



MDR Limited

(Incorporated in the Republic of Singapore)

(Company Registration No. 200009059G)

LODGEMENT OF POLICE REPORT IN RELATION TO SUSPECTED MISAPPROPRIATION OF GROUP'S ASSETS

The board of directors (the “**Board**” or “**Directors**”) of mDR Ltd (the “**Company**”, and together with its subsidiaries (“**Subsidiaries**”), the “**Group**”) wishes to inform shareholders of the Company that, the Group has on 10 December 2021 and 13 December 2021 discovered two (2) separate cases of suspected unauthorised use of the Group’s marketing incentive rebates, comprising of rebates from the Group’s principals which are typically used for marketing or promotional support, in its Subsidiaries, 3 Mobile Telecom Pte Ltd, A-Mobile Pte Ltd, and Handphoneshop Pte Ltd, through the suspected unauthorised sale of handsets and phone accessories and misappropriation of proceeds from such sale (“**Suspected Misappropriation**”).

Based on internal review that is still ongoing, two (2) senior executives of the Group (one of whom is an executive officer of the Company but neither are Directors of the Company) have emerged to be persons of interest (“**Relevant Persons**”). Upon the discovery of the Suspected Misappropriation, the Group immediately suspended the Relevant Persons. The Group is currently in the process of determining the appropriate course(s) of action against the Relevant Persons.

As at the date of this announcement, based on the preliminary internal review and information available, the aggregate amount constituting the subject of the Suspected Misappropriation is approximately S\$2.08 million.

Accordingly, the Group had on 15 December 2021 made a police report in relation to such Suspected Misappropriation, and the Group has provided the relevant documents and information to the Commercial Affairs Department of the Singapore Police Force for investigation. The Group will offer full cooperation to the relevant authorities, as and when needed, to enable them to conduct their investigations on the Suspected Misappropriation.

Prior to the discovery of the Suspected Misappropriation, there were standard operating procedures (“**SOPs**”) put in place in relation to the sales process, which, amongst others, require different personnel in the Subsidiaries to request, verify, approve and acknowledge the receipt of the handsets and phone accessories. However, due to the senior positions of the Relevant Persons, they were able to override some of the SOPs. Since the discovery of the Suspected Misappropriation and to prevent further occurrence of misappropriation, the Group has taken the following actions to strengthen the internal controls and procedures in relation to the marketing incentive rebates:

- (a) the Group has commissioned its in-house internal auditor, and will be engaging an independent audit firm to report directly to the Audit and Risk Committee (“**ARC**”), to identify any possible weaknesses of the current internal controls in relation to the use of marketing incentive rebates and to provide their recommendations on how internal controls and procedures for use of marketing incentive rebates can be further strengthened following the Suspected

Misappropriation; and

- (b) as an interim measure, the Group has immediately put in place, amongst others, the following additional internal controls and procedures in relation to the marketing incentive rebates:
- (i) Dual Approval - nature and purpose of usage of marketing incentive rebates must be clearly identified, and approval must be sought from two approvers, Group Chief Executive Officer (“GCEO”) and Group Chief Financial Officer (“GCFO”), before utilisation of such marketing incentive rebates;
 - (ii) Dual Signatories – GCEO and GCFO must sign off for usage of all marketing incentive rebates;
 - (iii) Monthly Review - review of schedules on a monthly basis by accountants/ Finance Manager and GCFO, and suspicious transactions to be highlighted to GCFO.

Based on the preliminary internal review and information available currently, the Group and the ARC believes that there is no direct impact to the Group’s net asset value (“NAV”), hence no material impact on the unaudited consolidated financial statements for the year ending 31 December 2021 as the reduction in inventory due to the Suspected Misappropriation is offset by a corresponding reduction in the accrued marketing incentive rebates. As such, there is no direct impact to the Group’s profit and loss since the marketing incentive rebates are recognised in the balance sheet. These marketing incentive rebates are typically utilised on an ongoing basis based on marketing activities. The marketing incentive rebates received from Group’s principals that were set aside for future marketing activities had been misused, through unauthorised sale of handsets and phone accessories instead of being utilised for promotional activities. These transactions reduced the inventories (assets) due to the sale of handsets and phone accessories, as well as depleted the accrued marketing incentive rebates (liabilities) due to such utilisation, thus the NAV of the Group is not impacted. In addition, the amount under Suspected Misappropriation is approximately 1.41% of the Group’s NAV¹, which is not materially significant from the perspective of the Group’s NAV.

Based on the unaudited consolidated financial statements for the year ended 30 June 2021, the Group does not have concerns over its other current assets such as cash reserves and inventory, amounting to S\$15.4 million and S\$20.6 million respectively. The Group has put in place various safeguards including but not limited to, daily monitoring of cash balances by the Finance division and reporting to the GCFO, reconciliation of the bank accounts on a monthly basis, daily stock take of handsets by the Group’s outlets and review by the Operations manager, and weekly stock count of handsets by the Warehouse division to ensure that there are no discrepancies.

While there is no direct impact on the unaudited consolidated financials statements for the year ending 31 December 2021, the Group is however adversely affected by the marketing opportunities lost from not having the future benefits of utilising the marketing incentive rebates (that has been utilised by the Suspected Misappropriation) which would have generated goodwill as well as defray certain marketing expenses.

Subsequent announcement(s) will be made by the Company with further details, as and when there are material developments and where necessary in accordance with the listing rules of the Singapore Exchange Securities Trading Limited, to keep shareholders updated on any material developments with respect to the matters set out in this announcement.

Shareholders and potential investors of the Company are advised to exercise caution when dealing or

¹ Group’s NAV as at 30 June 2021 is S\$146,585,000.

trading in the shares of the Company and are advised to read this announcement and any further announcement(s) by the Company carefully. **Shareholders and potential investors who are in any doubt about the contents of this announcement or as to the action they should take, should consult their stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.**

BY ORDER OF THE BOARD

Madan Mohan
Company Secretary

18 December 2021