SHENG SIONG GROUP LTD.

1Q FY 2023 Business Update

A. Consolidated Statement of Profit or Loss and Other Comprehensive Income

	The Group		
	1st Quarter ended		
	31 Mar 2023	31 Mar 2022	Change
	S$'000	S$'000	+/ (-)%
Revenue	356,545	357,955	(0.4%)
Cost of sales	(253,714)	(255,215)	(0.6%)
Gross profit	**102,831**	**102,740**	**0.1%**
Other income	2,434	3,321	(26.7%)
Distribution expenses	(1,879)	(2,105)	(10.7%)
Administrative expenses	(63,241)	(59,375)	6.5%
Other expenses	(1,285)	(1,337)	(3.9%)
Results from operating activities	**38,860**	**43,244**	**(10.1%)**
Finance income	2,741	388	606.4%
Finance expenses	(1,043)	(788)	32.4%
Profit before tax	**40,558**	**42,844**	**(5.3%)**
Tax expense	(7,206)	(7,655)	(5.9%)
Profit for the period	**33,352**	**35,189**	**(5.2%)**
Other comprehensive income			
Item that is or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations	33	(94)	n.m
Total comprehensive income for the period	**33,385**	**35,095**	**(4.9%)**

n.m denotes not meaningful

	The Group		
	1st Quarter ended		
	31 Mar 2023	31 Mar 2022	Change
	S$'000	S$'000	+/ (-)%
Profit net of tax for the period attributable to:			
Owners of the Company	33,243	35,115	(5.3%)
Non-controlling interest	109	74	47.3%
	33,352	**35,189**	**(5.2%)**
Total comprehensive income attributable to:			
Owners of the Company	33,263	35,058	(5.1%)
Non-controlling interest	122	37	229.7%
	33,385	**35,095**	**(4.9%)**

B. Statements of Financial Position

	The Group		The Company	
	31 Mar 2023	31 Dec 2022	31 Mar 2023	31 Dec 2022
	S$'000	S$'000	S$'000	S$'000
Assets				
Property, plant and equipment	289,073	291,608	-	-
Right-of-use assets	92,313	97,286	-	-
Investment in subsidiaries	-	-	82,261	82,261
Non-current assets	**381,386**	**388,894**	**82,261**	**82,261**
Inventories	88,316	101,182	-	-
Trade and other receivables	12,312	19,540	200,233	200,221
Cash and cash equivalents	283,114	275,499	212	202
Current assets	**383,742**	**396,221**	**200,445**	**200,423**
Total assets	**765,128**	**785,115**	**282,706**	**282,684**
Equity				
Share capital	235,373	235,373	235,373	235,373
Merger reserve	(68,234)	(68,234)	-	-
Foreign currency translation reserve	(570)	(590)	-	-
Statutory Reserve	156	156	-	-
Accumulated profits	318,784	285,541	46,895	46,960
Equity attributable to owners of the Company	**485,509**	**452,246**	**282,268**	**282,333**
Non-controlling interest	3,049	2,927	-	-
Total equity	**488,558**	**455,173**	**282,268**	**282,333**
Liabilities				
Deferred tax liabilities	1,323	1,540	-	-
Lease liabilities	57,273	62,598	-	-
Non-current liabilities	**58,596**	**64,138**	**-**	**-**
Trade and other payables	151,663	197,455	435	347
Current tax payable	32,389	35,297	3	4
Lease liabilities	33,922	33,052	-	-
Current liabilities	**217,974**	**265,804**	**438**	**351**
Total liabilities	**276,570**	**329,942**	**438**	**351**
Total equity and liabilities	**765,128**	**785,115**	**282,706**	**282,684**

C. Consolidated Statement of Cash Flows

	The Group	
	1st Quarter ended	
	31 Mar 2023	31 Mar 2022
	S$'000	S$'000
Operating activities		
Profit for the period	33,352	35,189
Adjustments for:		
Depreciation of:		
- property, plant and equipment	4,493	5,020
- right-of-use assets	8,572	8,134
Loss/(gain) on disposal of property, plant and equipment	2	(2)
Unrealised exchange gains	(3)	(271)
Interest income	(2,741)	(388)
Interest expense	1,043	788
Tax expense	7,206	7,655
	51,924	56,125
Changes in:		
- inventories	12,866	11,522
- trade and other receivables	7,228	1,785
- trade and other payables	(45,791)	(42,780)
Cash generated from operations	**26,227**	**26,652**
Taxes paid	(10,332)	(4,942)
Cash flows from operating activities	**15,895**	**21,710**
Investing activities		
Proceeds from disposal of property, plant and equipment	68	84
Purchase of property, plant and equipment	(2,023)	(1,608)
Interest received	2,741	388
Cash flows from/(used in) investing activities	**786**	**(1,136)**
Financing activities		
Repayment of term loan	-	(5,000)
Interest paid	(990)	(737)
Payment of lease liabilities	(8,108)	(7,667)
Cash flows used in financing activities	**(9,098)**	**(13,404)**
Net increase in cash and cash equivalents	**7,583**	**7,170**
Cash and cash equivalents at beginning of the period	275,499	246,642
Effect of exchange rate changes on balances held in foreign currencies	32	150
Cash and cash equivalents at end of the period	**283,114**	**253,962**

D. Notes to Consolidated Financial Statements

1. Significant items

	Note	The Group 1st Quarter ended 31 Mar 2023 S$'000	The Group 1st Quarter ended 31 Mar 2022 S$'000
Depreciation of property, plant and equipment		(4,493)	(5,020)
Depreciation of right-of-use assets	1	(8,572)	(8,134)
Exchange gain, net		311	321
Loss/(gain) on disposal of property, plant and equipment		(2)	2
Staff costs	2	(50,927)	(49,734)
Contribution to defined contribution plans, included in staff costs		(2,303)	(2,055)
Interest income	3	2,741	388
Interest expense	4	(1,043)	(788)
Finance income/(expense), net		1,698	(400)
Other income:			
Rental income		964	626
Sale of scrap materials		464	908
Government grants		653	1,019
Miscellaneous income		353	768
		2,434	3,321

Notes

1. Four new leases for supermarket stores were entered in FY 2022, and one new lease was entered in the first quarter of 2023, which resulted in the increase in depreciation of right-of-use assets.

2. Due to the competitive labour market and the requirements of the Progressive Wage Model, the Group increased employees' salaries in FY 2022.

3. Higher interest income mainly resulted from the higher fixed deposit interest rate during 1Q FY 2023.

4. Interest expense pertained to the interest on lease liabilities.

E. Performance Review of the Group

1. Consolidated Statement of Profit or Loss and Other Comprehensive Income

Overview

	The Group		
	1st Quarter ended		
	31 Mar 2023	31 Mar 2022	Decrease
	S$'000	S$'000	%
Sales reported for the first Quarter of the year	356,545	357,955	(0.4%)
Operating profit after tax for the first Quarter of the year	33,352	35,189	(5.2%)

For the first 3 months ended March 2023, revenue declined by 0.4% year-on-year to $356.5 million. Compared to 1Q FY 2022, the COVID-19 restrictions were largely eased in the current quarter, leading to increased dining out and overseas travel. As a result, revenue continued to taper to a new normal.

	31 Mar 2023	31 Mar 2022
Number of stores	68 (Singapore) 4 (China)	64 (Singapore) 4 (China)
Retail area (sq ft) *	613,075	576,640
Revenue for the period (S$'000)	S$356,545	S$357,955

* Singapore's operations only.

Revenue	No. of stores	Revenue 1Q FY 2023 vs 1Q FY 2022
New stores – Singapore #	5	3.6%
Comparable same store – Singapore	63	(3.6%)
China	4	(0.4%)
Total	72	(0.4%)

New stores consist of 4 that opened in FY 2022 and 1 that opened in 1Q FY 2023.

Comparable same store revenue in Singapore for 1Q FY 2023 decreased by 3.6%, offset by a 3.6% revenue contribution from the five new stores. China's revenue fell marginally by 0.4%.

Gross Profit and Margin

1Q FY 2023	1Q FY 2022
S$102.8 million	S$102.7 million
28.8%	28.7%

Gross profit increased marginally to S$102.8 million as compared to 1Q FY 2022. Gross profit margin increased slightly by 0.1%.

Other Income

Other income declined to S$2.4 million in 1Q FY 2023 from S$3.3 million in 1Q FY 2022, mainly on account of reduced government grants and scrap material sales.

Administrative expenses

	1Q FY 2023 vs 1Q FY 2022	
	S$'million	**Remarks**
Staff cost	1.5	Employees' salaries were raised due to the tight labour market.
Rental, utilities, cleaning expenses and stamp duty	2.4	The Group renewed its electricity supply agreement at the prevailing market rate end of FY 2022, which is higher than the previous agreement, resulting in a S$2.1 million increase in utility expenses.
Total	**3.9**	

Tax Expenses

The effective tax rate of 1Q FY 2023 is 17.8%. It is higher than the corporate tax rate of 17.0% as certain expenses are not tax deductible.

Foreign Operations - China

China operations accounted for 2.4% of the total revenue in 1Q FY 2023, and are profitable for the quarter.

Consolidated Statement of Financial Position

Current assets declined by S$12.5 million to S$383.7 million as at 31 March 2023. It was mainly due to S$12.9 million decline in inventory balance.

Non-current assets decreased by S$7.5 million. Property, plant and equipment decreased by S$2.5 million due to the depreciation of S$4.5 million, offset by the additions of S$2.0 million. Right-of-use assets declined by S$5.0 million owing to depreciation of S$8.6 million, offset by the additions of S$3.6 million.

As of 31 March 2023, current liabilities were reduced to S$218.0 million from S$265.8 million reported end of FY 2022. This is largely due to the decrease in the trade and other payables by S$45.8 million to S$151.7 million attributable to the timely payment to the vendors for purchases of goods and services.

Consolidated Statement of Cash Flow

Cash generated from operations was S$15.9 million in 1Q FY 2023, down from S$21.7 million registered a year ago, mainly due to higher tax payments.

Owing to the higher fixed deposit interest rates, an interest income of S$2.7 million was recorded during the quarter. The Group used S$2.0 million to purchase fixed assets. The net cash flows generated from investing activities were S$0.8 million. The Group also made lease payments of S$9.1million during the quarter.

The Group's cash balance increased by S$7.6 million to S$283.1 million as at 31 March 2023.

Looking Forward

The ongoing war in Ukraine and US-China tensions continue to pose significant risks to the global economy. In addition to the high and persistent inflation, recent banking turmoil further dampened the economic outlook.

Domestically, private economists downgraded the expected GDP for 2023 owing to the substantial risk that Singapore may enter into a technical recession in 1H 2023 [(1)]. On 14th April 2023, MAS announced that it will maintain the prevailing rate of appreciation of the Singapore dollar nominal effective exchange rate policy band[(2)]. Singapore consumers are facing elevated price pressures from utility, accommodation, and food costs. Inflation hits savings and has a higher impact on those with lower household incomes. With less disposable income, consumers will choose to cut back on non-essential spending, and look for ways to stretch their dollar – preferring to dine in at home and shop at supermarkets that provide more value for money. Shifting consumer preferences towards value is expected to drive house brand sales growth and improve margins. Besides, the Government's inflation offset measures, such as the GST Voucher scheme and the Assurance Package, will continue to support consumer spending, giving supermarket retailers a boost.

Uncertainties in the global economy such as geopolitical tension, export restrictions, and other global economic issues, continue to pose a risk to supply chain disruptions. The Group will continue to manage the risk by diversifying our sources of supply and strengthening business ties with existing suppliers.

The labour market remains tight. Although it is likely to ease in FY 2023 but will be uneven across the sectors[(3)]. The Group will explore the implementation of potential technologies with the aim of minimising our dependence on labour and enhancing productivity.

Competition in the supermarket industry is expected to remain keen particularly in this heightened inflationary environment. The Group renewed its electricity supply agreement at prevailing market rate end of FY 2022, which is at a higher price as compared to the previous agreement. Higher energy expenses and excessive promotions by competitors could result in lower margins. The Group will continue to improve our sales mix and closely monitor the performance of existing and new outlets by working on core competencies to improve our operational efficiency and productivity. We remain committed to providing value-for-money propositions and excellent service for our customers.

(1) https://www.businesstimes.com.sg/singapore/economists-downgrade-singapores-2023-growth-forecast-warn-technical-recession
(2) https://www.mas.gov.sg/news/monetary-policy-statements/2023/mas-monetary-policy-statement-14apr23
(3) https://content.mycareersfuture.gov.sg/singapore-job-market-2023-which-industries-have-better-hiring-outlook/

On the front of new stores, the Group will continue to look for retail space in new and existing housing estates, particularly in estates where the Group has little or no presence. Singapore has ramped up its public housing programme to meet the strong demand with around 100 Build-To-Order (BTO) projects currently being built, and this will increase to about 150 concurrent BTO projects by around 2025[(4)]. The Group is well positioned to tap into these opportunities to open new stores each year.

Lim Hock Chee
Chief Executive Officer

28 April 2023

(4) https://www.straitstimes.com/singapore/politics/hdb-to-ramp-up-bto-projects-with-150-to-be-built-at-same-time-by-2025-up-from-100-now