MDR Limited

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

ANNUAL GENERAL MEETING TO BE HELD ON 27 JULY 2022

— 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**") to be held on 27 July 2022 via electronic means.

The Company has also received a set of questions from the Securities Investors Association (Singapore) ("**SIAS**") [1] in relation to its annual report for the financial year ended 31 December 2021 (the "**Annual Report 2021**").

The following are the Company's responses to the questions that were received from shareholders and the questions from the SIAS:

A. QUESTIONS FROM SHAREHOLDERS

1. Please provide an update on the investment in offshore debt security of Tsinghua Unigroup and also the loan to MKY Capital.

Company's Response:

mDR has taken an active role in negotiating with Tsinghua Unigroup to work out a fair and equitable solution for offshore bondholders. As a member of the Ad-Hoc Committee, the Company is restricted from sharing certain confidential information. It has been publicly announced that Tsinghua is undergoing a court approved restructuring. As per the approved restructuring plan, Tsinghua's 2021 debt security that the Company holds will be subject to the recovery option comprising payment of a 40% cash portion and a 60% retained debt portion for a period of 8 years, with an interest rate of 4.65% per annum. Based on the broker quoted price as at 30 June 2022, the 2021 bonds were trading at US$61.05. We understand that Tsinghua has paid the cash portion to Citicorp, the Trustee of the 2021 debt security. The Company is currently awaiting receipt of the payment from the Trustee. Subject to the successful completion of the Tsinghua restructuring with cash injection of RMB 60 billion from a consortium of investors

[1] Available on SIAS website

led by Wise Road Capital and JAC Capital, the Company likely expects a full recovery and profits from its investment as the Tsinghua bonds were purchased at a discount to par.

MKY has redeemed the mortgage upon repayment of the loan and interest based on the redemption statement as at 31 March 2022 and the Company has discharged the joint and several Receivers of the mortgaged property with effect from 31 March 2022 (please refer to the Company's announcement dated 31 March 2022). Prior to the redemption of the loan by MKY, the Company had filed an appeal to the Appellate Division of the High Court of the Republic of Singapore against parts of the decision of the General Division of the High Court given on 24 February 2022 (please refer to the Company's announcement dated 23 March 2022). The appeal before the Appellate Division is currently pending.

B. QUESTIONS FROM SIAS

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

(i) Distribution Management Solutions ("DMS"): Revenue contribution from DMS decreased by $4.15 million to $160.90 million (FY2020: $165.05 million). In the chairman's statement, the decrease was mainly attributed to lower sales volume (page 6). However, in Note 4 (page 84; Revenue and interest income), it can be seen that sale of goods actually increased from $127 million to $137 million while the incentive income decreased from $37.7 million to $23.9 million. **Can management elaborate further on the practice of incentive income in the distribution business? What were the number of units sold in FY2020 and FY2021?** In addition, the DMS segment has been loss-making in the past 3 years (FY2019, FY2020 and FY2021). **What are management's plans to turn around the DMS business? How dependent is the DMS business on the upgrade cycle/new model launches by the manufacturers?**

<u>Company's Response</u>:

Incentive income mainly comprises of activation income, phone subsidies provided by operators, support from principals for promotional activities, and rebates for stocks sold. The Group ceased its M1 distribution business in September 2020 which affected the sales activities (for retail operations). As a result, there was a reduction in sales transactions and this impacted the incentive income. However, overall YoY there was a 29% increase in number of units sold, which resulted in an increase in sale of goods in FY2021.

DMS division being in the Retail and Distribution business is dependent on the upgrade cycle/new model launches by the manufacturers, and the products and services of its principals for its businesses. The COVID-19 pandemic and the termination of M1 distribution business adversely affected the Group's DMS business. The DMS division has since restructured its business operations. DMS's competitive strengths are its island-wide retail and distribution network and relationships with its business partners and principals. DMS has capitalised on its retail network and ventured into the MVNO business under ZYM Mobile, *inter alia*, to diversify its revenue stream especially due to the loss of revenue stream arising from the M1 distribution business. The MVNO business enhances the value chain of DMS' offerings. Though DMS is dependent on the upgrade cycle/new model launches, it distributes and retails for most major brands in the market. DMS will continue with its plan to operate retail stores at locations which are strategic and profitable.

(ii) **<u>Inventories:</u>** The group's inventories have declined from $25.0 million as at 31 December 2020 to $13.9 million as at 31 December 2021. **Can management help shareholders better understand the reasons for the significant drop in inventories?**

<u>Company's Response</u>:

The drop in inventories is due to the discontinuation of the sell-in program offered by the operator since 4Q-21, and the reduction in prepaid cards inventory upon the implementation of e-wallet (online prepaid top-ups) since November 2020. As a result, the purchase of various denomination of pre-paid cards is not required.

(iii) ZYM Mobile: What is the total amount invested to launch and operate the mobile virtual network operator (MVNO)? What is ZYM's competitive advantage given that the mobile services space in Singapore is extremely competitive and crowded? Since the launch in September 2021, how many subscribers has ZYM signed up and what is the rate of growth of the subscriber base?

<u>Company's Response</u>:

The Group's initial capital expenditure invested/committed to launch the MVNO business is in the region of S$400,000. In addition, there is revenue sharing with the operator for the use of the network. The Group is piggybacking and capitalising on its existing business operations to launch and operate ZYM Mobile business. ZYM Mobile's competitive advantage is its retail presence/network spanning several outlets, cost-efficiency due to the utilisation of existing resources, and the ability to offer the full suite of services such as handsets/accessories to its customers. ZYM Mobile's subscriber growth (based on 6 months data) is at least 100% on a yearly basis. Currently, the subscriber base is greater than 5,000.

(iv) Equities: The group's investment portfolio in equities registered a total return of 34.46% in 2021 (page 6; chairman's statement). **What are the 3-year and 5-year returns of the equities portfolio?**

<u>Company's Response</u>:

The Group diversified into the Investment business upon shareholders' approval in the EGM held in April 2018. The total annual return of the equities portfolio (including dividend) on a comparative basis is set out below:

Year	Annual return (including dividends)	STI's total return (including dividends)	FTSE ST Catalist's total return (including dividends)
FY2021	34.46%	13.60%	-7.95%
FY2020	-6.92%	-8.00%	17.38%
FY2019	1.44%	9.40%	-9.67%
FY2018	-4.90%	-6.50%	-31.95%

(v) Debt securities: Similarly, what are the 3-year and 5-year returns of the debt securities portfolio?

<u>Company's Response</u>:

The Group invested in debt instruments from March 2019 onwards. The annual return of the debt securities portfolio (before impairment) is set out below:

FY2021: -6.38%

FY2020: 9.33%

FY2019: 4.48%

(vi) Tsinghua Unic Limited debt security: The group had exposure of $25.9 million in Tsinghua bonds and impaired $19.0 million in FY2020. Following a restructuring by Tsinghua, the company recognised a reversal of loss allowance of $10.5 million in FY2021. **Can management provide shareholders an update on the current status of the issuer and the price of the bonds? Does management expect Tsinghua Unic Limited to be able to redeem the bond in the next 6-12 months? What is management's strategy to manage this potential risk of non-redemption?**

<u>Company's Response</u>:

Please refer to the response in Q1 above.

(vii) Investment framework: Has the board reviewed the group's investment and risk management frameworks following the default by Tsinghua Unic? For the purpose of risk management, has the board set a limit to the group's exposure to a single issuer or sector? Can management confirm that it has recognised another $9.126 million in allowance for its debt securities? If so, please state the bond(s) in question and the impairment amount(s). Is it timely for the board to carry out a review of the group's track record in debt securities?

<u>Company's Response:</u>

The Board has reviewed the Group's investment and risk management frameworks following the default by Tsinghua Unic. As a result of this review, the Group has capped the investment in any single issuer to 10% of the investment portfolio at the point of acquisition. The Board reviews the target portfolio size and limit of exposure from time to time. The Group made additional allowance of $9.126m on its debt securities for certain debt securities, however the Group had also recognised a positive net fair value change in equity and debt securities carried at fair value through other comprehensive income (OCI) of $27.715m; resulting in tangible positive performance that validates the Company's successful management of equity and debt securities from a total portfolio perspective. The Company has been providing updates on, *inter alia*, its investments (based on business sectors), the geographical distribution and market capitalisation (please see page 27-29 of the FY2021 results) in its half-yearly financial results announcements. As a result of the review following the default by Tsinghua, the debt portfolio currently is diversified across 15 issuers comprising 54 bonds. The equity portfolio is diversified across 33 companies. For confidential and competitive reasons, the Company does not disclose individual stock or bond names. The Board reviews the Group's investments in its Quarterly meetings.

3.

(i) What is the number of staff engaged by the group for its in-house internal audit function? Is the principal auditor mentioned above the only staff?

Company's Response:

The Group has 1 full time staff in its in-house internal audit function. The Company also engages external firms for internal audit projects to complement and enhance the internal audit function.

(ii) What was the scope of the internal audit in FY2021?

Company's Response:

The internal audit's audit plan and scope are defined and approved by the Board annually in the internal audit charter to conform with the IIA principles. The scope of the internal audit in FY2021 was:

(a) to review the effectiveness of the Group's material internal controls;
(b) to provide assurance that key business and operational risks are identified and managed;
(c) to determine that internal controls are in place and functioning as intended; and
(d) to evaluate whether the operations are conducted in an effective and efficient manner.

(iii) What were the key findings by the internal auditor?

Company's Response:

The internal auditor performed the work mainly based on the internal audit plan which was reviewed and approved by the Company's Audit and Risk Committee ("**ARC**"). The audited area/entity/business unit in FY2021 included Pixio, After Market Services, Investment, Cybersecurity, and review of remote working processes due to COVID-19. Any non-compliance or lapses in internal controls together with corrective measures recommended by the internal audit were reported to and reviewed by the ARC and the Board.

(iv) What is the level of oversight by the board on the DMS operations, including the group's internal controls (which covers the financial, operational, compliance and information technology aspects)?

Company's Response:

Management updates the Board in the quarterly meetings on the performance and business outlook of the DMS operations. The Board has adopted Limits of Authority which sets out threshold limits for matters that specifically require the Board's approval by all business units including DMS. The Board reviews the internal control and risk management systems of DMS operations periodically with the assistance of the internal audit function.

(v) What are the options available to the group to seek restitution from the two senior executives suspected of the misappropriation?

<u>Company's Response:</u>

Currently the investigations against the two former senior executives are ongoing. The Group is evaluating various options to seek restitution from the two former senior executives suspected of the misappropriation.

(vi) Can the board help shareholders better understand the improvements made to the group's internal controls since December 2021?

<u>Company's Response:</u>

The Group engaged an independent audit firm, Nexia TS Risk Advisory Pte. Ltd. ("**Nexia**") to identify any possible weaknesses of the Group's internal controls in relation to the use of marketing incentive rebates following the suspected misappropriation by two former senior executives. Nexia has completed its review and the Group has made improvements to the internal controls. Please refer to the Company's announcement dated 5 July 2022 for the improvements to the Group's internal controls.

4.

(i) Would the company help shareholders better understand the job scope and responsibilities of the executive directors, especially Ms Zhang Yanmin? Is there a significant overlap between the responsibilities of Ms Zhang Yanmin and the executive chairman?

<u>Company's Response:</u>

Mr Lee as the Executive Chairman is responsible for the overall strategy for the mDR Group and is the primary decision maker for the Investment division. Mr Ong as the Group CEO is responsible for the business and operations of the DMS and DPAS businesses. Ms Zhang as the Executive Director is responsible for collating research and providing updates on the investments. Since joining in 2018, Ms Zhang has provided over 2,000 filings as part of the team's active monitoring of investments. As the Investment division, being a core profit engine of the Group, requires both quantitative but more importantly qualitative interpretation of macroeconomic and microeconomic factors, there is regular dialogue between the Executive Chairman and Ms Zhang. For contingency and succession planning, in addition to her role in the Investment division, in FY2022 Ms Zhang has been appointed as Director of various subsidiaries under DMS and in Pixio United. All the Executive Directors are also responsible for business development strategies to enhance current businesses and providing new growth areas, sourcing investment opportunities, new streams of income, fund raising, and investor relations.

(ii) What are the key performance indicators used to assess the performance of the executive directors?

Please refer to the response in Q4 (iii) below.

(iii) In addition, given that all the three executive directors also have other principal commitments outside of the group (such as Managing Director of Edward Lee Apartment Private Ltd, Director of Pacific Organisation Pte Ltd and Advisor to Yann Investment Co., Ltd.), how much of the directors' time and attention are allocated to these other commitments?

Company's Response:

The Remuneration Committee assesses the performance of the Executive Directors, based on a holistic approach, comprising both financial and non-financial metrics that promote commitment, performance and loyalty to the Group. The Group's remuneration scheme takes into consideration, the individual's performance, the financial performance of the Group, the Company's growth in shareholders' equity and total assets, and industry and market practices. The Board is of the view that sufficient time and attention has been given by the Executive Directors to the affairs of the Company in the discharge of their duties.

Mr Lee does not receive any salary or director's fees from Edward Lee Apartments Private Ltd, which correlates to how much time and resources he allocates to this responsibility. Likewise, Ms Zhang also spends minimal time and resources outside of her mDR Group's duties, and also does not receive any salary or director's fees from Yann Investment Co., Ltd. Mr Ong also does not receive any salary or director's fees from Pacific Organisation and spends minimal time and resources outside of his mDR Group's duties.

For avoidance of any doubt as to whether the executive directors are committed to their duties at the Company or if their interests are aligned with the Company, it should be noted that all three executive directors have cumulatively invested over $70m in cash towards acquiring their interest in the Company, which currently is greater than the market capitalisation of the Company.

(iv) Can the remuneration committee (RC) help shareholders understand the reasons for the increase in the base salary of executive chairman in FY2019? How was the remuneration of the executive chairman determined?

Company's Response:

The Group diversified into the Investment business upon shareholders' approval in the EGM held in April 2018. Following the Rights cum Warrants issue, the Company's net assets grew from $65.6 million in 2017 to $152.3 million in 2019. The remuneration of the executive chairman was determined by the RC taking into account, the operations/set-up costs for the new business, the increased time and efforts of setting up the Investment business segment and driving the investment strategy, the efforts and the direct and indirect contributions of the Executive Directors in the Rights cum Warrants issue and the expanded roles and responsibilities to match the responsibilities of managing a bigger company. The net profits of the Group from continuing operations (excluding one-off adjustments) have also increased significantly (from $2.0 million average per year in 2012-2016 to $3.7 million average per year in 2017-2021) despite the devastating impact of COVID-19. The Company had also adopted cost cutting measures, with all Executive Directors, independent directors, and senior staff taking a pay/fee cut of 10%-25% during the COVID-19 period, even though the Company's profits from continuing operations (excluding one-time adjustments) remained resilient and robust during the period.

(v) What is the nature of such allowance and the basis for giving allowances to the executive directors?

Company's Response:

The allowance is for travel and phone expenses.

(vi) Did the RC benchmark the remuneration framework and remuneration practices to comparable companies? If so, how was the benchmarking carried out? Given that the annual remuneration of the executive directors is approximately 5% of the total market capitalisation of the company, is this in line with the market, especially after factoring in the financial performance/value creation of the group?

Company's Response:

In 2020, the Company commissioned a leading global human resources consultant ("**Consultancy Firm**") to:

(a) Review current remuneration formula and incentive (bonus) plan framework and funding
(b) Provide inputs on remuneration/bonus plans adopted by organisations with similar set-up
(c) Review and recommend remuneration/bonus plans
(d) Simulate the remuneration/bonus plans payout to ensure alignment of total compensation with market

According to the Consultancy Firm's universe of executives pay database, the Executive Chairman's compensation in the region of $1.2m will rank approximately in the mid-range of 60 percentile. Mr Ong and Ms Zhang's compensation in the region of $800k each would therefore rank lower, between the 40%-50% percentile. The RC adopted the Consultancy Firm's recommendation on remuneration plan, and even added a longer and more restrictive 10 year vesting period in the incentive plan, compared to the usual 3 year vesting period. It is also worth noting that the Executive Directors voluntarily foregone their entire bonus for FY2019 and FY2020, and a part of their bonus for FY2021, because of the various non-cash impairments (despite the significant positive net fair value increase), the misappropriation by two former staff, and the challenging and uncertain business environment. The Company's market capitalisation is a factor of market forces that is largely driven by investors sentiment and therefore outside the control of management.

(vii) In view of the cumulative losses in the past three years, can the executive directors help shareholders better understand if they have been effective at creating long term value for shareholders?

Company's Response:

While the Group has gone through various phases of challenges, it is on track in its transformation process. Management believes that the Group is adapting to the disruptive headwinds affecting its distribution and retail businesses and is geared towards a stronger, resilient and profitable company over the long term via its diversification and transformation initiatives. Management will continue to work towards its efforts to accelerate growth, achieve better results and value creation for shareholders. Since the Group's transformation initiatives and management changes in 2017, the long term tangible results are as follows:

(a) Shareholders' Equity has increased from $64.3 million in FY2016 to $159.4 million in FY2021.
(b) Dividends have been trending upwards from $1.3 million in 2016 to currently $4m (cumulative dividends for the 5 year period from 2017 to 2021 was $9.5 million, despite the impact of COVID-19 when the Company did not pay a dividend in 2020), as compared to $5.3 million in the preceding 5 year period).
(c) Share buybacks, which are NAV accretive, since February 2020 of $2.8 million.
(d) Cash return to shareholders, often defined as dividends paid and share buybacks, totaled $12.3m since management changes in 2017.
(e) Total profits from continuing operations (excluding one-time adjustments) from 2017-2021 totaled S$18.6m as compared to S$10.2m in the preceding 5 years.

(viii) Can the RC help shareholders understand if the current remuneration framework results in remuneration practices that are aligned to shareholders' interests? Specifically, can the RC help shareholders understand if the level and structure of remuneration are appropriate and proportionate to the sustained performance and value creation to the group (Principle 7 of the Code of Corporate Governance 2018)?

Company's Response:

The RC decides on the remuneration packages with a view to attract, retain and motivate the executives to provide good stewardship of the Company and to successfully manage the Company for its long-term success. Size of the business and operations is strongly correlated to executive compensation. The level and structure of remuneration is linked to the growth of the Company and is proportionate to the long-term sustainability of the Group and value creation.

BY ORDER OF THE BOARD

Madan Mohan
Company Secretary

21 July 2022