MDR Limited

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

PROPOSED CAPITAL REDUCTION TO REDUCE THE SHARE CAPITAL OF THE COMPANY

1. INTRODUCTION

1.1 The board of directors (the "**Board**" or "**Directors**") of mDR Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company is proposing to undertake a capital reduction exercise, pursuant to Section 78A read with Section 78C of the Companies Act 1967 of Singapore ("**Companies Act**"), to reduce the share capital of the Company by the cancellation of the issued and fully paid-up share capital (excluding treasury shares) of the Company that has been lost or is unrepresented by available assets to the extent of the amount of the accumulated losses of the Company which amounts to S$27,397,446 as at 31 December 2023 (the "**Proposed Capital Reduction**").

1.2 The Company will be seeking approval from the shareholders of the Company ("**Shareholders**") for the Proposed Capital Reduction at an extraordinary general meeting of the Company to be convened ("**EGM**").

2. DETAILS OF THE PROPOSED CAPITAL REDUCTION

2.1 The Proposed Capital Reduction will be effected in the following manner:

(i) to reduce the share capital of the Company as at the effective date of the Proposed Capital Reduction (such date to be announced by the Company on SGXNET) ("**Effective Date**") by the cancellation of the Company's issued and fully paid-up share capital (excluding treasury shares) that has been lost or is unrepresented by available assets to the extent of the amount of the accumulated losses of the Company which amounts to S$27,397,446 as at 31 December 2023 ("**Accumulated Losses**"); and

(ii) the amount of S$27,397,446, being the credit arising from the aforesaid cancellation of share capital, shall be applied to write off the Accumulated Losses.

2.2 As at the date of this announcement ("**Announcement**"), the Company's issued and fully paid-up share capital (excluding treasury shares) is S$120,134,598 divided into 870,702,770 ordinary shares in the capital of the Company ("**Shares**").

2.3 The Accumulated Losses arose mainly from (a) impairment loss on investment in the Company's subsidiary; and (b) impairment on investments in debt securities.

2.4 Impairment loss on investment in the Company's subsidiary relates to investment in Sols Solutions Pte. Ltd. (formerly known as VT Cosmetics Pte Ltd.) ("**SSPL**"). The Company had capitalised non-trade advances to SSPL of S$2,152,000 in the financial year ending 31 December ("**FY**") for 2023. The Company had carried out a review of the recoverable amounts of its investment in SSPL which led to the recognition of an impairment loss of S$2,152,000 on its investment in the said subsidiary, determined from value in use calculations. Impairment loss on investments in the Company's subsidiary needs to be assessed on a periodic basis to determine any further losses or reversal of impairment, which largely depends on the future cash flow and growth of such subsidiaries. Please refer to page 112 of the Company's Annual Report for FY2023, an extract of which is as set out herein as Appendix 1, for further information.

2.5 Impairment on investments in debt securities pertains to net loss allowance on debt securities of S$47,571,000, net of interest income at credit-adjusted effective interest rate on initial recognition, on the originated credit impaired debts securities. The loss allowance is estimated based on the difference between expected recovery and carrying value of the bonds. The recovery of impairment loss on investments in debt securities will mainly depend on the restructurings of such debt securities. Please refer to page 118 of the Company's Annual Report for FY2023, an extract of which is set out herein as Appendix 1, for further information.

2.6 The Proposed Capital Reduction will reduce the Company's Accumulated Losses by the cancellation of the share capital of the Company to the extent of the amount of the Accumulated Losses.

2.7 The Proposed Capital Reduction does not entail any outflow of cash or change in the net assets of the Company. There will be no change in the total number of issued Shares in the Company held by the Shareholders immediately after the Proposed Capital Reduction nor will the Proposed Capital Reduction involve the payment to any Shareholders of any paid-up share capital of the Company.

3. RATIONALE

3.1 The purpose of the Proposed Capital Reduction is to write off the Accumulated Losses with a view to restructure the finances of the Company. This serves to rationalise the balance sheet of the Company for it to be an accurate reflection of the value of its underlying assets, and thus the financial position of the Company. The Company would also be in a better position to retain profits and enhance its ability to pay future dividends, when appropriate, if the Accumulated Losses are written off. The Directors will take into consideration the present and future funding needs of the Company and the Group before declaring any dividends.

3.2 Pursuant to Section 78C(2) of the Companies Act, the Company is not required to meet the solvency requirements under Section 78C(1)(b) of the Companies Act as the Proposed Capital Reduction does not involve a reduction or distribution of cash or other assets by the Company, or a release of any liability owed to the Company.

4. FINANCIAL EFFECTS OF THE PROPOSED CAPITAL REDUCTION

4.1 The Proposed Capital Reduction is an accounting procedure that reduces the existing share capital of the Company to write off the Accumulated Losses. The Proposed Capital Reduction represents merely a change in the composition of reserves and does not entail any reduction or distribution of cash or other assets of the Company.

4.2 As there will be no changes to the number of issued Shares of the Company following the Proposed Capital Reduction, the Proposed Capital Reduction will not have any impact on the net tangible assets per Share, the earnings per Share, the return on equity to Shareholders and the gearing ratio of the Company and the Group.

5. CONDITIONS OF THE PROPOSED CAPITAL REDUCTION AND CREDITOR OBJECTIONS

5.1 The Proposed Capital Reduction is subject to, *inter alia*, the following:

(a) the approval of the Shareholders by way of special resolution at the EGM (the "**Capital Reduction Resolution**");

(b) compliance with the relevant publicity requirements as prescribed in the Companies Act;

(c) no application having been made for the cancellation of the Capital Reduction Resolution by any creditor of the Company within the timeframe prescribed in the Companies Act, or if such application was made, the dismissal thereof by the judicial authorities; and

(d) the Company, must after the end of six (6) weeks (but before the end of eight (8) weeks) beginning with the date of the Capital Reduction Resolution, lodge the following documents with the Registrar of Companies ("**Registrar**"):

(i) a statement made by the Directors confirming that the requirements under Section 78C(1)(c) of the Companies Act have been complied with, and that no application for cancellation of the Capital Reduction Resolution has been made; and

(ii) a notice containing information in relation to the Proposed Capital Reduction specified under the Companies Act.

5.2 In the event that during the six (6) weeks beginning with the Capital Reduction Resolution date, one (1) or more applications for the cancellation of the Capital Reduction Resolution has been made under Section 78D(2) of the Companies Act, for the Proposed Capital Reduction to take effect, the following conditions must be satisfied:

(a) the Company must give the Registrar notice of the application(s) for the cancellation of the Capital Reduction Resolution as soon as possible after such application(s) have been served on the Company by the creditor(s);

(b) the proceedings in relation to each application for the cancellation of the Capital Reduction Resolution must be brought to an end by either (i) the dismissal of the application under Section 78F of the Companies Act; or (ii) without determination (for example, because the application has been withdrawn); and

(c) the Company must, within 15 days beginning with the date on which the last such proceeding was brought to an end in accordance with paragraph 5.2(b) above, lodge with the Registrar:

(i) a statement made by the Directors confirming that the requirements under Section 78C(1)(c) and Section 78D(4) of the Companies Act have been complied with, and that the proceedings in relation to each such application have been brought to an end by the dismissal of the application or without determination;

(ii) in relation to each such application which has been dismissed by the Court, a copy of the order of the Court dismissing the application; and

(iii) a notice containing information in relation to the Proposed Capital Reduction specified under the Companies Act.

6. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

None of the Directors nor the substantial Shareholders has any interest, direct or indirect, in the Proposed Capital Reduction save for their respective directorships and/or shareholdings in the Company.

7. CIRCULAR

The circular which will contain, *inter alia*, the notice of EGM, the details of the Proposed Capital Reduction, the amount of the Accumulated Losses and the extent by which the share capital of the Company will be cancelled, will be despatched to the Shareholders in due course.

8. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Announcement and confirm after making all reasonable enquiries, that to the best of their knowledge and belief, this Announcement constitutes full and true disclosure of all material facts about the Proposed Capital Reduction, the Company and the Group, and the Directors are not aware of any facts the omission of which would make any statement in this Announcement misleading. Where information in the Announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Announcement in its proper form and context.

9. CAUTIONARY STATEMENT

Shareholders and potential investors are advised to exercise caution when dealing or trading in the Shares. The Proposed Capital Reduction is subject to certain conditions and as at the date of this Announcement, there is no certainty or assurance that the Proposed Capital Reduction will be completed. The Company will make the necessary announcements when there are further developments. Shareholders and potential investors are advised to read this Announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, bank managers, solicitors, accountants, tax advisers or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Madan Mohan
Company Secretary

6 June 2024

APPENDIX 1

EXTRACTS OF THE COMPANY'S FY2023 ANNUAL REPORT

(*Attached Separately)*

17. INVESTMENT IN SUBSIDIARIES (CONT'D)

Movement in impairment loss:

	Company	
	2023	2022
	$'000	$'000
At beginning of year	34,082	35,307
Addition during the year	2,152	–
Written off during the year	–	(1,225)
	36,234	34,082

The principal activities of the subsidiaries are the provision of after-market services for mobile equipment and consumer electronic products; distributor and retailer of mobile telecommunication equipment and mobile related services, including prepaid cards; the provision of digital inkjet printing for point-of-sale and out-of-home advertising solutions, and investment holding.

The non-trade advances to one of the subsidiaries amounted to $2,152,000 have been capitalised and subsequently fully provided for impairment loss during the year.

The Company had carried out a review of the recoverable amounts of its investment in subsidiaries where there are indicators of impairment. There was no impairment loss recognised during the year.

The recoverable amounts of the subsidiaries were determined based on value-in-use. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate for the relevant markets in which the subsidiaries operate.

The key assumptions for the value in use calculations are those regarding the discount rates and long-term growth rate. The pre-tax discount rates used in the cash flow projections range from 10.7% to 13.5% (2022: 14.0% to 17.5%), and long-term rates used is 2.03% to 2.71% (2022: 1.94%) respectively.

Sensitivity to changes in assumptions

With regards to the assessment of recoverable amounts for the investment in subsidiaries, management believes that no reasonably possible changes in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

20. INVESTMENT IN DEBT SECURITIES (CONT'D)

The following table shows the movement in expected credit loss that has been recognised for debt securities at amortised cost.

Group and Company	**Total**
	$'000
Balance as at 1 January 2022	8,471
Net increase in loss allowance arising from new financial instruments recognised in current year, net of those derecognised upon settlement	2,128
Foreign exchange movement	(143)
Balance as at 31 December 2022	10,456
Net decrease in loss allowance arising from new financial instruments recognised in current year, net of those derecognised upon settlement	(10,438)
Foreign exchange movement	(18)
Balance as at 31 December 2023	–

Management had recognised loss allowance of $58,009,000 (2022: reversal of loss allowance $6,620,000), net of interest income at credit-adjusted effective interest rate on initial recognition, on the originated credit impaired debts securities designated as fair value through other comprehensive income. The loss allowance is estimated based on the difference between expected recovery and carrying value of the bonds.

The net loss allowance on debt securities of $47,571,000 (2022: net reversal of loss allowance $4,492,000) presented within "other operating expenses" is represented by:

	2023	**2022**
	$'000	**$'000**
(Reversal of loss allowance)/loss allowance on debt securities carried at amortised cost	(10,438)	2,128
Loss allowance/(reversal of loss allowance) on debt securities, carried at fair value through other comprehensive income	58,009	(6,620)
	47,571	(4,492)