SHENG SIONG GROUP LTD.
(Incorporated in the Republic of Singapore)
(Company Registration No. 201023989Z)

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FOR 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 29 May 2020 on the alternative arrangements for its Annual General Meeting to be held on 22 June 2020 ("**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 and the Company has also provided answers to some questions received from the Securities Investors Association (Singapore) (SIAS).

By Order of the Board

Lim Hock Chee
Chief Executive Officer

19 June 2020

APPENDIX

Q1. Following the announcement of the full-year results for the financial year ending 31 December 2019, the company has provided shareholders with a business update for the 1st quarter ended 31 March 2020. Revenue increased by 30.7%, due to COVID-19 driven demand from consumers. With the group benefitting from higher operating leverage, profit for the quarter increased by 50% to $29.0 million for 1Q2020.

With 5 new shops to be opened in 2020, the total store count will increase to 64 and the retail area will increase by 45,680 square feet to approximately 575,160 square feet.

(i) **Other than higher level of inventories, what other operational changes has the group made to meet the elevated demand? What is the impact on the group's operating costs?**

A: Variable costs like headcount, utilities will increase with the elevated demand. We have not made major changes to the operational structure because of elevated demand. The Group's operating costs will increase but overall net margins may be improved because of better operating leverage brought about by the higher level of demand.

(ii) **How does the group ensure that their staffs do not suffer from burn-out over a prolonged hectic period?**

A: We monitor their working hours and mental conditions and will be proactive in ensuring that they are in good mental and physical health.

Some efforts made:

- We continue to keep our communication channels open for feedback.
- Outlet managers are more attentive towards our colleagues and look out for visible signs of fatigue. They make sure that our colleagues have enough rest especially during this period. If any of our colleagues feel unwell, other than getting them to visit the doctor, the outlet manager will also report to HR for follow-up.
- We increased our hires during this period, and activated colleagues from our office to provide additional support to our operations during peak period to support the higher level of demand.
- We have also rewarded our colleagues (excluding directors) an additional month of salary to thank them for going beyond their call of duty, and to boost their morale and relieve them from financial stress that may be coming from their family members whom might have been adversely impacted by the pandemic.

(iii) **The group has already secured 5 new shops to be opened in 2020. What is the optimal pace of new store opening each year going forward?**

A: We aim to open 3 to 5 new stores each year over the next 3 to 5 years.

(iv) **How did management secure its food and other supplies during this critical period where there is elevated demand globally, coupled with disruption to the supply chain?**

A: During this critical period, we procured most of our supplies from usual sources which were surprisingly not seriously disrupted by COVID-19. This is supplemented with supply from new diversified sources, which we were able to identify because of our strong merchandizing knowledge, capabilities and relationship.

(v) **Were there instances of suppliers engaging in price gorging? How does the group balance its gross margin and affordability for its consumers?**

A: Overall, we did not see any price gouging. However, we have noted that prices of popular brands of daily essentials have crept up and there have been exceptional instances where prices have gone up mainly because of higher logistic costs. We will continue to remain competitive and will offer more affordable alternatives for customers depending on demand.

Q2. The group started its online shopping platform, allforyou.sg, in 2014. As noted in the chairman's message, the group's strategy for the medium term is to leverage its brick-and- mortar supermarkets and to complement it with online grocery shopping in a dual-channel environment.

(i) **Can management help shareholders understand the share of revenue generated by its e-commerce platform? What are some of the key metrics used to measure the performance of the platform?**

A: E-commerce's share of Group's revenue is between 1% to 2%. The key matrices are gross profit margin, net profit margin to measure profitability and expenses as a % of revenue to measure efficiency and cost control in the different cost centres.

(ii) **Would the target audience of the e-commerce platform be substantially different from the average customer of its brick-and-mortar supermarkets?**

A: Allforyou.sg aims to increase our outreach to customers in areas where we do not have a physical presence. The profile of E-commerce grocery customers is different as they are more tech-savvy and value convenience as their opportunity cost of time is higher.

(iii) **What are the risks that the group would find it having to catch up with other online grocery operators in the future?**

A: The risks would be the entry of big online players if they come into our market in the future.**Q3.** At the annual general meeting scheduled to be held on 22 June 2020, Mr. Goh Yeow Tin and Mr. Jong Voon Hoo are retiring pursuant to Regulation 89 of the company's constitution and would be seeking their re-election.

Q3. Three of the independent directors, including Mr. Goh and Mr. Jong, were appointed on 22 June 2011. Therefore, the tenure of the three directors would have reached 9 years at the annual general meeting.

Ms Tan Poh Hong was appointed as an independent director on 5 January 2018.

Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders. This and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022.

(i) **Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**

A: Yes, we have evaluated the impact of 2018 CG code and its implications.

In addition, given that the chairman is part of the management team and a sibling of the CEO, Provision 2.2 of the Code of Corporate Governance 2018 requires independent directors to make up a majority of the board.

The board has stated its opinion that, based on the group's current size and operations, it is not necessary to have independent directors and non-executive directors make up a majority of the board at present.

Pursuant to Rule 710 of the SGX Listing Manual, where there are variations from the Provisions of the CG Code, the issuer must explicitly state the provision from which it has varied, explain the reasons for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

The board has just stated that it is "not necessary" due to the group's current size and operations.

(ii) **To comply with the Code and Rule 710, would the board further justify and help shareholders understand how the current practices are consistent with the intent of Principle 2, which requires the board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.**

A: As explained in our Annual Report, the composition of the Board with directors coming from different background, experience and academic qualification gave the Board diversity of thought and contributions. Matters are thoroughly discussed and the Board endeavours to seek for consensus before proceeding with any decisions.

(iii) **Would the board be reviewing its composition to see how it could better comply with the Code of Corporate Governance?**

A: Yes, we will be reviewing the composition of the Board to ensure it could better comply with the requirement of the Code of Corporate Governance.

Q4. I refer to page 1 of the Annual Report about "About Sheng Siong Group". In the 2nd paragraph, it was stated that "In 2014, we started our "allforyou.sg" online shopping platform for groceries, which offers e-commerce services in almost all postal districts in Singapore." **What % of the Group's revenue came from online channel? How much of a threat are RedMart & the likes to our online shopping platform?**

A: It is between 1% to 2%. The focus of some online players is to gain market share and are offering a lower threshold than us for free delivery. We will not lower our threshold as we will be subsidizing our customers. These players will remain a threat to our online platform so long as they continue to subsidize their customers.

Q5. I refer to page 6 of the Annual Report about "Chairman's Message". In the 2nd paragraph, at the last sentence, it was stated that "This will help mitigate the contraction in our supermarkets in matured HDB estates." **Can the Board share what are these "supermarkets in matured HDB estates"? What kind of negative SSSG did the Group experienced? What have the Board planned to do about them?**

A: Generally, these are shops opened in the 80s and 90s, in the older neighbourhoods in estates like Bedok, Woodland, and Clementi, just to name a few. We will rejuvenate and renovate older stores in these estates if HDB embarks on re-development of the older neighbourhoods. We regret that we do not disclose individual or group of stores' data as it is commercially sensitive.

Q6. I refer to page 5 of the Annual Report about "Chairman's Message". In the 4th paragraph, it was stated that "In line with our strategy to open stores in areas where our potential customers reside, we opened five stores in Singapore, bringing the Group's total number of stores to 59 and total retail area to 529,480 square feet by end of 2019. Just to recapitulate, we opened a record number of ten stores in 2018."

(i) **Over next 5 years, can shareholders similarly expect an average of about 7-8 store openings each year as a base case?**

A: No, we think 2018's 10 new store is exceptional. We aim to open 3 to 5 new shops per year in the next three to five years.

(ii) **Over the next few years, what is the budgeted capex?**

A: Capex varies with (1) number of new shops (2) maintenance capex and (3) special projects.

(1) Fitting out new shops, assuming 5 new shops, is approximately $5.6m
(2) Maintenance capex is about $3m a year
(3) Special projects will depend on what the projects are

Q7. I refer to page 84 of the Annual Report about "Segment reporting". It was stated that "The Group operates in one segment which relates to the provision of supermarket supplies and supermarket operations."

(i) **What % of the Group's Revenue came from sales of housebrands (i.e. the >1200 products under 18 housebrands)?**

A: We would first like to clarify that "Housebrands" is not of a different segment from our business operations. Our business includes the development, distribution, and retail of our Housebrands products. The category's sales make up about 6% our Group's revenue.

(ii) Furthermore, it was also stated that "The overseas subsidiaries' operations are not significant for the financial years ended 31 December 2019 and 2018." **How much profit/(loss) did Sheng Siong (China) Supermarket Co Ltd contribute?**

A: Our business in China is profitable. We regret that we cannot disclose the number.

Q8. I refer to page 39 of the Annual Report about “Disclosure on Remuneration”. The “Variable Bonus” of Mr. Lim Hock Eng, Mr. Lim Hock Chee, Mr. Lim Hock Leng have each increased by 10.7% from $2.797m in 2018 to $3.096m in 2019. **May I ask the Remuneration Committee what were the remuneration factor(s) leading to the increase? And how much was attributable to each of these remuneration factor(s)?**

A: The increase is due to the increase in net profits after tax.

Q8. Similarly, on page 40, the remuneration of Ms. Lin Ruiwen has increased from “$301,000 to $350,000” in 2018 to “$301,000 to $400,000” in 2019; while the remuneration of Mr. Lin Junlin, Nigel has increased from “$50,001 to $100,000” in 2018 to “$101,000 to $200,000” in 2019 (at least doubled). **May I also ask the Remuneration Committee what were the remuneration factor(s) leading to the increase for each of them? And how much was attributable to each of these remuneration factor(s)?**

A: There has not been a significant change in her remuneration, but the reporting salary band has been expanded by $100,000 when the Code of Corporate Governance 2018 became effective. Lin Junlin joined us in September 2018 as a full time staff and as such his remuneration in FY2019 is strictly not comparable with FY2018.