

9R LIMITED

(Company Registration No. 199307300M)
(Incorporated in Singapore)

RESPONSE TO QUERY FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST")

The Board of Directors (the "Board") of 9R Limited (the "Company", and together with its subsidiaries, "the Group") wishes to announce the following in response to the queries raised by the SGX-ST in relation to the Company's unaudited condensed interim financial statements for the 6 months and full year ended 31 December 2023.

SGX-ST's Query 1

We noted that the acquisition of Compact Sensation was only completed on 31 October 2022 and impairment is being recorded now - slightly more than a year thereafter. It was also disclosed in the Company's circular to shareholders dated 14 April 2022, that the Company intends to diversify the Group's existing business into the new businesses of supply chain management business and lifestyle retail business ("New Businesses"), in order to improve the Group's financial position and unlock shareholder value. The New Businesses has been identified by the Company as business activities which will provide the Group with sustainable and long-term prospects of profitability and growth.

- (a) What due diligence was performed by the Board on Compact Sensation at the time of acquisition?
- (b) How was the Board satisfied with the growth and forecast for Compact Sensation at the time of acquisition? What did the Board consider then, when it agreed on the purchase consideration of RM16 million?
- (c) What has changed since the completion of the acquisition of Compact Sensation that resulted in the impairment loss of goodwill?
- (d) How was the amount of the impairment loss of goodwill of S\$1.00 million determined?
- (e) Was there any valuation conducted on Compact Sensation for the purposes of determining its fair value? If yes, what was the value placed on Compact Sensation? Please also disclose the valuer, basis and the date of such valuation.
- (f) Please provide the Board's confirmation as to whether it is satisfied with the reasonableness of the methodologies used to determine the amount of impairment.

Company's Response

Reply 1a)

The Board had engaged several professional parties to conduct both legal and financial due diligence in respect of the acquisition and also an independent valuation on Compact Sensation.

David Lai & Tan, a law firm in Malaysia, was appointed as the Company's legal advisor to, amongst others, conduct a legal due diligence review on Compact Sensation. The scope of work covered 16 key main areas which are typical of the standard due diligence conducted for such acquisitions. The legal firm also drafted the definitive agreements for the acquisition.

YHL Consulting Group Sdn Bhd, an accounting firm in Malaysia, was appointed to conduct both due diligence on the financial statements and taxation matters for Compact Sensation.

Asia Equity Research Sdn Bhd, a valuation firm in Malaysia, was appointed to conduct a valuation on Compact Sensation.

The Board had assessed and was satisfied with the qualifications, credentials and the track record of the above professional firms.

9R LIMITED

(Company Registration No. 199307300M)
(Incorporated in Singapore)

Reply to 1b)

Management had extensive discussions with the vendor on the consideration. In agreeing to the final total consideration of RM16 million, the Board referred to the independent valuation which showed a value range of RM16.15 million to RM16.52 million. In reviewing the valuation report, the Board had

- i) examined if the key assumptions and estimates for the valuation are reasonable;
- ii) ensured that the underlying material uncertainties of the valuation are fully disclosed;
- iii) assessed whether the valuation conclusion and limitations as disclosed in the Valuation Report are acceptable;
- iv) assessed if the valuation is done according to recognised valuation standards, for instance the International Valuation Standards.

For clarification, the purchase consideration of RM16 million comprises RM13.5 million (RM4 million cash and RM9.5 million worth of Company's shares) payable at completion and RM2.5 million payable as earn-out shares in the event Compact Sensation achieved an audited profit after tax of RM2.5 million for the financial year ended 31 December 2023. The contingent consideration was negotiated as the Board was cognisant that the valuation involves estimates of future cash flow using the equity approach.

In compliance with accounting standards, the goodwill recognised was based on both the paid consideration of RM13.5 million and RM2.5 million contingent consideration. As Compact Sensation did not meet the targeted profit, the contingent consideration of RM2.5 million was reversed into other income in addition to the impairment of goodwill of RM3.5 million. As such, the net P&L impact to the Group was RM1 million (approximately S\$0.28 million).

Reply to 1c)

As disclosed above, Compact Sensation did not manage to achieve its targeted profits, hence resulting in the drop in valuation. The Board understands that this was due to the local consumer demand in Malaysia remaining weak for longer than expected, affecting the lifestyle entertainment business. The Board will continue to monitor the performance of the Group's lifestyle business and direct management to take steps as necessary to improve the performance of this business accordingly.

Reply to 1d)

The Group performed an impairment assessment in accordance to SFRS(I) 1-36 Impairment of Assets. Determining whether goodwill is impaired requires an estimation of their recoverable amounts; where such recoverable amounts are based on the assets' values-in-use, the determination of such value-in-use involves significant use of estimates and assumptions by management. The impairment loss of goodwill was recognised as there has been a change in estimates such as forecasted sales for the following year and revenue growth rates due to factors as disclosed in Reply 1(c).

Reply to 1e)

As set out in reply 1a, an independent valuation was conducted for the acquisition of Compact Sensation in 2022. Although no updated independent valuation was conducted in FY2023, management had used the same methodologies set out in the previous valuation to determine the current fair value of Compact Sensation, based on the updated actual and revised forecasted numbers taking into account the current economic conditions and key assumptions.

Reply to 1f)

The Board had reviewed the key assumptions used by the management in determining the recoverable amount of Compact Sensation and is satisfied with the reasonableness of the methodologies used to determine the amount of impairment.

9R LIMITED

(Company Registration No. 199307300M)
(Incorporated in Singapore)

SGX-ST's Query 2

We note that the Company recognised expected credit loss on trade receivables and contracts assets of S\$2.44 million due to long outstanding balance from customer, which the management is of view that the recoverability may be remote.

- (a) Please provide the reason(s) for non-payment by the customer.
- (b) What were the actions taken to recover these trade receivables and contract assets?
- (c) How long are the debts outstanding and when were the sales reported?
- (d) Is this customer a major customer? Does the Company continue to transact with this customer and if so, what are the reasons for doing so?
- (e) What is the percentage of trade receivables attributed to the major customer (or five largest customers) of the Company?
- (f) Please provide the Board's opinion on the reasonableness of the methodologies used to determine the value of the expected credit loss on trade receivables and contracts assets.

Company's Response

Reply to 2a-e)

The outstanding debt of S\$2.44 million which were subjected to impairment consists of the following: -

% of outstanding debt	Sale reported on	Aging
22%	4 th quarter of FY 2022 and before	Past due more than 1 year
70%	1 st quarter FY 2023	Past due more than 9 months
5%	2 nd quarter FY 2023	Past due more than 6 months
3%	3 rd quarter FY 2023	Past due more than 3 months
100%		

The bulk of the provision for the expected credit loss of trade receivables arose from 5 customers in the Group's supply chain business, where there is a smaller group of key customers leading to greater credit concentration risks. The trade receivables from these 5 customers amount to 98% of the outstanding trade receivables on the Group's supply chain business. The Group understands that such non-payment occur may be due to financial difficulties faced by the customers.

The Board wishes to emphasise notwithstanding the provision made, management will continue to pursue repayment vigorously. The Board has also instructed management to tighten its credit policy further to mitigate future credit risks.

The Group had sent reminder letters, conducted open communications, and negotiated alternative payment arrangements with these customers. As the debts remained unpaid, the Group has also recently proceeded with legal action against these customers. The Group has also ceased further transactions with these customers.

Moving forward, the Group's main focus will be on the lifestyle entertainment business, which has lower credit concentration risks due to the nature of the business.

Reply to 2f)

The Group uses an allowance matrix to measure expected credit losses ("ECL") for trade receivables and contract assets. The ECL rates are based on the Group's historical loss experience of the customers, for the last 3 years prior to the reporting date for various customer groups that are assessed by geographical locations, adjusted for forward looking factors specific to the debtors and the economic

9R LIMITED

(Company Registration No. 199307300M)
(Incorporated in Singapore)

environment which could affect the ability of the debtors to settle the trade receivables and contract assets. The Group adjusts, as necessary, the allowance matrix at each reporting date.

During the financial year, significant amount of impairment made for trade receivables and contract assets were mainly contributed by credit impaired debtors. In determining whether trade receivables and contract assets are credit-impaired, the Group assesses whether one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- (a) Significant financial difficulty of the debtors
- (b) Breach of contract, such as a default or being more than 90 days past due;
- (c) It is becoming probable that the debtors will enter bankruptcy or other financial reorganisation; and
- (d) The disappearance of an active market for the trade receivables and contract assets because of financial difficulties.

The Board is of the opinion that the methodology used to determine the value of the expected credit losses on trade receivables and contracts assets are reasonable in accordance with SFRS (I) 9 *Financial Instruments*.

BY ORDER OF THE BOARD OF
9R Limited

MR ONG SWEE SIN
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER
8 March 2024

This announcement has been reviewed by the Company's sponsor, UOB Kay Hian Private Limited (the "Sponsor").

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Lance Tan, Senior Vice President, at 8 Anthony Road, #01- 01, Singapore 22957, telephone (65) 6590 6881.