 2020 onwards.</li> </ul>	<p>Rule 719(1) requires an issuer to have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems.</p> <p>Section 199(2A) requires every public company and every subsidiary company of a public company to devise and maintain a system of internal controls sufficient to provide a reasonable assurance that:</p> <ul style="list-style-type: none"> <li>(a) assets are safeguarded against lost from unauthorised use or disposition; and</li> <li>(b) 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.</li> </ul>



Management's assessment	DT procedures and findings
<ul style="list-style-type: none"> <li>Performed bank and intercompany reconciliations timely i.e. on a monthly basis.</li> </ul>	<p>We noted management's assessment of this, including the steps taken by management to enhance the internal controls.</p> <p>We obtained an understanding of the key controls and processes that management has in place in respect of financial reporting processes for the year ended 30 June 2020, and we also noted that the finance team was able to perform the day to day finance functions and continues to be operational.</p> <p>Having considered the observations set out in Section 4 on the unreconciled intragroup differences as at 30 June 2019 and that the unreconciled intragroup differences was one of the bases for the disclaimer of opinion in that financial year, this may indicate that the company has potentially not complied with Listing Rule 719(1) and Section 199(2A) of the Companies Act.</p>
<p>b) Suspected fraud or irregularity (Rule 719(2))</p> <p>The Company's Board of Directors as a whole performs the duties of a Risk Management Committee. The management regularly reviews the Company's businesses and operational activities to identify areas of significant business risks as well as put in place appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and highlights all significant matters to both the Audit Committee ("AC") and the Board. Statutory auditors of all companies are also in place to conduct audits and to provide periodic update through formal or informal meetings and discussions.</p>	<p>We obtained and read the minutes of Board of Directors meetings and Audit Committee meetings that were conducted during the year ended 30 June 2020 and noted that there was no instance of suspected fraud or irregularity highlighted in the minutes.</p> <p>We held discussions with management and with the Audit Committee members on fraud risks, and no suspected fraud or irregularity was brought to our attention.</p> <p>Based on the discussion with management and the Audit Committee members, we did not note any actual or suspected fraud.</p>

Management's assessment	DT procedures and findings
<p>c) Internal audit (Rule 719(3))</p> <p>Internal audits are conducted periodically by external service providers. The Company has appointed Messrs. Crowe Horwath First Trust Risk Advisory Services Pte Ltd ("Crowe Horwath") in FY2019 and Messrs. Virtus Assure Pte Ltd ("Virtus Assure") in FY2020 as the Company's internal auditors for the purposes of reviewing the effectiveness of the Group's relevant internal controls that address significant financial and operational risks in relation to procurement and human resource ("HR") functions. The internal auditor reports directly to the AC although they also report administratively to the CEO.</p> <p>Based on the evaluation of the audit results, Virtus Assure is of the opinion that the controls for the internal control environment and the HR function are adequate and effective within reasonable assurance.</p> <p>In addition, management had implemented all the recommended controls from Crowe Horwath except for the serial numbering of overseas purchase orders which the Group would implement moving forward.</p> <p>The AC has reviewed the internal audit programme, the scope and results of internal audit procedures and is satisfied that the outsourced internal audit function is adequately resourced and has appropriate standing. Both of the internal auditors, Crowe Horwath and Virtus Assure meet the standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.</p>	<p>We obtained the internal audit reports issued by Crowe Horwath dated 20 August 2019 and Virtus Assure dated 18 August 2020 which covered the areas of procurement and human resource ("HR") respectively. We have read these internal audit reports and noted that Virtus Assure had concluded that the controls for the HR function was adequate and effective. We also noted that Crowe Horwath had identified 5 medium and 2 low risks findings and Virtus Assure had indicated in their report that the Group had implemented all the recommended controls from Crowe Horwath except for the serial numbering of overseas purchase orders.</p>
<p>d) Management have assessed that the company's internal control weakness is non-pervasive given that the Audit Committee reviews the company's financials on a quarterly basis and that management has implemented measures to address these weaknesses.</p> <p>Management has also been able to reconcile and explained a significant portion of the intercompany differences noted at 30 June 2019 with supporting documents which indicate that books and records are being maintained by the Finance function.</p> <p>Accordingly, management concluded that the company did not breach Rule 719 of the Listing Manual of the Singapore Exchange Securities Trading Limited and Section 199 of the Companies Act, Chapter 50 for the financial year ended 30 June 2020.</p>	<p>We have considered management's assessment and also took into consideration the procedures that we have performed which have been set out in 5(a) to 5(c) above.</p> <p>Based on our procedures performed with respect to the reconciliation of the intragroup differences of S\$1.54 million as at 30 June 2019, significant deficiencies in internal controls were noted and these have been set out in Section 4 above. While the intragroup differences of S\$1.54 million was reconciled during the financial year ended 30 June 2020, this may indicate that the company has potentially not complied with Listing Rule 719(1) and Section 199(2A) of the Companies Act during the financial year ended 30 June 2019 for the same reasons set out in 5(a) above.</p>



Management's assessment	DT procedures and findings
	We understand that management has taken note of our recommendations set out in Section 4 above and is continuing to improve and enhance their internal controls with regards to intercompany reconciliations.

	Sakae Holdings Ltd.	Apex-Pal Investment Pte Ltd	Alliance Support Services Pte Ltd	Nouvelle Events Holdings Pte Ltd	Oishi Sushi Pte Ltd	Sakae Sushi (J8) Pte Ltd	Sakae Kyo Pte Ltd	Sakae Sushi (Scape) Pte Ltd	Yummy Venture Pte Ltd	Hei Restaurants Chain Pte Ltd	Sakae Capital Pte Ltd	Sakae Corporate Advisory Pte. Ltd.	Sakae Fintech Pte Ltd	Sakae Global Resources Pte. Ltd.	Sakae Vietnam Co Ltd	Cocosa Asia Pte. Ltd.	Cocosa Holdings Pte. Ltd.	PT Apex-Pal International	Apex-Pal International Beijing Ltd	Apex-Pal F&B (Beijing) Ltd	Apex-Pal (Chengdu) Co., Ltd	Apex-Pal (M) Sdn Bhd	Swift Equity Sdn Bhd	Nouvelle Events Sdn Bhd (Ika Redrock Capital Sdn Bhd)	Sakae Fund Management Pte Ltd	Sakae Financial Services Pte Ltd	Bitcoin Pte Ltd	Total	
Sakae Holdings Ltd.		(9,038,125.30)	352,380.09	(3,076,167.94)	562,439.24	1,706,906.11	955,728.45	(1,165,515.72)	(467,341.37)	3,654,495.29	(6,631,714.19)	376,622.95	(540,706.72)	(1,387,680.98)	408,365.00	1,477,070.50	(3,845.12)	144,282.00	22,205.17	(107,665.07)	39,941.73	(7,461,759.95)	(1,305,548.00)	(1,638,680.05)	(7,222.00)	(104,584.04)	84,689.10	(23,151,430.83)	
Apex-Pal Investment Pte Ltd	9,038,125.30		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,038,125.30	
Alliance Support Services Pte Ltd	(352,380.09)			35,000.00	28,000.00	30,000.00	12,383.68	(856.00)	24,465.00	11,839.00																		(211,548.41)	
Nouvelle Events Holdings Pte Ltd	3,076,167.94		(35,000.00)		(419,769.38)	(1,186,326.51)	(1,895,261.56)		(129,681.03)	(1,918,616.20)						190,252.56					(6,870.45)							(2,325,130.41)	
Oishi Sushi Pte Ltd	(662,439.36)		(28,000.00)	419,769.38		284,978.33	(10,114.24)	(20,258.69)	(11,709.41)	5,001.51																		79,224.52	
Sakae Sushi (J8) Pte Ltd	(1,706,906.08)		(30,000.00)	1,186,326.64	(284,978.33)		(75,989.16)		(17,492.97)	(65,801.42)									1,997.00									(994,841.32)	
Sakae Kyo Pte Ltd	(955,730.41)			1,895,261.55	10,114.24	75,989.16	3,000.00		(31,468.53)	138,949.05																		1,123,731.38	
Sakae Sushi (Scape) Pte Ltd	1,165,515.72		856.00		20,258.69		(3,000.00)			(4,317.84)																		1,179,312.57	
Yummy Venture Pte Ltd	467,341.37		(24,465.00)	129,681.40	11,709.41	17,492.96	31,468.53			(1,960.37)																		631,268.30	
Hei Restaurants Chain Pte Ltd	(3,654,495.29)	(60,000.00)	(11,839.00)	1,918,616.33	(5,001.51)	65,801.42	(138,949.05)	4,317.84	1,960.37		10,000.00		(10,000.00)															(1,879,588.89)	
Sakae Capital Pte Ltd	6,631,714.19									(10,000.00)																			6,614,447.41
Sakae Corporate Advisory Pte I Ltd	(376,622.95)									10,000.00		(10,000.00)			21,675.00	2,733.22									10,000.00	10,000.00		(311,365.83)	
Sakae Fintech Pte Ltd	540,706.72			25.68						10,000.00						13,587.12													550,404.28
Sakae Global Resources Pte Ltd	1,387,680.98																											(328.12)	
Sakae Vietnam Co Ltd	(408,365.00)																											1,360,419.44	
Cocosa Asia Pte Ltd	(1,477,059.39)			(190,248.82)																								(430,040.00)	
Cocosa Holdings Pte Ltd	2,844.00										(2,733.20)	(13,582.00)		27,616.78	4,640.00	(4,640.54)												(1,688,263.95)	
PT Apex-Pal International	(144,282.00)				(1,997.00)																							35,100.78	
Apex-Pal International (Beijing) Co., Ltd	(22,205.17)																											(146,279.00)	
Apex-Pal F&B (Beijing) Ltd	107,665.07																											(22,205.17)	
Apex-Pal (Chengdu) Co., Ltd	(39,941.73)																				(59,070.00)	11,279.72						58,888.86	
Apex-Pal Malaysia Sdn. Bhd.	7,461,759.98			6,878.42																								19,115.07	
Swift Equity Sdn. Bhd.	1,305,547.75																			(5,797.22)	59,056.80	(5,481.14)						7,457,360.04	
Nouvelle Events Sdn Bhd	1,638,659.65																											1,305,547.75	
Sakae Fund Management Pte Ltd	7,222.00																											1,638,659.65	
Sakae Financial Services Pte Ltd	104,584.04											(10,000.00)																(2,778.00)	
Bitcoin Pte Ltd	(84,689.10)											(10,000.00)																94,584.04	
													328.12															(84,360.98)	
	<b>23,150,318.25</b>	<b>(9,098,125.30)</b>	<b>211,548.41</b>	<b>2,325,142.64</b>	<b>(79,224.64)</b>	<b>994,841.37</b>	<b>(1,123,733.35)</b>	<b>(1,179,312.57)</b>	<b>(631,267.94)</b>	<b>1,879,589.02</b>	<b>(6,614,447.39)</b>	<b>311,365.95</b>	<b>(550,404.28)</b>	<b>(1,360,064.20)</b>	<b>430,040.00</b>	<b>1,688,278.40</b>	<b>(35,623.25)</b>	<b>146,279.00</b>	<b>16,407.95</b>	<b>(54,089.41)</b>	<b>(19,128.27)</b>	<b>(7,457,350.88)</b>	<b>(1,305,548.00)</b>	<b>(1,638,680.05)</b>	<b>2,778.00</b>	<b>(94,584.04)</b>	<b>84,360.98</b>	<b>(633.41)</b>	

### **Rule 719 Suspected Fraud or Irregularity**

#### **(1) Internal Controls and Risk Management Systems**

An issuer should have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. The audit committee may commission an independent audit on internal controls and risk management systems for its assurance, or where it is not satisfied with the systems of internal controls and risk management.

#### **(2) Suspected Fraud or Irregularity**

If the audit committee of an issuer becomes aware of any suspected fraud or irregularity, or suspected infringement of any Singapore laws or regulations or rules of the Exchange or any other regulatory authority in Singapore, which has or is likely to have a material impact on the issuer's operating results or financial position, the audit committee must discuss such matter with the external auditor and, at an appropriate time, report the matter to the board.

#### **(3) Internal Audit**

An issuer must establish and maintain on an ongoing basis, an effective internal audit function that is adequately resourced and independent of the activities it audits.

### **Section 199 of the Companies Act, Chapter 50**

#### **Accounting records and systems of control**

**199.**—(1) Every company shall cause to be kept such accounting and other records as will sufficiently explain the transactions and financial position of the company and enable true and fair financial statements and any documents required to be attached thereto to be prepared from time to time, and shall cause those records to be kept in such manner as to enable them to be conveniently and properly audited.

(2) The company shall retain the records referred to in subsection (1) for a period of not less than 5 years from the end of the financial year in which the transactions or operations to which those records relate are completed.

(2A) Every public company and every subsidiary company of a public company shall devise and maintain a system of internal accounting controls sufficient to provide a reasonable assurance that —

- a) assets are safeguarded against loss from unauthorised use or disposition; and
- b) 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.

(3) The records referred to in subsection (1) shall be kept at the registered office of the company or at such other place as the directors think fit and shall at all times be open to inspection by the directors.

(4) If accounting and other records are kept by the company at a place outside Singapore there shall be sent to and kept at a place in Singapore and be at all times open to inspection by the directors such statements and returns with respect to the business dealt with in the records so kept as will enable to be prepared true and fair financial statements and any documents required to be attached thereto.

(5) The Court may in any particular case order that the accounting and other records of a company be open to inspection by a public accountant acting for a director, but only upon an undertaking in writing given to the Court that information acquired by the public accountant during his inspection shall not be disclosed by him except to that director.

(6) If default is made in complying with this section, the company and every officer of the company who is in default shall be guilty of an offence and shall be liable on conviction to a fine not exceeding \$5,000 or to imprisonment for a term not exceeding 12 months and also to a default penalty.



Engagement Letter