SHENG SIONG GROUP LTD.
(Company Registration Number: 201023989Z)
(Incorporated in the Republic of Singapore)
(the "Company")

Response To Questions Received From Shareholders
For The Annual General Meeting

The Board of Directors of Sheng Siong Group Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the announcement dated 6 April 2023 on the alternative arrangements for its Annual General Meeting to be held on 28 April 2023 ("**AGM**"), in particular, the invitation to shareholders to submit questions in advance of the AGM. The Company would like to thank the shareholders for the questions submitted.

The Appendix sets out the Company's response to the questions received from the shareholders that are relevant to the AGM resolutions and the business of the Company.

By Order of the Board

Lim Hock Chee
Chief Executive Officer

20 April 2023

APPENDIX

Q1. For the financial year ended 31 December 2022, the group's revenue moderated by 2.2% in FY2022 to $1.34 billion. With the DORSCON alert level returning to green, management cautions that sales may continue to taper to more normalised levels as people return to dining out and travelling.

Notably, with inflationary pressures increasing, the group expects consumers to develop more budget-conscious habits, potentially leading to increased traffic at its outlets in search of value-for-money products.

(i) Based on the group's sales data, has management observed significant changes in consumer behaviour and trends over the past three years of living with the pandemic?

A: Footfall is higher in FY 2022 primarily due to the easing of COVID-19 restrictions, resulting in a smaller average basket size as compared to FY 2021 and FY 2020. However, the average basket size is still higher than pre-COVID period, suggesting that consumers are still cautious and plan ahead of their grocery shopping trips. In other words, as compared to pre-Covid period, consumers are visiting supermarkets less frequently, but purchasing more each time.

(ii) What proportion of the group's sales are derived from its house brands? Could management comment on its plans to further grow this category?

A: The current sales of house brand products account for approximately 7% of the Group’s total revenue. The value propositions of our house brand products are safety, quality, and price. The Group will continue to examine its supply chain, seek more reliable sourcing options and review our current product lineup to expand our house brand offerings.

(iii) What guidance has the board provided to management regarding striking the right balance between offering value to customers in a high-inflation environment and the need to expand gross and net profit margins?

A: Customer care lies at the heart of our business, and we are committed to delivering value to our customers by providing safe, affordable and quality products at competitive prices, and great service. Only by meeting our customers’ needs and enhancing their satisfaction can the Group continue to survive and prosper. From January to March 2023, we provided a 1% discount on almost all in-store purchases to help customers to cope with the inflationary pressures and GST hike. As a testament to our “All for You” commitment, we came in first place in the Supermarket Sub-Sector of the Customer Satisfaction Index of Singapore (CSISG) last year and was awarded the title of Singapore’s Best Customer Service 2022/2023 Company (Supermarket Category) by the Straits Times and Statista.

In order to expand gross and net profit margins, we strive to improve our sales mix towards products that carry higher margins, and practice diversification in our sourcing to seek out the best deals and minimise supply disruptions. The Group also prioritises driving operational efficiency in order to minimise input costs by adopting technology and innovations, and a strong corporate culture.

(iv) In the board's view, to what extent have the group's profitability gains in recent years been driven by operational efficiency, such as through supply chain optimisation, reduction of stockouts and waste, better sourcing, and leveraging technology?

A: The Group has benefitted to a great extent by driving operational efficiency in our business to lower our input costs and improve our profitability. Manpower is a persistent challenge in our industry. It is only through the adoption of innovations and technology that we can reduce our reliance on manpower and redesign our jobs to be more appealing for the workers, and enhance our productivity. Over the years, we have put in place Enterprise Resource Planning (ERP) systems to enhance our retail sales and inventory management, warehouse and logistics management, supply chain management, finance and accounting management, and human resource management just to name a few. We have also adopted many technologies such as Electronic Shelf-Labeling (ESL), Full/Hybrid Self-Checkout systems, cash management systems, Automated Storage & Retrieval (ASRS) system etc. We also regularly review our administrative and operational workflow to identify processes that can be digitised or improved. Driving operational efficiency not only improves our productivity but also empowers us to create more value for our customers through better service.

Q2. For FY2022, the group opened four new stores and closed one outlet, bringing the total retail network to 67 stores and increasing the retail area to 607,800 sq ft. The chairman and CEO have reiterated the group's commitment to its growth strategy in Singapore, aiming to open at least three stores each year. To achieve this, the group proactively bids for new stores in residential areas, primarily Housing Development Board (HDB) estates, and is actively seeking untapped regions for retail space. With the expected pipeline of HDB flats to be built in the coming years, the group expects a stable growth trajectory.

(i) Can management provide insights on any differences in store sales per retail area between stores located in mature estates, such as Toa Payoh, and stores located in younger HDB estates, such as Punggol/Sengkang where there may be a higher proportion of younger families?

A: While the demographic composition of the estates may have some influence on customer preferences and shopping habits, the main factors affecting store sales are still sales volume and floor size of the individual outlets.

In both mature and younger estates, stores with larger floor areas tend to have higher sales volumes. This is primarily because larger stores offer a wider variety of products and services, which attracts a larger customer base. Additionally, a store's floor size and layout can impact the overall shopping experience, thus influencing customer satisfaction and sales performance.

(ii) How long does the group anticipate continuing its growth in Singapore before the impact of the market cannibalisation becomes significant? What are the challenges faced by the Group?

A: Our goal as a Group is to maximise our market share in Singapore, which we aim to achieve by continuously refining our expertise and remaining committed to our core competencies and strategic approach. The Group's expansion strategy is closely connected with the supply of new flats from the Housing Development Board (HDB). The opening of stores was slowed down in the past three years due to delays in HDB projects, however with HDB ramping up flat supply, the Group expects to open more new stores.

(iii) Has the board reviewed the group's online strategy and progress made with online grocery shopping? What percentage of sales is generated from Sheng Siong Online? What are the challenges faced in e-commerce from online competitors (including Amazon.sg, Redmart and NTUC Online) , inflation etc.?

A: The Board discusses the Group's strategies including online grocery shopping. Our grocery e-commerce platform "Sheng Siong Online" contributes about 1% to the Group's revenue. While we face challenges from online competitors regarding product range, pricing, delivery service, after-sales care, and loyalty reward programs, we view these challenges as learning opportunities and continue to search for ways to create a sustainable business model for online grocery shopping. The main challenges we encounter continue to be the high operating and labour costs.

(iv) The group is planning to open a fifth store in Kunming. Are there plans to speed up the growth in the subsidiary in Kunming to become a major contributor of revenue and profit for the group? What is China's contribution to the Group and the impact (if any) of China's re-opening?

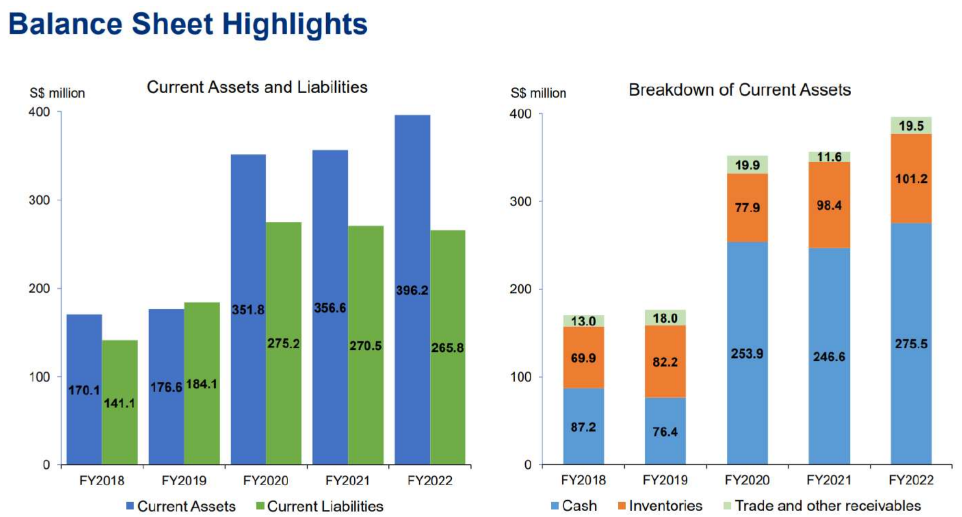
A: The Group adopts a cautious approach to the expansion of our business in China, with current sales from China accounting for less than 3% of the Group's revenue. Human capital is of utmost importance in our expansion plans. We need good team members to operate our stores, and we must ensure that our team in Kunming build a strong foundation and organisational culture to ensure steady growth.

The Group does not foresee China's re-opening to impact our existing stores in Kunming significantly. The Group will leverage the opportunity to expand our store network in Kunming and build the Sheng Siong brand.

(v) Has management reviewed the reasons why one of the four stores in Kunming is loss-making? Is the Kunming business managed by a local team in China, or are key decisions made by the management team in Singapore?

A: Whether the store is in Singapore or Kunming, nurturing its growth takes time. The Kunming business is a joint venture (JV) business. A team of staff from Singapore have been based in Kunming, working closely together with colleagues from our JV partner, to groom the operations team and oversee the business expansion.

Q3. The group's cash and cash equivalents stood at $275.5 million as at 31 December 2022, compared to $246.6 million in the previous year. In fact, the group's cash holdings have remained high in the past 3 years.



(Source: company announcement titled "Business update FY 2022" dated 27 February 2023)

The group's cash balance averaged $259 million in the past three years.

(i) Could the board provide information on whether it anticipates any significant use of the group's cash in the near future, such as for large capital expenditures or acquisitions?

A: The Group is reserving cash as its war chest for various opportunities such as the potential acquisition of new stores and warehouse space, and investments in technology to drive operational efficiency. By allocating these funds strategically, the Group can position itself to take advantage of emerging opportunities and further expands its operations.

As shown in Note 8 (Cash and cash equivalents), the group has placed $239.7 million in fixed deposits which earned interest rates of 0.48% to 4.87% as at 31 December 2022.

(ii) Given the group's significant cash balance, has the board considered any capital reduction or special dividend to return excess capital to shareholders? Can management share on your dividend policy?

A: The Group aims to provide our shareholders with a stable and sustainable dividend yield. We are committed to rewarding our shareholders through regular dividends and have maintained a consistent dividend payout ratio in recent years.

(iii) What is management's consideration of the uses of cash in terms of priority? Kindly list down your priority sequence.

A: (1) Business expansion;

(2) Acquisition of new stores and warehouse space;

(3) Technology investment;

(4) Working capital.

Q4. Can management share about the Group's strategy, growth opportunities and target geographic splits? Kindly be specific. Eg. which areas in Singapore, China's business, any other geographic regions and M&A?

A: The primary focus of the Group is on its operations in Singapore, and the Group believes that there is ample room for growth in the market at present. Besides new estate developments by HDB, we are also looking for new store opportunities in mature estates where we have little or no presence.

Given its stable social environment and evolving consumer behaviour, the Group recognises China as a large potential market in the long run. Akin to Sheng Siong's organisational culture in Singapore, the Group places a strong emphasis on cultivating a positive organisational culture and avoids taking an aggressive approach in its expansion plan in China. We will focus on building up a strong store network in Kunming before exploring expansion into other cities in China. The Group will continue to take a measured and prudent approach to expanding its China business.