SHENG SIONG GROUP LTD

First Quarter Business Update

Dear Shareholders,

The Board after careful consideration is of the view that the announcement of results on a half yearly basis together with enhanced disclosures would be sufficient to keep shareholders and stakeholders informed of the state of affair of the Group. In place of the first and third quarterly announcements, I will be presenting a business update. Please let me present my first update for 1Q2020.

I am pleased to report that the Group has performed exceptionally well in 1Q2020. Net profit increased by 49.9% to $29.0m, contributed mainly by the higher gross profit, a consequence of higher revenue and better gross margin, higher other income and a less than proportional increase in operating expenses relative to the increase in revenue.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP 1st Quarter ended 31 Mar		
	2020 S$'000	**2019 S$'000**	**+/ (-)%**
Revenue	328,735	251,437	30.7%
Cost of sales	(239,961)	(185,908)	29.1%
Gross profit	**88,774**	**65,529**	**35.5%**
Other income	3,753	2,390	57.0%
Distribution expenses	(1,978)	(1,768)	11.9%
Administrative expenses	(54,114)	(42,204)	28.2%
Other expenses	(1,259)	(595)	111.6%
Results from operating activities	**35,176**	**23,352**	**50.6%**
Finance income	277	397	(30.2%)
Finance expenses	(521)	(464)	12.3%
Profit before tax	**34,932**	**23,285**	**50.0%**
Tax expense	(5,923)	(3,928)	50.8%
Profit for the period	**29,009**	**19,357**	**49.9%**

	GROUP 1st Quarter ended 31 Mar		
	2020	**2019**	**+/(-)**
	S$'000	**S$'000**	**%**
Other comprehensive income			
Items that may be re-classified subsequently to profit or loss			
Foreign currency translation differences for foreign entity	14	149	n.m
Total comprehensive income	**29,023**	**19,506**	**48.8%**
Profit net of tax for the period attributable to :			
Owners of the company	28,698	19,358	48.2%
Non-controlling interest	311	(1)	n.m
	29,009	**19,357**	**49.9%**
Total comprehensive income attributable to :			
Owners of the company	28,706	19,447	47.6%
Non-controlling interest	317	59	n.m
	29,023	**19,506**	**48.8%**

n.m denotes not meaningful

Notes to the income statement

		GROUP 1st Quarter ended 31 Mar	
	Note	**2020**	**2019**
		S$'000	**S$'000**
Depreciation of property, plant and equipment	(1)	4,819	4,240
Depreciation of right-of-use asset	(2)	7,074	5,049
Total depreciation		11,893	9,289

	Note	GROUP 1st Quarter ended 31 Mar 2020	2019
Exchange (gain)/loss		64	(222)
Loss on disposal of property, plant and equipment		1	1
Interest income	(3)	(277)	(397)
Interest charges	(4)	521	464
Finance charges/ (income) net		244	67
Other income:			
Rental income		749	896
Sale of scrap materials		275	400
Government grants	(5)	1,591	308
Miscellaneous income		1,138	786
		3,753	2,390

Notes

1. The increase in depreciation charges for the period was due mainly to additions to property, plant and equipment subsequent to 1Q2019.
2. Depreciation of right-of-use assets relates to the leases where the Group is a lessee which are capitalised as right-of-use assets following the implementation of SFRS(I)16 *Leases* on 1 January 2019. It was higher in 1Q2020 compared with 1Q2019 as on adoption of SFRS(I) 16 *Leases* on 1 January 2019, leases which were expiring in 2019 were excluded. These leases were subsequently included in right-of-use assets when they were renewed.
3. The decrease in interest income was because of the decline in interest rates.
4. This interest expense relates to interest on lease liabilities which were brought onto the consolidated statements of financial position upon the recognition of the right-of-use assets following the implementation of SFRS(I)16 *Leases* on 1 January 2019.
5. The government grants were from various Government agencies in partial support of productivity improvement programs as well as grants under the Wage Credit, Special Employment Credit schemes and COVID-19 related grants announced in Budget 2020. The increase was mainly due to COVID-19 grants.

1(b)(i) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	GROUP		
	31 Mar 2020 S$'000	31 Dec 2019 S$'000	31 Mar 2019 S$'000
Non-current assets			
Property, plant and equipment	351,644	356,189	313,685
	351,644	356,189	313,685
Current assets			
Inventories	70,589	82,166	60,137
Trade and other receivables	14,891	17,981	15,053
Cash and cash equivalents	133,716	76,419	86,309
	219,196	176,566	161,499
Total assets	570,840	532,755	475,184
Equity			
Share capital	235,373	235,373	235,373
Merger reserve	(68,234)	(68,234)	(68,234)
Accumulated profits	174,984	146,285	142,535
Foreign currency translation reserves	(165)	(173)	(2)
Equity attributable to owners of the Company	341,958	313,251	309,672
Non-controlling interest	2,426	2,109	2,200
Total equity	344,384	315,360	311,872
Non-current liabilities			
Lease liabilities	26,066	30,239	26,119
Deferred tax liabilities	4,287	3,042	3,868
	30,353	33,281	29,987
Current liabilities			
Lease liabilities	24,315	26,743	19,788
Trade and other payables	151,000	140,766	95,168
Current tax payable	20,788	16,605	18,369
	196,103	184,114	133,325
Total liabilities	226,456	217,395	163,312
Total equity and liabilities	570,840	532,755	475,184

Aggregate amount of Group's borrowings and debt securities

The Group had no borrowings as at the end of 31 March 2020, 31 December 2019 and 31 March 2019 respectively.

A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED STATEMENT OF CASH FLOW

	Group	
	31 Mar 2020 S$'000	**31 Mar 2019 S$'000**
Operating activities		
Profit for the period	29,009	19,357
Adjustments for:		
Depreciation of right-of-use assets	7,074	4,240
Depreciation of property, plant and equipment	4,819	5,049
Loss on disposal of property, plant and equipment	1	1
Unrealised exchange (gain)/loss	62	(151)
Interest income	(277)	(397)
Interest expense	521	464
Tax expense	5,923	3,927
	47,132	32,490
Changes in inventories	11,577	9,760
Changes in trade and other receivables	3,090	(2,064)
Changes in trade and other payables	10,234	(30,495)
Cash generated from operations	72,033	9,691
Taxes paid	(495)	-
Cash flows from operating activities	71,538	9,691
Investing activities		
Proceeds from disposal of property, plant and equipment	21	32
Purchase of property, plant and equipment	(7,165)	(6,118)
Interest received	277	397
Cash flows used in investing activities	(6,867)	(5,689)
Financing activities		
Interest Paid	(521)	(464)
Payment of lease liabilities	(6,807)	(4,763)
Cash flows used in investing activities	(7,328)	(5,227)
Net increase/ (decrease) in cash and cash equivalents	57,343	(1,225)
Cash and cash equivalents at beginning of the period	76,419	87,234
Effect of exchange rate changes on balances held in foreign currencies	(46)	300
Cash and cash equivalents at end of the period	133,716	86,309

REVENUE

The first quarter started with better Chinese New Year sales compared to 2019 because of recovering consumers' sentiments and the low base effect in 2019. Shortly after the end of Chinese New Year, on 7 February 2020 the Government changed COVID-19's DORSCON level to Orange from Yellow and this triggered the first round of elevated demand. Since then demand has been elevated as more people are eating at home and probably, loading up their pantry as well. Consequently, our 1Q2020 revenue increased by 30.7%, which could be broken down into:

Singapore	**1Q2020**	**1Q2019**
New stores (Note 1)	9.0%	10.6%
Comparable same store sales (Note 2)	19.7%	(1.0%)
China (Note 3)	2.0%	0.5%
Total	30.7%	10.1%

(1) New stores consist of the 5 opened in 2019 and 2 in January 2020 which were at Block 118 Aljunied Ave 2 (18,000 square feet) and Block 202 Marsiling Drive (5,540 square feet).
(2) Sales from stores opened before 31 December 2018.
(3) A second store in China was opened in June 2019.

GROSS PROFIT AND MARGIN

The increase in gross profit was because of the increase in revenue and the improvement of gross margin by 0.9% to 27.0%.

Gross margin improved slightly from 26.1% in 1Q2019 to 27.0% in 1Q2020, with the gains coming mainly from increased sales of housebrands which command a higher gross margin and slightly lower input prices across a majority of other categories of offerings. The biggest gain came from non-fresh products as sourcing was diversified to cope with the sudden surge in demand. The ratio of fresh to non-fresh remained quite the same in 1Q2020 compared with 1Q2019.

We did not see major disruptions in the supply chain in 1Q2020. In hindsight, our move to increase our stockholding since the end of 4Q2019 has prevented serious stock out situations, although certain heavily demanded items were depleted immediately after the first round of elevated buying.

OPERATING EXPENSES.

Administrative expenses increased by $11.9m or 28.2% compared with an increase in revenue of 30.7% and the variances are explained below.

Category	Change	Remarks
Staff cost	$10.1m	Staff required for new stores as well as increased working hours because of the higher volume and higher bonus provision because of the improved financial performance.
Depreciation	$2.5m	$2.0m relating to leases capitalized as ROU and $0.5m because of additions to other property, plant and equipment subsequent to 1Q2019.
Rent	($1.4m)	Leases capitalized as right-of-use assets now expensed as depreciation.
Others	$0.7m	
Total	$11.9m	

The increase in other expenses of $0.7m was mainly because of higher charges for credit cards and non-cash payments brought about by the higher volume.

CHINA

Revenue continued to grow healthily in the two stores in Kunming China and these stores have broken even.

NET PROFIT AND EARNINGS PER SHARE

After deducting tax of $5.9m which was close to the statutory rate of 17%, net profit increased by 49.9% to $29.0m. Earnings per share in 1Q2020 was 1.91 cents compared with 1.29 cents in 1Q2019.

STATEMENT OF FINANCIAL POSITION.

Property, plant and equipment decreased by $4.5m compared with 31 December 2019 mainly because of additions amounting to $7.2m which was offset by depreciation of $11.9m. Compared with 31 March 2019, it was $38m higher mainly because of capital expenditure spent subsequent to 1Q2019, the biggest item being the purchase of Block 118 Aljunied Avenue 2 amounting to $30.4m. High seasonal sales during Chinese New Year 2020 was the main reason for the decrease in inventory by $11.6m at the end of 1Q2020, compared with 31 December 2019. As we started stocking up because of uncertainties caused by COVID-19, inventory increased by $10.5m at the end of 1Q2020 compared with 1Q2019. Changes in payables were largely driven by the changes in inventory.

CASH FLOW

Operating cash flow increased significantly to $71.5m in 1Q2020 compared with $9.7m in 1Q2019 because of the higher business volume and absence of a timing anomaly in payments at the end of 1Q2019. The warehouse extension was completed in March 2020. Capital expenditure of $7.2m consists of $3.2m for the warehouse extension, $2.5m for fitting out the stores and maintenance capex for the supermarket operations, $1.3m for maintenance capex relating to the warehouse and $0.2m for China. As there were no major changes to the collection and payment cycles, cash and cash equivalent balance increased by $57.3m to $133.7m at the end of 1Q2020 compared with 31 December 2019.

LOOKING FORWARD

Subsequent to 1Q2020, we have secured two new HDB stores which were tendered in January 2020. These are at Block 872C Tampines Street 86 (8,490 square feet) and Block 455 Sengkang West Avenue (9,040 square feet). As of now, HDB cannot fix a date for the execution of the lease agreements because of the “Circuit Breaker”. In addition, we have also won a tender for a 4,610 square feet shop in the Potong Pasir Community Club, 6 Potong Pasir Ave 2. We will commence fitting out works the moment the premises is handed to us after the “Circuit Breaker” is lifted. To summarize, to-date, we would have opened a total of 5 shops in 2020 bringing our total store count to 64 and retail area to approximately 575,160 square feet. We will continue to look for retail space in areas where our potential customers reside but we do not have a presence, nurture the growth of our new stores and build on the momentum of improving comparable same store sales.

Competition is likely to remain keen among the brick and mortar and online players. Some international food companies are warning of future disruptions to the supply chain and increase in prices because of lock-down in many countries as a result of COVID-19.

I do not know when COVID-19 will be over or when the economic situation in Singapore or worldwide would normalize. When that happens, I expect our revenue to taper off from the current elevated levels as buffer stocks kept by households are consumed. In the meanwhile, we will continue to hold a higher than normal level of inventory to hedge against potential disruption to the supply chain.

I am grateful to all our staff and suppliers who have worked very hard during these periods of elevated demand. The staff have gone beyond their call of duty and I wish to reward them (excluding directors) with an additional month of salary. I would like to close off by reiterating that your safety, our customers’ and other stakeholders’ safety are of paramount importance to us. We will continue to maintain a high standard of hygiene and comply with the directives given by the Ministry of Health.

Lim Hock Chee

CEO

28 April 2020