ZHONGMIN BAIHUI RETAIL GROUP LTD.
(Incorporated in the Republic of Singapore)
(Company Registration No.: 200411929C)
(the "Company")

RESPONSE TO SGX QUERIES REGARDING THE ANNOUNCEMENT OF UNAUDITED FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2021

The Board of Directors of Zhongmin Baihui Retail Group Ltd (the "**Company**", and together with its subsidiaries, collectively, the "**Group**") has received queries from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in its email of 10 March 2022 with regard to the Company's unaudited financial results for the twelve months ended 31 December 2021 ("**12M 2021**"), and wishes to respond to the queries as follows:

Query 1

As disclosed in the unaudited financial statements for the 12 months ended 31 December 2021, the Group reported an increase in its "Right-of-use assets" financial statement line item from RMB 199,398,000 as at 31 December 2020 to RMB 273,908,000 as at 31 December 2021. The Group also reported a significant increase in the impairment loss on its right-of-use assets from RMB 6,151,000 for the 12 months ended 31 December 2020, to RMB 28,400,000 for the 12 months ended 31 December 2021.

At pg 11, it was further provided that the "impairment loss amounting to RMB28.4 million" was "in relation to the right-of-use assets for the Group's underperforming store."

What are the "right-of-use assets" being specifically referred to? Additionally, please disclose the following information:

(a) How the amount of impairment was determined;
(b) The reason(s) for the impairment losses;
(c) If applicable, whether any valuation was conducted, the value placed on the assets in question, and the basis and date of such valuation; and
(d) The Board's confirmation as to whether and how it is satisfied with the reasonableness of the methodologies used to determine the amount of impairment.

Company's Response to Query 1

The Group has started recognising right-of-use assets upon the adoption of SFRS (I) 16 on 1 January 2019 which principally required lessees to recognise a right-of-use asset (mainly the right to use the retail store property which the Group leases from landlords) and a corresponding lease liability (mainly an obligation to the landlord of the property) arising from long term leases on the balance sheet. Right-of-use assets are measured at cost less any accumulated impairment losses and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Most of the Group's retail premises are on leases and the right-of-use assets are recognised for the lease of their premises. In 2021, additional right-of-use assets were recognised in respect of renewals on the existing lease arrangements on its Quanxiu, Xinhua and Wucun stores, and the entering into of new leases for its Nanshan and Zhangzhou Port stores.

Separately, the impairment loss of RMB28.4 million arose from a reduction in the carrying value of the right-of-use assets of the Group's underperforming Lvcuo Store due to several factors resulting in the continual loss incurred by the store. The construction of the metro interchange station (with two metro lines) was initially deemed to be promising for driving foot traffic and boosting the sales of the Lvcuo Store as it is an underground store which would be linked to the metro station via the metro station's shopping lane. Despite the second metro line commencing operations in late 2019, there was minimal favourable impact to the sales of the Lvcuo Store due to the outbreak of Covid-19 in China and the country went into lockdown in 2020. The opening of the metro station's shopping lane which linked the metro station to the Lvcuo Store was also delayed till the end of 2021. In view of the above, with the current covid-19 situation, the outlook for the store is below the Management's expectation. Accordingly, an impairment loss on this right-of-use asset was further recognised.

In determination of the recoverable amount for the Lvcuo Store derived from the value in use calculation, the Group considered the overall market and economic conditions of the industry brought on by the COVID pandemic. The period of assessment was based on the remaining lease period of 4.5 years. As the recoverable amount was lower than the carrying amount of the right-of-use asset, an impairment charge was recognised.

The Board is in the view that the methodologies being used to determine the amount of impairment is appropriate.

<u>Query 2</u>

The Group reported a decrease in the "Other receivables" financial statement line item under its non-current assets from RM 11,864,000 as at 31 December 2020 to RMB 11,037,000 as at 31 December 2021. It also reported a decrease in its "Trade and other receivables" financial statement line item under its current assets from RMB 45,290,000 as at 31 December 2020 to RMB 23,368,000 as at 30 December 2021.

At pg 19, it was further provided that: "Trade and other receivables (current and non-current) decreased by RMB22.7 million mainly due to collection from the bulk sale of prepaid cash cards, partially offset by receivables from the operations of the new stores."

In this regard, please disclose:
(a) The nature and breakdown of the Group's trade and other receivables in its current and non-current assets;
(b) The underlying transactions and terms of the transactions (including contract sum) and payment terms of the underlying contracts;
(c) Aging of the Group's trade and other receivables in its current and non-current assets;
(d) The Group's plans to recover these trade and other receivable under its current and non-current assets; and
(e) The Board's assessment on the recoverability of these trade and other receivables.

Company's Response to Query 2

The breakdown of the Group's trade and other receivables as at 31 December 2021 are as follows:

	RMB'000
Non-current:	
Other receivables	5,308
Rental deposits	5,729
	11,037
Current:	
Trade receivables	3,445
Other deposits	1,042
Other receivables	18,881
	23,368

Non-current rental deposits are related to deposits paid to landlords for lease of retail premises which are held at amortised cost.

Non-current other receivables comprise interest accrued on the above rental deposits.

The rental deposits with the interest will be refunded at the end of the respective lease periods.

The Group's trade receivable aging as at 31 December 2021 is as follows:

	Less than 31 days	31 to 60 days	61 to 90 days	More than 90	Total
Current:	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	1,646	1,398	160	241	3,445

Trade receivables are generally on 30 to 60 days terms.

Current trade receivables are mainly related to supply of goods to the canteens of state-owned enterprises, schools, banks and government departments. The Group does not foresee any significant difficulty in collection based on their strong background and reputation.

Current other deposits are related to deposits paid to suppliers. Deposits will be recovered from the respective suppliers upon termination of supply.

Current other receivables mainly comprise the following:

(i) Interest on fixed deposits and Value Added Tax ("VAT") receivable of RMB 4.9 million. Interest on fixed deposits will be received upon the maturity of the respective deposits and VAT receivable will be set off with the VAT output in subsequent periods;

(ii) Receivable of RMB 3.6 million from various banks in relation to promotion activities they have undertaken to encourage consumers to use the bank payment products, and subsidies receivable from Bureau of Commerce for our promotion vouchers to boost the economic recovery during the covid period;

(iii) Advance to the landlord of Zhangzhou Port Store of RMB 4.0 million for renovation in order to expedite the renovation and opening of the store. The advance is due to be repaid by December 2022.

(iv) Advance of RMB 5.0 million to our existing concessionaire which has a prominent business relationship with us, in order to encourage opening of another of their flagship store at our new Zhangzhou Port Store. This is secured by the inventory of their two existing outlets operating at our stores and due to be repaid by December 2024. This advance will be reclassified to non-current at the end of this financial year; and

(v) Others are mainly related to advertisement and promotion fees of RMB 1.4 million charged to our concessionaires and suppliers. It will be used to offset any outstanding balance payable to the respective concessionaires and suppliers in the subsequent periods.

The Board is of the view that these trade and other receivable have no significant recoverability issues.

By Order of the Board

Lee Swee Keng
Executive Chairman
17 March 2022