



Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Zhongmin Baihui Retail Group Ltd.

Stock code: 5SR

Meeting details:

Date: 29 July 2021

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. As disclosed in the chairman's statement, the group's expansion plans are as follows:

- a 380,000 sqm outlet mall in Wuxi, Jiangsu Province
- a 1,200 sqm store in Quangan, Quanzhou City
- a 3,500 sqm store in Guangde, Anxi County, Quanzhou City
- a 15,200 sqm store in Zhangzhou Port, Zhangzhou City (planned)
- a 192,500 sqm outlet mall in Longwen, Zhangzhou City (planned)
- a 110,800 sqm outlet mall in Nan'an, Quanzhou City (planned)

For FY2020, despite the challenges due to the pandemic, the group achieved an increase of 5.8% in profit after taxation to RMB55.2 million. Revenue increased by 17.1% to RMB1,230.2 million while same store sales grew 2.0% in 2020. As noted by the CEO, the better performance was due to the closure of an underperforming store in 2019, the opening of five new stores between mid-2019 and early 2020, efforts to increase sales, such as several large direct procurement of Kweichow Moutai liquor, and the strong performance of the maiden outlet mall in Changsha (page 14).

- (i) **How well positioned is the group to enter the outlet mall segment? Would the group have the necessary network of suppliers, brands, customers and operational expertise to run an outlet mall?** While the group has an associate stake in the entity responsible for managing Changsha Sasseur (ZMBH) Outlets, a 211,000 sqm mega mall in Changsha City, Hunan Province, the new Wuxi outlet mall will be managed by a 50%-owned joint venture.
- (ii) **Has there been a strategic shift to grow the outlet mall business going forward?**
- (iii) **To help shareholders better understand the risks, what are the key success factors in the outlet mall business?**
- (iv) **In the "traditional" department stores and supermarket business, how is the group going to compete against internet giants who are establishing themselves online and also entering the brick and mortar business?**

Q2. In the statements of financial position (balance sheet) (page 52), it can be seen that inventories increased significantly to RMB159.5 million, prepayments increased to RMB67.5 million while trade and other receivables nearly tripled to RMB45.3 million.

		Group		Company	
	Note	2020 RMB	2019 RMB	2020 RMB	2019 RMB
Current assets					
Inventories	15	159,543,766	117,804,452	–	–
Prepayments	16	67,526,492	13,957,255	28,536	23,548
Trade and other receivables	17	45,289,927	15,626,508	346	2,477
Amount due from a subsidiary	18	–	–	65,473,185	18,947,368
Amount due from an associate	19	41,400,000	29,700,000	–	–
Amount due from related parties	20	10,363,698	9,885,054	–	–
Cash and cash equivalents	21	324,345,927	260,040,551	15,293,132	5,355,273

(Adapted from company annual report)

- (i) **What are the reasons for the 35% increase in inventories? Similarly, why had “advance payments to suppliers” increased from RMB11.8 million to RMB65.6 million as at 31 December 2020 (Note 16 – Prepayments; page 89)? How much of it can be attributed to Kweichow Moutai liquor?**
- (ii) **Also, has management adapted to any COVID-19 related changes in consumption patterns and customer preferences and further finetuned the group’s inventory policy?**

From Note 17 (page 89 – Trade and other receivables), trade receivables increased sharply from RMB4.2 million to RMB37.0 million.

- (iii) **Can management provide a breakdown of the RMB37.0 million in trade receivables? What is the aging profile of the trade receivables?**

Q3. On 14 July 2021, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2020 following the finalisation of audit.

The announcement on unaudited financial results for the financial year ended 31 December 2020 was first released via SGXNet on 1 March 2021. The announcement on material variance came 4.5 months after the company first announced the unaudited financial statements.

Some of the changes that were made following the finalisation of audit include:

- adjustment of dividend income (previously recorded net of administrative expenses)
- adjustment to the share of pre-operating loss of a joint venture
- recognition of renovation costs for new department stores which was finalised only after the release of the unaudited financial statements
- reclassification of interest paid on loans and bonds from operating activities to financing activities

It would appear that basic accounting entries, such as interest paid on loans and bonds were mistakenly classified as cash flows from operating activities before the audit. In addition, the adjustments made due to recognition of renovation costs were as large as RM15.4 million (decrease in cash and cash equivalents).

- (i) **Can the audit committee (AC)/management elaborate further on the underlying reasons that the cash and cash equivalents at balance sheet date had to be materially adjusted to the tune of RM15.4 million?**
- (ii) **Even if the renovation costs were only finalised after 1 March 2021, why is an adjustment of as large as RM10.5 million required? Were the renovation costs totally left out in the unaudited financial statements?** The group also recognised an additional RM5.1 million in prepayments in the audited financial statements.
- (iii) **Is the group (including its officers) familiar with the Singapore Financial Reporting Standards (International) (SFRS(I))?**
- (iv) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**
- (v) **Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**
- (vi) **What changes have been made/will be made to the group's financial reporting systems and processes?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)