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北京迪信通商貿股份有限公司

**Beijing Digital Telecom Co., Ltd.**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 6188)**

**SUPPLEMENTAL ANNOUNCEMENT  
IN RELATION TO  
AUDITED ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

Reference is made to the announcement of Beijing Digital Telecom Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 April 2022 in relation to the Group’s audited annual results for the year ended 31 December 2021 (the “**2021 Annual Results Announcement**”) and annual report for the year ended 31 December 2021 (the “**2021 Annual Report**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2021 Annual Results Announcement and the 2021 Annual Report.

In addition to the information provided in the 2021 Annual Results Announcement and the 2021 Annual Report, the board (the “**Board**”) of the directors (the “**Directors**”) would like to provide further information in relation to the impairment and write-off of non-trade receivables and inventories for the financial year ended 31 December 2021 (“**FY2021**”). All the information pertaining to the period prior to the new Directors and management joining the Group subsequent to the change in the control of the Group in June 2021 was prepared based on the best knowledge and beliefs of the new Directors and management after making enquiries with the former management of the Group.

## **Impairment and write-off of deposits and other receivables**

For FY2021, the Group recorded an impairment loss and write-down of non-trade related financial assets amounted to approximately RMB315.3 million, representing impairment and write-off of deposits amounted to approximately RMB114.1 million and impairment and write-off of other receivables amounted to approximately RMB201.2 million, such impairment and write-off were mainly resulted from store closures and complete shutdown of retail shops during the pandemic. First of all, deposits of stores closed before the lease expired were written off. Furthermore, other receivables due from third party franchisees, suppliers and customers were impaired and written off due to the overall downturn of the retail industry.

Such other receivables due from third party franchisees, suppliers and customers were arisen during the ordinary and usual course of the Group's business and were mainly related to (i) payments on behalf of third-party franchisees such as prepaying store value telephone card to mobile carriers; (ii) payment made to third party customers and suppliers who assisted the Group to exploit online sales channels and offline branded stores, and such payment would be utilized as start-up cost of these sales channels; and (iii) payment made to third party customers and suppliers for future business cooperation in different aspects such as introducing 5G-integrated products, instalment payment service, delivery service and recycling service. Such payment arrangements were the normal business practice in the industry.

As at 31 December 2021, the Group had other receivables of RMB1,771.9 million in total. As the Group's third-party franchisees, suppliers and customers were also affected by the overall downturn of the retail industry and the recoverability of the corresponding other receivables were undermined, the Group had aggregately written-off and impaired other receivables of RMB201.2 million for FY2021 based on the specific collectability review result and the ECL model.

## **Impairment and write-down of inventories**

For FY2021, the Group had written off inventory amounted to approximately RMB1,934.0 million and provided impairment amounted approximately RMB22.4 million.

The write-down of inventory was mainly due to the shut-down of the Group's self-operated stores during the COVID-19 pandemic and the industry-wide close down of retail stores, including the Group's franchised-stores and other third-party retailers, which led to stock loss for consignment inventories and security risks. Under normal business environment, the decision of closure was made by the Group's management in advance with relevant planned procedures for each of the Group's self-operated stores closed, such that the store's closure could be completed within a short period of time. However, during the pandemic when control measures were imposed by the government, many of the retail stores were forced to temporarily suspend their operations and was operated on an "on-and-off" basis as the then management was not able to predict the development of the pandemic situation and was still in the hope that such stores could resume full operation when the situation got better, but unfortunately many of such stores were eventually closed. Therefore, the closure of retail stores was dragged on over a period of several months, and together with the scale of retail stores involved, gave rise to the risks associated with safeguarding the inventories which could not be recovered.

The Group had control procedures in place in respect of goods delivered to their downstream customers, including but not limited to third-party retailers and franchisees, which on-sold the Group's inventories. Under normal circumstances, the Group delivered goods to customers and franchisees and recognised the amount of goods delivered to them as revenue and the relevant amounts due from customers and franchises were recorded as trade receivables. The Group implemented credit controls on trade receivables such that the Group will not deliver further goods to the customers/franchisees if the balance exceeded their credit limit. However, there were also occasions that the Group delivered goods to customers and franchises physically but without passing the title of such goods and hence such goods were considered as consignment goods and it was the Group's policy to keep consignment inventories at a low level.

According to the Group's policy (the "**Inventory Policy**"), a regional manager of the Group's self-operated stores is personally responsible for the consignment goods distributed within his/her region while a store manager of a self-operated store of the Group is personally responsible for the physical inventories of the store he/she is in charge and consignment goods distributed by his/her stores, such that for any inventory losses, he/she is liable in compensating the Company. Further, each store shall perform physical stock count every day when store manager change shift and shall carry out comprehensive physical stock count twice a year on Group basis. Consignment inventories should be returned to the store during the comprehensive physical stock count.

In the past, the Group's then management was aware of the fact that certain store managers gave consignment inventories to nearby stores run by small individual retailers and franchised-stores for sale without going through the Group's system, but instead, keeping a record of himself/herself. However, as the title of such inventories did not pass to any third parties, it was recorded as the Group's inventories. As the related quantities of each relevant store were usually not significant and the then management considered that with the abovementioned Inventory Policy in place, the risk relating to the aforesaid was not material. However, due to the outbreak of the COVID-19 pandemic, some of the Group's self-operated stores and franchised-stores were forced to be temporarily closed, and the normal operation of the stores also suffered from poor sales due to the decrease in passenger flow. The above situation caused great pressure on the Group's inventory. In order to digest the inventory as soon as possible, the then management responsible for the Group's inventory control took more measures to consign the goods to surrounding small individual third-party retailers as well as franchised-stores without going through the normal credit control procedures.

Subsequently, due to the industry-wide close down of retail stores, the then management discovered that a lot of the individual small retailers and franchised-stores located near the Group's closed-stores were also closed down and the operators/owners were no longer contactable. During the prolonged outbreak of COVID-19, it added challenges for the Group to contact and track down such retailers and were unable to take actions timely due to contain lock-down and travel restrictions during the pandemic. In addition, with the Group's self-operated stores forced to being operated on an "on-and-off" mode, the venue and physical inventories were left unattended over an extended period of time, there were also security issues in respect of physical inventories in closed stores, which were exposed to passers-by and internal or external personnel who can enter the venue. As a result of the foregoing, the Group was not able to implement effective inventory control over the consignment goods delivered to the franchised-stores and third-party retailers during the pandemic and the inventories kept in closed stores. Notwithstanding the Group's policy of affixing personal responsibility on the store managers and regional managers regarding physical inventories of the stores and consignment goods distributed by them, the regional managers and store managers claimed that the loss of inventories was due to security reasons and the pandemic which was beyond their reasonable control and refused to assume their responsibilities for the stock loss.

Further, the write-off of inventory also relates to the discard of certain goods which only accounted for a relatively insignificant portion of the inventory being written off and were primarily related to the closure of stores in remote locations such as Inner Mongolia, Sichuan and Yunnan etc. and goods that were mainly low-value products or mobile phone peripherals which were too costly and burdensome for the Company to arrange for resale or transportation to other locations such that the then management considered that it was not justified to spend further resources and administration cost to handle such goods given the increased transportation cost and traffic control during the time of COVID-19 pandemic.

In addition to the above, the impairment of inventories of approximately RMB22.4 million in FY2021 was mainly due to overstocking slow-moving and obsolete inventories. In the first half of 2021, while the sales volume of mobile phones of certain well-known brand had plummeted, in order to maintain its influence, dominant mobile phone manufacturer required retailers to purchase a large number of its accessories and IOT products for tie-in sales to secure its limited supply of 5G mobile phones and high-end mobile phones. Due to misjudgement of business outlook which led the abovementioned procurement plan during the first quarter of 2021 by the then management of the Group, the Group had overstocked products that have limited market demand, eventually these products became slow-moving and obsolete.

#### **Actions taken by the Company to safeguard the Group's assets and measures to improve the Group's internal control**

After the abovementioned issues came to the notice of the newly formed management, they have carried out the following work in order to prepare the management accounts of the Group to reflect the situation and took actions by implementing new measures to improve the Group's management as further detailed below.

Since around the end of the third quarter of 2021, the management under the supervision of the new board of Directors has carried out an extensive exercise as follows:

- Reviewed and chased for settlement of the Group's trade and other receivables, including (i) physically visited the major customers and franchisees aiming to maintain good cooperative relationship and to collect overdue account receivables; (ii) sent confirmations regarding account receivables that were material to the Group; and (iii) took legal action against some of the customers regarding the overdue account receivables;
- Requested the assistance from the then controlling shareholder in collection of certain trade and other receivables, and to ensure a smooth transition between the former and new management team and to facilitate the collection of account receivables, the then controlling shareholder and his controlled companies have together provided pledges and guarantees in an aggregate amount of approximately RMB1.2 billion in favour of the Group to secure the collection of accounts receivable and other receivables amounted to RMB2.3 billion as at 31 December 2021;
- Performed a comprehensive physical count on inventories and during this process, had also instructed all store managers to have consignment inventories returned to the Group's stores as many as possible for the stocktake and for recovering the consignment inventories.
- Compiled a list of stock loss for the preparation of financial statements and made provisions and write-down for doubtful trade and other receivables for financial statements.

In addition, the Company has further improved the internal control policies in relation to (i) the monitoring and collection of accounts receivables; (ii) inventory control policy of self-operated stores and franchised stores; and (iii) control and management of consignment goods.

The improvement areas in the internal control policies are:

- (i) the monitoring and collection of accounts receivables:
  - Review the credit limit granted to franchisees. Credit limit will only be granted to franchisees after passing a strict procedures of qualification review, on-site visits and Risk Review Committee's approval. After a credit limit is granted to a franchisee, the Group's designated relevant staff is required to closely monitor the usage of such credit limit granted and the collection status of accounts receivables.
- (ii) the inventory control of self-operated stores and franchised stores:
  - Inventory management of self-operated stores should strictly adhere to the Group's inventory control policy. Inventory turnover rate of brands or similar product types should be revisited before making any further purchase. If the turnover rate is considered to be low, such purchases should be suspended. In the event of new product launches, peak seasons or holiday seasons etc., inventory replenishment order will be carried out cautiously. The relevant business unit, such as operation department, supply chain department, finance department shall fully communicate with each other before finalising the purchase plan as to quantity or total amount of the relevant branded products.

- The operation department and the supply chain department of the headquarters will review the data relating to purchases, sales and inventory level and turnover rate of the Group's subsidiaries on weekly basis and will promptly examine the situation if any irregularities are noted.
- Increasing the frequency of regular and irregular stocktakes of retail stores.
- For franchised stores, granting of credit limit is centralised in the headquarters. Before refreshing any credit limit by the headquarters, the Company will only trade on cash-on-delivery basis. Credit terms will be granted to some of the franchisees after strict review, inspection and full discussion with the Risk Review Committee, and designated staff will be responsible to closely monitor the usage of such credit limit granted and the collection status of accounts receivables.

(iii) the control and management of consignment goods

- The consignment sales model has ceased since the second half of 2021.

The additional information set out above does not affect other information contained in the 2021 Annual Results Announcement and the 2021 Annual Report and the contents of the Group's 2021 annual results remain unchanged.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in H shares of the Company has been suspended with effect from 9:00 a.m. on 4 June 2021 pending the fulfilment of all the resumption conditions stated in the resumption guidance issued by the Stock Exchange and will remain suspended until further notice.

By Order of the Board  
**Beijing Digital Telecom Co., Ltd.**  
**XU Jili**  
*Chairwoman*

Beijing, the PRC  
21 June 2022

*As at the date of this announcement, the executive directors of the Company are Ms. XU Jili, Ms. XU Liping and Mr. LIU Donghai; the non-executive directors of the Company are Mr. XIE Hui, Mr. JIA Zhaojie and Ms. PAN Anran; and the independent non-executive directors of the Company are Mr. LV Tingjie, Mr. LV Pingbo and Mr. CAI Chun Fai.*