



MDR Limited

(Incorporated in the Republic of Singapore)
(Company Registration No. 200009059G)

ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING TO BE HELD ON 29 JUNE 2020

- RESPONSES TO QUESTIONS FROM SHAREHOLDERS AND THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the “**Board**”) of mDR Limited (the “**Company**” and together with its subsidiaries the “**Group**”) wishes to thank shareholders for submitting their questions in advance of the Company’s upcoming annual general meeting (“**AGM**”) and extraordinary general meeting to be held on 29 June 2020 via electronic means.

The Company has also received a set of questions from the Securities Investors Association (Singapore) (“**SIAS**”) in relation to its annual report for the financial year ended 31 December 2019 (the “**Annual Report 2019**”).¹

The following are the Company’s responses to the substantial and relevant questions that were raised by shareholders and the questions from the SIAS:

A. QUESTIONS FROM SHAREHOLDERS

- 1. The current crisis provides opportunities for superior investment performance. Can management provide an update on the performance of its Investment division and also the broad investment strategies management intends to increase the profitability of the Company using the cash from the exercise of warrants by shareholders?**

Company’s Response:

Kindly refer to the Investment division’s performance for the year ended 31 December 2019 on page 7 of the Annual Report 2019 (refer to ‘Financial Review’ section).

As mentioned in the Chairman’s Statement in the Annual Report 2019, the current financial meltdown and global recession that may follow, will likely present the opportunities that we are patiently waiting for. The Investment team had in 2018 already been anticipating a severe financial crisis (refer to Chairman’s Statement, page 9 of the Annual Report 2018) and had planned incoming proceeds from the conversion of Tranche 1 Warrants and Tranche 2 Warrants accordingly. No financial forecast is ever certain, therefore consistent with our long-term investment strategy, the

¹ https://sias.org.sg/media/qareport/3%20Questions_mDR%20Ltd%202020.pdf

Investment team adopted a balanced approach in allocating the Company's investment funds in both equity and short duration debt instruments to safeguard capital while earning a decent yield. We adopted this approach as we waited for a market dislocation, as well as to position ourselves for potential capital appreciation should our prediction of financial turmoil be premature. As at end 2019, our investment portfolio allocation was 66% to equity and 34% to fixed income. During the recent market correction, mDR took advantage of price volatility and was active in swapping bond exposure for equity exposure. The asset allocation as of May-end 2020 was 80% equity and 20% fixed income. mDR will continue to unlock liquidity from its bond portfolio to increase the equity exposure as the recession runs its course and we expect to have 100% allocation to equities within a year.

2. **What are mDR's future plans/projects in 2021/2022? What is the vision of mDR in the next three to five years?**

Company's Response:

The Group will continue to maintain the forward momentum to accelerate growth and create shareholder value and to improve its profitability, dividend and visibility. A financial crisis may present compelling distressed opportunities, in which case, the Group will work towards its next transformation phase into physical real estate with sustainable rental cash flow. The DMS and DPAS divisions will focus on maintaining their profitability, and will stay nimble and look for opportunities and additional revenue streams for expansion and growth. We expect mDR to have a stronger balance sheet and increased profitability in the next three to five years.

3. **Is the Group considering to venture into AI in the near term, considering that we are gradually moving into a digital space amidst this pandemic?**

Company's Response:

The Group is not considering to venture into AI in the near term. While AI is a promising and upcoming field, it is still evolutionary and requires substantial capital expenditure and resources. We will continue to focus on our strengths in Investments and the Telecommunication and DPAS businesses. The Group believes it is prudent to invest in businesses and areas that the management is familiar with.

4. **Can we shareholders request for dividend, moving forth?**

Company's Response:

The Company remains committed to achieving better performance and dividend payment to shareholders in the future. The Company declared an interim dividend of S\$2 m (approximate) in 1H-FY2019. As mentioned in the Chairman's Statement in the Annual Report 2019, in view of the impairment losses, the Company has been unable to declare a final dividend for FY2019. Despite these non-cash impairment losses, the positive EBITDA enabled mDR to conduct its share buy-back in lieu of a final dividend. Barring unforeseen circumstances or exceptional events, the Company will endeavour to maintain dividend payment of 50% of its distributable net profits to shareholders.

Shareholders receive intrinsic returns in three forms, dividends, share buy-backs and retained earnings (capital gains). Fortunately, barring any unforeseen event, the Group should remain cash

flow positive and this will enable management to evaluate which of these three forms is optimal to return shareholder value in the prevailing economic climate.



5. Will the price for each share be adjusted to S\$0.01 after the proposed share consolidation?

Company’s Response:

The 6-months volume average weighted price of Company’s shares is S\$0.001. Subject to shareholders’ approval, upon the completion of the proposed consolidation of every existing 100 shares into 1 share, the theoretical 6-months volume average weighted price of Company’s shares should be S\$0.10.

6. Are we looking at any more rights issues or bonus warrants after the proposed consolidation of shares?

Company’s Response:

The Company is not planning any rights issue or bonus warrants in the near future after the proposed consolidation of shares.

7. The trading volume of mDR remains low for a prolonged period of time. Besides share consolidation, is there any other avenue the Board is exploring?

Company’s Response:

Trading volume is a function of matching willing buyers and willing sellers for any given price. More efficient pricing will allow for a more precise pricing equilibrium, which would result in greater liquidity and this in turn would lead to a natural increase in volume that would reflect greater demand for more liquid shares. A company with more liquid shares would also likely attract more analyst coverage and market exposure. However, apart from pricing efficiency, management believes that ultimately demand for mDR shares should be driven by core fundamentals such as business growth and stability, paired with tangible corporate governance actions and returns to shareholders in the form of dividends, share buy-backs and reinvestment of retained earnings.

8. mDR holds listed shares and bond in its investment portfolio for long term purpose. Lately, due to COVID-19, most shares have come down by 20% or more. Can the Company share some figures like what is the mark-to-market value of these investments?

Company's Response:

Please refer to Note 40 on page 159 of the Annual Report 2019.

B. QUESTIONS FROM SIAS

9. Would the board/management provide shareholders with better clarity on the following operational/strategic matters? Specifically:

- (i) **DMS:** The group has a distribution management solutions (DMS) segment and which generated approximately \$253 million in revenue. The segment result, before unallocated costs, was a loss of \$(35,000) in FY2019. Management has stated that the group is adapting well to the disruptive headwinds affecting the distribution and retail businesses. **Would the company elaborate further on the competitive strengths of its DMS segment? What are the growth prospects of the distribution and retail businesses in view of the disruptors in the market and the changing consumer patterns? What are the expected returns of DMS given that the group has more than \$72 million of segment assets?**

Company's Response:

The Group is one of the key distributors and retailers of mobile devices for leading manufacturers, and also currently manages one of the largest network of retail stores offering M1 and Singtel products and services in Singapore. DMS's competitive strengths are its island-wide retail and distribution network and long standing relationship with its business partners and principals. DMS's financial performance is dependent on the success of the newer flagship mobile phone models of its key principals, other electronic goods and services that it markets and sells.

While there are disruptive headwinds and changing consumer patterns in terms of online sales, the Group believes that the distribution and physical retail channels are still relevant in the Singapore market based on consumers' preferences for flagship phones. DMS will continue with its strategy to operate retail stores at locations which are strategic and profitable. With the closure of retail outlets during the Circuit-Breaker period, and the cessation of the M1 distribution business in the later part of this year, the performance of DMS is expected to be adversely affected in FY2020. Various support measures from the Singapore Government and the rental rebates/support have helped the Group, and DMS will continue to work towards profitability in FY2020.

The Group is unable to currently assess DMS's expected return for FY2020 given the uncertainties from the COVID-19 pandemic and the likelihood of a looming recession. The Group's and DMS's FY2020 half-yearly results to be announced in August 2020 will give an indication of DMS's expected performance for FY2020.

- (ii) **Investments:** The investment division is being viewed as the "future growth engine" of the group. Nearly \$80 million raised from the Rights cum Warrants issue million has been deployed (as at 17 March 2020). The group has taken a "conservative balanced approach" with some exposure to

equities and some exposure to short duration bonds. **How is the portfolio managed? What is the investment mandate and was it approved by the board? What is the level of oversight by the board? Has the group established a proper and robust risk management framework? Given the significance of the investment portfolio, would the company disclose the top holdings, the geographical distribution and the industry exposure?**

Company's Response:

The investment portfolio is managed by the executive directors under the guidance and supervision of the Board. The Group diversified in the Investment business upon shareholders' approval in the EGM held in April 2018. Group's Investment mandate is approved by the Board. Currently the Investment mandate is to earn a return/investment income (dividend and interest) using long term investment strategies. Investment related matters are approved by the Board.

The Group has adopted an "Investment Guidelines" and "Investment Proposals Policy and Guidelines to Prevent Issues of Conflicts" (collectively "**Policies**") for investment-related matters. These Policies set out the internal controls to address, *inter alia*, approvals and usage of funds for investment matters.

Each investment proposal in terms of size, price and timing of acquisition/disposal is considered carefully by the entire Board. Research reports supporting the relevant proposed securities transactions are reviewed and documented. The Board also receives regular ongoing updates and news on the relevant securities investments within its portfolio or those that are of Company's target interests.

For withdrawals of amounts above S\$5 million from the designated bank account holding the proceeds from the Rights cum Warrants Issue, an Independent Director is one of the signatories. Also, for transactions of a quantum of above S\$10 million, such transaction is conditional upon the positive recommendation of the Audit and Risk Committee.

The internal audit department of the Company conducts half-yearly reviews on the adequacy and adherence to the Policies. Based on such reviews, the Policies are updated from time to time to improve and strengthen the internal controls and processes. The Policies are also updated as and when market conditions and investment cycles change, and when new measures are developed to further safeguard the Company's interests and investments.

The Group has established a proper and robust risk management framework. A Risk Register is maintained, which: (a) identifies the risk areas that may be relevant to the Group; (b) assesses the extent of impact to, and vulnerability of, the Group, should such risks materialise; and (c) establishes mitigating practices to be implemented to address such risks. The Risk Register is updated periodically by the internal audit department, with inputs from the management. In 2019, the Group has also engaged an external independent audit firm, as well as its external auditors Deloitte, to review the ERM/Risk Register for the Investment division. In addition to the half-yearly review by the internal audit department, the Group has also engaged another independent audit firm this year to audit the Investment division, and the conduct of the audit is currently in progress.

The Company has been providing updates on, *inter alia*, its investments (based on business sectors), the geographical distribution and market capitalisation (please see page 8 and 9 of the

FY2019 results²) in its financial results announcements. For confidential and competitive reasons, mDR does not disclose individual stock or bond names. Moving forward, the Company will also include the aforesaid updates in its Annual Report.

As at 31 December 2019, the Group invested in investment securities of companies which are broadly categorised within the following business sectors:

Business Sectors	%
Real estate	31.1%
Infrastructure	23.8%
Agriculture	16.9%
Sports	10.0%
Leisure and hospitality	7.3%
Transportation	6.2%
Commodities	4.7%
TOTAL	100.0%

Below is the key information of the investment securities as at 31 December 2019:

By Market Concentration	%
\$1 billion and above	87.6%
\$500 million to \$1 billion	10.0%
\$200 million to \$500 million	2.4%
\$200 million and below	0.0%
TOTAL	100.0%

By Exchange (based on primary listing and market value)	%
SGX	98.0%
HKEX	2.0%
TOTAL	100.0%

- (iii) **Performance:** In Note 10c (page 123 – Investment in equity securities), it was disclosed that a net fair value decrease of \$2,977,000 (2018: \$4,018,000) was recorded for the year. In addition, in Note 10d (page 124 – Investment in debt securities), as at December 31, 2019, management had assessed that there was significant increase in credit risk for a particular debt security and management had determined that an allowance of \$1,851,000 was required. **How does the board evaluate the performance of the investment portfolio? What is an appropriate benchmark to use? Given the net fair value decreases of approximately \$7 million in the past two years, has the board reviewed the group’s strategy and execution?**

Company’s Response:

The Board evaluates the performance of the investment portfolio based on an absolute return objective within the context of relative performance. The appropriate benchmark for absolute return is total return, whether positive or negative. As for relative context, given that the Group’s bulk of the public equity investments are in Singapore, a Singapore equity index could form a comparable benchmark. The weighted market cap of the Company’s investment portfolio can be said to be between the FTSE STI Index and the FTSE Catalist Index benchmarks. The investment portfolio lost S\$2,705,000 in 2018 (inclusive of dividends) and gained S\$3,664,000 in 2019 (inclusive of dividends and coupon interest). The equity allocation of the investment portfolio lost 3.2% in 2018 and gained 1.4% in 2019. The FTSE STI Index (including dividends) lost 6.5% in 2018 and gained 9.4% in 2019. The FTSE Catalist Index (including dividends) lost 32% in 2018 and lost 9.7% in 2019. The investment portfolio as a whole lost 3.2% in 2018 and gained 2.4% in 2019. Management is pleased with the cumulative positive total return of S\$959,000 generated from the investment portfolio from 2018 to 2019 from an absolute return objective, especially in light of its relative performance. The investment portfolio’s respectable performance was attributable to a deliberate decision to adopt a balanced approach in 2018 and 2019 in anticipation of a severe financial crisis (please see page 9 of our Annual Report 2018). Despite a positive return, the Board maintains the discipline to review the Group’s strategy and execution periodically. The Board also seeks independent external consultants to review and improve the investment controls and processes from time to time (please see the response above in Q9 (ii)).

² https://links.sgx.com/1.0.0/corporate-announcements/Q6RJZOUOZVRQJBB7/4Q2019_Results.pdf

10. Share Buy-back

- (i) **Can the company help shareholders understand if it had conducted the share buyback in accordance with the SGX rules?**

Company's Response:

The Company has conducted the share buy-back in accordance with the relevant SGX rules.

- (ii) **Would the board, particularly the independent directors, help shareholders understand their level of oversight and the guidance given to the company on share buy-backs?**

Company's Response:

The Board, with active participation of the independent directors, discusses and deliberates on the quantity and price for share buy-back in accordance with the buy-back mandate approved by shareholders and the SGX rules. The Company carries out its share buy-back by way of market acquisition in the best interest of the Company. Management updates the Board of any share buy-back on the date of market purchase. The Company conducted share buy-back under the 2019 mandate only twice on 25 October 2019 and 28 February 2020. The Company bought back its shares at the lowest possible trading price of 0.1c when the per share NAV at the material time was 0.17c or 70% higher than the buy-back price. Any share buy-back below the Company's per share NAV would be NAV accretive.

Shares bought-back are held in the Company's treasury and these treasury shares do not receive any dividends from the Company. So for clarification, in addition to NAV accretion, given that mDR declares dividends in absolute amount such as \$2 million in 2019, for the same amount of dividend declared, the DPS for all other existing shareholders would be higher after each share buy-back. The Company also adheres to the policy on buy-back blackout periods prior to earnings announcements and proposed corporate actions.

- (iii) **Would the board be reviewing the company's share buy-back practices (in price, volume and timing) to ensure that they are more in line with SGX rules? This would ensure that the company buys back shares in a responsible manner that does not artificially interfere with the price and volume of the security, as noted in the Regulator's Column.**

Company's Response:

The Board welcomes inputs and feedback from its shareholders and other parties. We will review our share buy-back policy practices, including to cap future daily share buy-back to 30% of the daily on-market traded volume.

11. Attendance of directors

- (i) **Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e. the executive directors) to attend board committee meetings?**

Non-board committee members (i.e. the executive directors) and management usually attend the board committee meetings to provide inputs and updates/responses to the committee and contribute

to the discussions in the meeting. For example, they attend the Audit and Risk Committee (“**ARC**”) meeting together with the external auditors of the Company, when the ARC discusses the quarterly/half-yearly financial results/performance of the Group. It is the practice for the Chairman of the various committees to ask the executive directors and management to excuse themselves from committee meetings for matters that are related to or may affect the executive directors or management. The board committee members, all of whom are Independent Directors, also meet separately from time to time away from Company premises to discuss Company’s various matters.

(ii) Were there specific agenda items or reasons to invite the executive directors to all the board committee meetings?

There were no specific reasons to invite the executive directors to all the Board committee meetings. They attend the meetings together with the members of the management to provide inputs and updates/responses and contribute to the discussions in the meeting.

(iii) What is the dynamic of the board committee meetings when the board committee members may be reviewing and discussing matters that are related to or affect the executive directors? Such board committee meetings would have included agenda items on interested party transactions, performance assessment and remuneration of the executive directors and on the audit/financial reporting/internal controls of the group.

Please refer to the response in Q11 (ii) above.

(iv) Do the executive directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from the board meeting?

The executive directors do not actively participate in the discussions during the board committee meetings. The board committee meetings are chaired by the respective Chairman of the committee and executive directors and management provide their inputs and updates/responses where requested by the committee.

(v) Is there sufficiently strong independent element at such board committee meetings given that the Code specifically discourages the membership of executive directors?

The Company believes that there is strong independent element in the Board committee meetings, and that no individual or small group of individuals dominate the Board committee’s decision-making process.

The Board welcomes inputs and feedback from its shareholders and other parties. We will review our practices related to board committee meetings.

BY ORDER OF THE BOARD

Madan Mohan
Company Secretary

25 June 2020