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

RESPONSE TO QUESTIONS RECEIVED FROM SHAREHOLDERS AND VARIOUS PARTIES FOR ANNUAL GENERAL MEETING TO BE HELD ON 29 JULY 2021

The Board of Directors of Zhongmin Baihui Retail Group Ltd. (the "**Company**", and together with its subsidiaries, collectively, the "**Group**") refers to the notice of annual general meeting ("**AGM**") announced on 14 July 2021 informing shareholders of the Company that the AGM will be convened and held by way of electronic means on 29 July 2021 and the annual report ("**AR**") of the Company for the financial year ended 31 December 2020 ("**FY2020**").

The Company has received various questions from our shareholders and various parties and would like to thank all shareholders for your ongoing interest in the Company and for your cooperation in submitting your questions ahead of the deadline. As such, the Company would like to take the opportunity to respond to these questions in this announcement.

Q1. How has the growth in e-commerce trend affected the Group's department store sales so far since 2020 (i.e., start of the Covid-19 pandemic)?

It is difficult to quantify the effects of e-commerce on our department store sales over any time period. We can only quantify our department store sales performance, which we disclose regularly in our annual reports. From page 76 of the FY2020 AR, "gross proceeds from concessionaire sales", representing department store sales, experienced a decline in FY2020 to RMB544.9 million from RMB661.3 million in the financial year ended 2019 ("**FY2019**"). The Group derives commissions as revenue from these concessionaire sales, which amounted to RMB103.6 million in FY2020, a decline from RMB132.2 million in FY2019.

Q2. How has the growth in e-commerce trend affected the Group's supermarket sales so far since 2020 (i.e., start of the Covid-19 pandemic)?

It is difficult to quantify the effects of e-commerce on our supermarket sales over any time period. We can only quantify our supermarket sales performance, which we disclose regularly in our annual reports. From page 76 of the FY2020 AR, "direct sales", representing our supermarket store sales, experienced an increase to RMB1076.8 million from RMB862.4 million in FY2019.

Q3. With reference to key audit matters on page 48 of the FY2020 AR, it was stated that "a significant portion of the cash and bank balances were held by the Group's subsidiaries in China for the operation of the retail malls which involve voluminous cash transactions." I understand that China has been one of the more progressive countries in terms of implementing cashless transactions. Can management share why there are still "voluminous cash transactions" at the Group's stores?

As at FY2020, 95% of the Group's cash and bank balances were held by its subsidiaries in China. Since the Group has been encouraging electronic payments, customers generally pay electronically while some customers still prefer cash payments. The volume of cash transactions is lower than the electronic transactions. Nonetheless, it is still material to the Group.

Q4. Gross proceeds from concessionaire sales declined by 17.6% from RMB661 million in 2019 to RMB545 million in 2020. Which main categories were affected in 2020?

We do not give a breakdown of the different categories of concessionaire sales. As a department store, we carry a variety of goods with no single category representing a significant portion of sales.

Q5. For Citi-Base Commerce Logistics (Xiamen) Co., Ltd., why was its loss after tax more than doubled from RMB4.26 million in 2019 to RMB8.62 million in 2020? Was it mainly due to the "property development" segment or the "operation of exhibition and promotion of imported goods" segment?

Citi-Base Commerce Logistics (Xiamen) Co., Ltd. ("**Gangji**") acquired 100% interest in Xiamen Citi-Base Commerce Co., Ltd. ("**XMCB**") in July 2019. XMCB incurred losses of about RMB7 million in both FY2019 and FY2020. The significant increase in losses for Gangji in FY2020 was due to a full year of negative contribution from XMCB versus 6 months in FY2019. Gangji, without XMCB, is involved in property development. XMCB was previously involved in the operation of exhibition and promotion of imported goods but is exploring other opportunities.

Q6. Regarding Changsha City Shamin Enterprise Management Co., Ltd. profit after tax has increased 2.61 times from RMB12.5 million in 2019 to RMB32.5 million in 2020. How did it manage to more than double in 2020 despite the onset of the Covid-19 pandemic?

The Changsha Store opened in December 2018 and 2019 was the first full year of operation. It is normal for a store to perform better in the second year after we are able to adjust to the operating environment.

Q7. Wuxi Shi Yueshang Outlets Co., Ltd.'s loss after tax increased 2.5 times from RMB3.02 million in 2019 to RMB7.38 million in 2020. Which store(s) is/are Wuxi Shi Yueshang Outlets Co., Ltd. operating and managing? What went wrong at this/these store(s)?

The company managing and operating the upcoming Wuxi outlet mall is Wuxi Shi Yueshang Outlets Co., Ltd. The losses are pre-operating in nature.

Q8. During the year ended 31 December 2020, the Group injected RMB 9 million into Wuxi Shi Yueshang Outlets Co., Ltd., while the other 50% shareholder only contributed RMB1.5 million. Who is this "other shareholder"? When will this shareholder top up its proportionate contributions?

The other shareholder is 明发集团无锡地产开发有限公司 Mingfa Group Wuxi Real Estate Exploiture Co., Ltd. ("Wuxi Mingfa"). Wuxi Mingfa had made the same contribution as the Group by March 2021.

Q9. Guangan Shi Yueshang Commercial Management Co., Ltd. incurred a loss of RMB563,000 in 2020. Which store(s) is/are Guangan Shi Yueshang Commercial Management Co., Ltd. operating and managing? What went wrong at this/these store(s)?

Guangan Shi Yueshang Commercial Management Co., Ltd. is responsible for managing and operating a retail space in Guangan, Szechuan Province. The losses are pre-operating in nature.

Q10. There was a write-off in leases of RMB23.8 million in 2019. To help shareholders recap, which “under-performing store” was that? What were the reasons that led to its underperformance in 2019, even before the onset of the Covid-19 pandemic?

The under-performing store refers to the Xianyou Store, which was closed in the third quarter of 2019. The store was not able to generate sufficient sales due to the weak local demand. The RMB23.8 million stated above is before other adjustments. With the adoption of SFRS(I) 16 with effect from 1 January 2019, the net financial impact of the store closure becomes RMB3.8 million after writing off the right-of-use assets and adjusting against the corresponding lease liabilities.

Q11. There was an “Impairment on right-of-use assets” of RMB6.15 million in 2020. Which store(s) was/were affected? What went wrong?

The impairment on right-of-use assets was related to Lvcuo Store, which was loss-making in 2020.

Q12. The lease for Quanzhou Tumen Store ends in March 2022, which is about 8 months’ time. The lease for Xiamen Wucun Store ends in September 2022, which is about 1 year 2 months’ time. How are the renewal of lease for these stores coming along? How much percentage increase in rental rate will the Group likely face?

We have not renewed the lease contracts for both stores. Negotiations should be underway soon.

Q13. Why did advance payments to suppliers increase 5.55 times from RMB11.8 million in 2019 to RMB65.6 million in 2020? Were they for the large direct procurement of Kweichou Moutai liquor?

The increase in advance payments to suppliers was mainly related to purchases of Kweichow Moutai liquor.

Q14. Why did trade receivables increase 8.9 times from RMB4.17 million in 2019 to RMB37 million in 2020? How much of these RMB37 million trade receivables have been collected so far?

The increase in trade receivable was mainly due to the bulk sales of prepaid cash cards, which have been fully paid after FY2020.

Q15. There were additions in leasehold improvements of RMB13.8 million in 2020. Where were these leasehold improvements?

This was mainly due to the renovation costs for new stores such as Anxi Guanqiao Store, Jinjiang Qingyang Store and Zhangzhou Longwen Store.

Q16. How will the capital commitments trend be like over the next 2 to 3 years? How will they be funded?

The capital commitments trend over the next 2 to 3 years will depend on the progress of our planned projects. The funding of these commitments will come from existing sources.

Q17. The annual aggregate remuneration paid to the key management personnel of the Company (who are not Directors or the Chief Executive Officer) increased by 12.8% from S$494,407 in FY2019 to S$557,548 in FY2020. This is despite that profit for the year has only increased by 5.8% from RMB52.187 million in FY2019 to RMB55.236 million in FY2020. What remuneration factors specifically led to the increase? How much is attributable to each of these remuneration factors?

The increase in aggregate remuneration paid to key management personnel in 2020 was due to Mr. Su Jianli stepping down from the Board of Directors in May 2019 and remaining as Deputy CEO of the Group. His remuneration would be aggregated under the remuneration of key management personnel while it was previously counted as part of remuneration paid to directors.

Q18. There are plans to open a 15,200 sqm store in Zhangzhou Port, Zhangzhou City, a 192,500 sqm outlet in Longwen, Zhangzhou City, and a 110,800 sqm outlet mall in Nan'an, Quanzhou City. The 380,000 sqm outlet mall in Wuxi, Jiangsu Province will have a larger gross floor area (GFA) than both the 16 self-owned stores (190,700 sqm) and 3 managed stores (28,400 sqm) combined. It is also larger than its only outlet mall in Changsha (211,000 sqm). It seems that the major upcoming retail spaces are coming from outlet malls, and the Group is pivoting toward this property type. Is it that the Group's traditional department store format is facing a structural decline (e.g., ageing population, e-commerce, etc)?

The outlet mall strategy exhibits a higher return on equity and operates on different dynamics. However, the Group will continue to grow its traditional department store strategy as long as there are opportunities. The Group is still making significant profits from our traditional department stores, albeit with lower profitability. It should also be noted that the outlet malls are typically further away from city centres and less accessible for many shoppers.

Q19. Won't there be little economies of scale when operating & managing much smaller retail space such as the "1,200 sqm store in Quangang, Quanzhou City" and the "3.500 sqm store in Guangde, Anxi County, Quanzhou City"?

Some of our smaller stores, like the 2 abovementioned stores, offer mostly supermarket products and may have some Food & Beverage outlets. We will continue to open such stores because we believe our brand name is well recognised in Fujian. Collectively, these stores will still make positive contributions to the Group.

Q20. Has there been a strategic shift to grow the outlet mall business going forward given that Group's expansion plans, as disclosed in the chairman's statement in the FY2020 AR, include a 380,000 sqm outlet mall in Wuxi, Jiangsu Province, a 192,500 sqm outlet mall in Longwen, Zhangzhou City and a 110,800 sqm outlet mall in Nan'an, Quanzhou City?

Looking at our expansion plans, the Group's outlet mall business will certainly become a relatively bigger part of our business over the next few years. We view this business segment as attractive. We have separate teams for the outlet malls. In addition, the profit-sharing formula also reduces our financial risks.

Q21. 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.

Over the past few years, the Group gained valuable experience in managing the Changsha Store. We understand what it takes to make an outlet mall successful. A new management team for the Wuxi outlet mall, which is led by people with track records in managing outlet malls in China, is in place. Experts from Hong Kong and Singapore has also joined the Wuxi management team. All the important and necessary elements will be in place by the time the Wuxi mall is ready this year. The efforts in Wuxi will then be replicated in the other planned outlets.

Q22. To help shareholders better understand the risks, what are the key success factors in the outlet mall business?

The risks for the outlet mall business – the macroeconomic environment in China weakening, competition from similar outlet malls located nearby, and changes in consumer shopping habits adversely affecting the outlet mall business. The key success factors are a strong management team, attractive mall design, good location, good spread of products and services and attractive differentiation versus competition.

Q23. 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?

The traditional store-based business has been challenging although there is still sufficient demand for offline shopping, particularly for higher quality items. The supermarket business appears to be less affected by e-commerce. The fact that online business operators are also going into similar offline businesses shows that 2 modes can and will co-exist. Offline businesses are also going online too. We have started offering online purchases for our supermarket products recently. We constantly adjust our offering of products and services to compete against the online segment. Importantly, to reduce our financial risks, we are also entering into non-rent-based lease agreements where we pay out portions of our earnings to the landlords in lieu of fixed rental amounts only if the stores are profitable.

Q24. In FY2020, inventories increased significantly to RMB159.5 million, prepayments increased to RMB67.5 million while trade and other receivables nearly tripled to RMB45.3 million (page 52 of the FY2020 AR). What are the reasons for the 35% increase in inventories? Similarly, why has "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?

In 2020, we had entered into several agreements with Kweichou Moutai to distribute their products. Based on the agreements, payments for the purchase of Kweichow Moutai products need to be made before the delivery of goods. Increases in inventories and increases in advance payments to suppliers attributable to these agreements with Kweichou Moutai were RMB36.9 million and RMB48.2 million respectively.

Q25. Has management adapted to any Covid-19 pandemic related changes in consumption patterns and customer preferences and further finetuned the Group's inventory policy?

Due to our strong relationships with our suppliers, we have not suffered from any significant disruptions in our supplies during the earlier period of the Covid-19 pandemic. There are no significant observable changes in consumer consumption patterns due to the Covid-19 pandemic. Hence, we are not making any significant changes to our Group's inventory policies.

Q26. From Note 17 (page 89 of the FY2020 AR – Trade and other receivables), trade receivables increased sharply from RMB4.2 million to RMB37.0 million. Can management provide a breakdown of the RMB37.0 million in trade receivables? What is the aging profile of the trade receivables?

The increase in trade receivables was mainly due to bulk sales of prepaid cards and these receivables (RMB33.2 million) have been fully collected after FY2020.

Q27. 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 the 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 the 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 were finalised only after the release of the unaudited financial statements, and 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 RMB15.4 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 RMB15.4 million?**

Please see response to (ii) of Q27 below.

(ii) **Even if the renovation costs were only finalised after 1 March 2021, why is an adjustment of as large as RMB10.5 million required? Were the renovation costs totally left out in the unaudited financial statements? The Group also recognised an additional RMB5.1 million in prepayments in the audited financial statements.**

The adjustments to renovation costs and prepayments are in relation to the 2 new stores, which have been or are scheduled to be opened in 2021 or later. The Group expanded its business activities quite significantly in 2020, and these developments include entering into and fulfilling the agreements with Kweichou Moutai and preparation work for setting up its 380,000 sqm Wuxi outlet mall. In addition, local travel restrictions imposed as a result of the Covid-19 pandemic caused a backlog of projects which diverted and stretched our management resources in the People's Republic of China ("**PRC**"). All these resulted in the accounts of these 2 stores not being finalised in time for the release of the Group's unaudited financial statements.

(iii) **Is the Group (including its officers) familiar with the Singapore Financial Reporting Standards (International) (SFRS(I))?**

The Chief Financial Officer ("**CFO**") of the Group is a certified public accountant by CPA Australia who joined the Group in 2010 before the Company's listing on SGX. As part of the requirements by CPA Australia, he is required to comply with continuing professional education rules and regularly attends courses and seminars to keep himself updated on developments in Singapore Financial Reporting Standards. The Deputy Chief Executive Officer ("**Deputy CEO**") of the Group, who is also in charge of the finance function in the PRC, holds a diploma in finance and accounting and an Intermediate Accountant Certificate. She joined the Group in 2010. In addition, there is access to external auditors and internal auditors to consult or clarify on any new accounting standards and implications should the need arise.

(iv) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant acts and financial reporting standards?**

The financial statements are prepared by the CFO who is a certified accountant, and he is assisted by the Deputy CEO in the PRC. Also, the Group's audited financial statements are required to comply with the Companies Act of Singapore and be prepared under Singapore Financial Reporting Standards. In addition, 2 members of our Audit Committee are chartered accountants.

(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?**

The AC considers the resourcing and adequacy of the Group's financial reporting / finance team regularly by looking at the quality and timing of the financial and management reporting from time to time. In addition, the AC will also take into consideration feedback from the external auditors and internal auditors of the Company.

(vi) **What changes have been made / will be made to the Group's financial reporting systems and processes?**

Based on the AC's recommendation, the Group is planning to hire additional qualified accounting and finance staff to assist the CFO in Singapore and the Deputy CEO in the PRC. In addition, the AC has requested the CFO and Deputy CEO to complete a further review of the staffing needs of the finance team in light of its business expansion plans by the end of August 2021.

By Order of the Board

Lee Swee Keng
Executive Chairman
27 July 2021