



SHENG SIONG GROUP LTD

First Quarter 2021 Business Update

Dear Shareholders,

I trust you are all safe and well. It is my pleasure to present our 1Q2021 business update.

The Group has again demonstrated its resilience and achieved a 6.5% growth in net profit on the back of an increase of 2.7% in revenue. Let us be reminded that 1Q2020 was the start of the pandemic which drove up demand for daily necessities. Restrictions which impacted elevated demand eased gradually throughout FY2020, and I am proud that we delivered against a backdrop of tapering elevated demand.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP		
	1 st Quarter ended		
	31-Mar		
	2021	2020	
	S\$'000	S\$'000	+ / (-)%
Revenue	337,547	328,735	2.7%
Cost of sales	(244,416)	(239,961)	1.9%
Gross profit	93,131	88,774	4.9%
Other income	4,009	3,753	6.8%
Distribution expenses	(1,853)	(1,978)	(6.3%)
Administrative expenses	(55,944)	(54,114)	3.4%
Other expenses	(1,451)	(1,259)	15.3%
Results from operating activities	37,892	35,176	7.7%
Finance income	239	277	(13.7%)
Finance expenses	(485)	(521)	(6.9%)
Profit before tax	37,646	34,932	7.8%
Tax expense	(6,740)	(5,923)	13.8%
Profit for the period	30,906	29,009	6.5%



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	GROUP		
	1 st Quarter ended		
	31-Mar		
	2021	2020	+ / (-)
	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	(382)	14	n.m.
Total comprehensive income	30,524	29,023	2.68%
Profit net of tax for the period attributable to :			
Owners of the company	30,841	28,698	7.5%
Non-controlling interest	65	311	(79.2%)
	30,906	29,009	6.5%
Total comprehensive income attributable to :			
Owners of the company	30,612	28,706	6.6%
Non-controlling interest	(88)	317	n.m.
	30,524	29,023	5.2%

n.m denotes not meaningful



Notes to the income statement

	Note	GROUP	
		2021	2020
		1 st Quarter ended	1 st Quarter ended
		31-Mar	31-Mar
		S\$'000	S\$'000
Depreciation of property, plant and equipment	1	5,060	4,819
Depreciation of right-of-use assets		7,181	7,074
Exchange gain		60	64
(Gain)/loss on disposal of property, plant and equipment		(9)	1
Interest income	2	(239)	(277)
Interest expense	3	485	521
Finance expense		246	244
Other income:			
Rental income		724	749
Sale of scrap materials		573	275
Government grants	4	1,861	1,591
Miscellaneous income		851	1,138
		4,009	3,753

Notes

1. The increase in depreciation charges for the period was due mainly to additions to property, plant and equipment subsequent to 1Q2020.
2. The decrease in interest income was because of the decline in interest rates.
3. This interest expense relates to interest on lease liabilities.
4. The government grants were from various Government agencies under the Wage Credit, Special Employment Credit Schemes and COVID-19 related grants. The increase was mainly due to the Wage Credit Scheme.



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

	31-Mar-21	31-Dec-20
	S\$'000	S\$'000
Non-current assets		
Property, plant and equipment	341,950	340,299
	<u>341,950</u>	<u>340,299</u>
Current assets		
Inventories	73,369	77,911
Trade and other receivables	11,291	19,949
Cash and cash equivalents	271,488	253,901
	<u>356,148</u>	<u>351,761</u>
Total assets	<u>698,098</u>	<u>692,060</u>
Equity		
Share capital	235,373	235,373
Merger reserve	(68,234)	(68,234)
Accumulated profits	236,090	205,248
Foreign currency translation reserves	(227)	3
Equity attributable to owners of the Company	<u>403,002</u>	<u>372,390</u>
Non-controlling interest	2,620	2,709
Total equity	<u>405,622</u>	<u>375,099</u>
Non-current liabilities		
Lease liabilities	25,934	23,129
Term loan	15,000	15,000
Deferred tax liabilities	4,663	3,615
	<u>45,597</u>	<u>41,744</u>
Current liabilities		
Lease liabilities	22,829	22,374
Trade and other payables	178,551	208,089
Term loan	15,000	15,000
Current tax payable	30,499	29,754
	<u>246,879</u>	<u>275,217</u>
Total liabilities	<u>292,476</u>	<u>316,961</u>
Total equity and liabilities	<u>698,098</u>	<u>692,060</u>



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Aggregate amount of Group's borrowings and debt securities

	GROUP		GROUP	
	31 Mar 2021 S\$'000	31 Mar 2021 S\$'000	31 Dec 2020 S\$'000	31 Dec 2020 S\$'000
	Secured	Unsecured	Secured	Unsecured
Amount repayable in one year or less				
Term loan	Nil	15,000	Nil	15,000
Amount repayable after one year				
Term loan	Nil	15,000	Nil	15,000

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-21 S\$'000	31-Mar-20 S\$'000
Operating activities		
Profit for the period	30,906	29,009
Adjustments for:		
Depreciation of right-of-use assets	7,181	7,074
Depreciation of property, plant and equipment	5,060	4,819
(Gain)/loss on disposal of property, plant and equipment	(9)	1
Unrealised exchange loss	26	62
Interest income	(239)	(277)
Interest expense	485	521
Tax expense	6,740	5,923
	<u>50,150</u>	<u>47,132</u>
Changes in inventories	4,542	11,577
Changes in trade and other receivables	8,658	3,090
Changes in trade and other payables	(29,538)	10,234
Cash generated from operations	<u>33,812</u>	<u>72,033</u>
Taxes paid	(4,948)	(495)
Cash flows from operating activities	<u>28,864</u>	<u>71,538</u>
Investing activities		
Proceeds from disposal of property, plant and equipment	37	21
Purchase of property, plant and equipment	(3,626)	(7,165)
Interest received	239	277
Cash flows used in investing activities	<u>(3,350)</u>	<u>(6,867)</u>



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Financing activities

Interest Paid	(485)	(521)
Payment of lease liabilities	(7,034)	(6,807)
Cash flows used in investing activities	(7,519)	(7,328)

Net increase in cash and cash equivalents	17,995	57,343
Cash and cash equivalents at beginning of the period	253,901	76,419
Effect of exchange rate changes on balances held in foreign currencies	(408)	(46)
Cash and cash equivalents at end of the period	271,488	133,716

REVENUE

Despite higher Chinese New Year sales, revenue grew by 2.7% in 1Q2021 compared with 1Q2020 mainly because of the high base in 1Q2020. Interestingly, despite expectation of tapering elevated demand as the COVID-19 situation improved after 2Q2020 and restrictions were relaxed, revenue in 1Q2021 was \$342.0 million which was slightly higher than the \$327.3 and \$319.3m in 3Q2020 and 4Q2020 respectively.

The break-down in the change in revenue is as follows:

Singapore	1Q2020	1Q2021
New stores (Note 1)	9.0%	2.7%
Comparable same store sale (Note 2)	19.7%	0%
China (Note 3)	2.0%	0%
Total	30.7%	2.7%

- (1) New stores consist of the stores opened in 2020 and 2021. Five new stores were opened in FY2020 and none in 1Q2021.
- (2) Comparable same store sale was flat because of the high base in 1Q2020. Against declining elevated demand, comparable same store sale held its ground. Comparable same store sales were 19.7% and 18.25% in 3Q2020 and 4Q2020 respectively. Excluding 2Q2020's same store sale growth as it was an anomaly because COVID-19's elevated demand was at its peak, same store sale growth in 2020 was about 19% per quarter.
- (3) China's revenue was lower in 1Q2021 compared with 1Q2020 because of the contractionary effect on COVID-19 related demand.

GROSS PROFIT AND GROSS MARGIN

Gross profit grew by 4.9% which outpaced growth in revenue of 2.7% because of improved gross margin. Gross margin improved slightly from 27.0% in 1Q2020 to 27.6% in 1Q2021 mainly because of better input prices. Sales mix of fresh to non-fresh remained largely the same in 1Q2021 compared with 1Q2020. Consequently, 1Q2021's gross margin was slightly higher than 4Q2020's gross margin of 27.3%.



OPERATING EXPENSES

Administrative expenses increased by \$1.8m or 3.4% compared with an increase in revenue of 2.7% and the variances are explained below.

Category	Change	Remarks
Staff cost	\$1.5m	Mainly because of the additional headcount to man the 3 new stores opened after 1Q2020 and the higher bonus provision because of the improved financial performance.
Rent	\$0.2m	Leases of supermarket outlets renewed after 1Q2021 but disclosed as rent in 1Q2021.
Others	\$0.1m	
Total	\$1.8m	

CHINA

The two outlets are still profitable but profit was lower because of the lower revenue. China's revenue is about 2% of the Group's.

Tax

The effective tax rate of 17.9% was higher than the statutory rate of 17% mainly because of expenses which were not deductible for tax.

NET PROFIT AND EARNINGS PER SHARE

Net profit increased by 6.5% to \$30.9m compared with \$29.0m in 1Q2020. Earnings per share attributable to owners of the company in 1Q2021 was 2.1 cents compared with 1.91 cents in 1Q2020.

STATEMENT OF FINANCIAL POSITION

Property, plant and equipment increased by \$1.9m compared with 31 December 2020 due to an increase in right of use assets of \$3.4m offset by a reduction in other property, plant and equipment of \$1.5m. The reduction in other property, plant and equipment was made up of purchases of \$3.6m offset by depreciation of \$5.1m. Inventory was lower by \$4.5m as goods stocked up for Chinese New Year were sold. Receivables decreased by \$8.7m because of reduction in trade receivables of \$5.0m and other receivables by \$3.7m as debts outstanding as at 31 December 2020 were collected. Payables decreased by \$20.5m because trade payables was lowered by \$7.5m as Chinese New Year's supplies were paid and other payables decreased by \$13.0m mainly because of reduction in accruals when part of accrued bonuses relating FY2020 were paid.

CASH FLOW

Cash flow from operating activities was lower at \$28.9m compared with \$72.9m in 1Q2020 mainly because; (i) cash used for payment of payables (as explained above) and tax were higher in 1Q2021 and (ii) inventory was lower in 1Q2020 compared with 31 December 2020 because of elevated demand. In 1Q2020, tax payments were deferred by IRAS because of COVID-19. Capital expenditure of \$3.6m consists of \$2.5m for the supermarket operations, \$1.1m for maintenance capex relating to the warehouse operations. All in all, net cash of \$17.5m was generated resulting in a cash and cash equivalent balance of \$271.5m at the end of 1Q2021.



LOOKING FORWARD

We were not successful in our tender submitted in November 2020 for the two shops at Block 115A Alkaff Crescent and Block 610 Tampines North Drive. There could be a tender for a new shop soon as completion of apartments and commercial space have been delayed because of COVID-19. Recent news releases suggest that the HDB would have to rush to complete this backlog and it is likely that more new shops may be released for tender towards the end of 2021 and 2022. 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 improved comparable same store sale in Singapore and China. At the same time, we will work on improving cost efficiencies, enhance gross margin by working towards a sales mix with a higher proportion of fresh produce and deriving more efficiency gains from the supply chain.

Competition is likely to remain keen among the brick and mortar and online players. Even though the food supply chain was not seriously disrupted because of COVID-19, there are still risks of disruptions because of weather, geopolitical developments or breakdown in international carriage.

We do not know what the post COVID-19 situation will be like but any containment in infection and progress in vaccination in Singapore is a cause for some optimism. The economic situation in Singapore could improve and we think elevated demand caused by COVID-19 will continue to taper. Over the immediate horizon, we would expect lower revenue in 2Q2021 compared with 2Q2020 as elevated demand peaked in that quarter and we reported record revenue of \$418.7m.

We are grateful to the Government agencies, our shareholders, staff and suppliers who have helped us weather the COVID-19 crisis. My team and I will continue to adapt to the changes brought about by COVID-19 and continue to add sustainable value to the business.

Lim Hock Chee

CEO

26 April 2021