

RENAISSANCE UNITED LIMITED

(Incorporated in Singapore)
(Company Registration Number 199202747M)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (THE “SIAS”) ON THE FY2022 ANNUAL REPORT

The Board of Directors (the “**Board**”) of Renaissance United Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the queries raised by the SIAS in relation to the Group’s Annual Report for the financial year ended 30 April 2022. The Company is scheduled to hold its Annual General Meeting on 30 November 2022. The Board responds as follows:

Q1. The executive director and chief financial officer of the company concluded the letter to shareholders by stating that the board will continue to look for new businesses organically or via acquisition. Meanwhile, the board and management will continue to steer and guide the three current core businesses towards “sustainable profitability”.

However, it is noted that the group recognised no revenue from Capri in FY2022 while it is also embroiled in lawsuits. While the revenue was higher in the gas distribution business, the loss after income tax was \$(38,000) (Note 13 Investments in subsidiaries; page 61). The electronics and trading segment reported a profit after tax of \$93,000.

At the group level, loss for the year attributable to equity holders was \$(12.3) million in FY2022, up from \$(5.4) million a year ago.

- (i) **Capri: When are the other payments due from KB? What are the milestones, if any, attached to these payments?**
- (ii) **Hubei Zonglianhuan Energy Investment Management Inc. (“HZLH”): Who is running the day-to-day operations and has the P&L responsibilities of HZLH? How is the business impacted by China’s Zero-COVID policy? What are management’s plans to better manage the rising input costs? In addition, how will the Chinese operating entity be funding the new pipeline from Xiaochang to Dawu? What is the level of oversight of HZLH and the entities in China by the management team in Singapore?**
- (iii) **ESA Electronics: Can management help shareholders better understand the key growth drivers of ESA? What are the opportunities in the semiconductor industry given that the US has banned the sale and export of chips and high- end equipment to China?**
- (iv) **New business: How is the company carrying out its deal sourcing? What guidance has the board given to management in terms of industries, geographical area, ticket size etc?**

Company’s response to Q1

- (i) As announced on 3 November 2020, the partial sale to KB was by way of annual and progress milestone payments. Page 39 of the Company’s Annual report states that the remaining payments due by KB are triggered by individual lot payments by third parties.
- (ii) As per page 100 of the Company’s Annual Report, Mr On Wang Sang is the Key Management Personnel for HZLH. Mr On together with HZLH’s management team are responsible for the day-to-day operations and the P&L of HZLH’s CGUs. China’s Zero-COVID policy has affected China’s

economy as a whole with industry output growing at a reduced pace. HZLH's industrial customers especially those whose businesses have an export focus have been more adversely affected than those focussed on the domestic market. HZLH's input costs of natural gas are heavily influenced by State Policy and by that of its major suppliers - Sinopec and PetroChina. HZLH continues to lobby such suppliers for larger quotas of supplies to be sold to it as its gas sales continues to increase. If larger quotas were sold and allocated to HZLH, it may then reduce reliance on LNG spot pricing which contributes to its rising input costs.

The new pipeline is being funded by local financial institutions and free-cash flow. Despite Covid travel restrictions and quarantine periods, Mr Blythman has continued to make regular trips to China to meet with HZLH's management team, its financial institutions, local government and other key stakeholders to ensure that there is adequate and effective oversight.

- (iii) The key growth drivers of ESA comprise primarily increased investment by its customers in research and development and new technology roll-outs. Typically customer-geographic focus has been Taiwan; however China's policy of semi-conductor self-sufficiency has resulted in more demand from the mainland. ESA's business is in back-end testing and as such US restrictions have not adversely impacted ESA in a material way.
 - (iv) As announced previously, the Board has been looking at real estate opportunities within the ASEAN region. The Board has not given precise guidelines as it is aware of the challenges the Company's market capitalisation and recent financial performance present to any such corporate exercise.
- Q2.** The company's independent auditor had issued a qualified opinion in their report dated 8 November 2022 on the audited financial statements for the year ended 30 April 2022.

The details can be found here:

<https://links.sgx.com/FileOpen/Auditors%20Report%20RUL%20221108.ashx?App=Announcement&FileID=737934>

The basis for qualified opinion:

- Carrying value of intangible assets in relation to distribution and licensing rights
 - Development property
 - Contingent liabilities
- (i) **Can the audit committee (AC) help shareholders better understand the level of involvement in the audit and the level of assistance given to the auditors in the audit of the financial statements?**
 - (ii) **In particular, did the AC review why management was unable to provide supporting documents for the accumulated brought forward costs of the development property?**
 - (iii) **On what basis is the AC satisfied that the financial records of the company have been properly maintained and that the internal control systems are adequate and effective (page 116) given the auditor's qualified opinion?**

The company has also announced material differences between the audited and the unaudited financial statements of the company and its subsidiaries for the financial year ended 30 April 2022.

- (iv) **Is the group (including its officers and the directors) familiar with the Singapore Financial Reporting Standards (International) (SFRS(I))?**
- (v) **Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

- (vi) **Given the qualified opinion and the material variances, can the AC help shareholders better understand if it has discharged its duties objectively (Principle 10 of the Code of corporate governance 2018)? If so, how so?**

Company's response to Q2

- (i) The audit process commences prior to the end of the financial year. The Independent Auditors, Messrs Baker Tilly, then present their audit plan to the AC and advises their key focus areas. Audits are by their nature independent, and management extends its full cooperation to the external auditors in each financial year's audit. The external and independent auditors have not noted any lack of cooperation from management in their meeting with the Board without the presence of management.

This is a legacy issue as the land was acquired in 2002 and the Company acquired its interest through a business combination. For further information, please see the Company's response to queries posed by the SGX which were responded to and announced on 21 November 2022.

- (ii) As said above, this is a legacy issue as the land was first acquired through a business combination in 2002. As the AC and management are in possession only of limited information as to historical accounting treatments and carrying values in respect of the development property held by Capri, since the new board and management effectively took over only in 2018, such limited information has been insufficient for the Independent Auditors to perform their audit procedures in respect of the brought forward costs of the development property. The issue of brought forward costs of the development property has, therefore, been disclaimed by the present external auditors for FY2019, FY2020, FY2021 and FY2022.
- (iii) Other than information relating to legacy issues, such as the brought forward costs of the development property, the Company's financial statements are properly maintained and its internal control systems are adequate and effective as audited by its external and internal auditors. The qualified opinions relate to particular issues and do not express any adverse qualification, disclaimers or commentary as to the due maintenance of the Company's financial statements as required under the Companies Act 1967. For the avoidance of doubt, qualifications and/or disclaimers issued by external auditors do not speak to proper maintenance of a company's accounts as required under the Companies Act.
- (iv) The accounting team of the Company and its Group companies are familiar with SFRS (I). The Company's and Group's financial statements are audited by Baker Tilly, RSM Chio Lim and BDO China Shu Lun Pan. None of these external auditors or component auditors have expressed any material reservation in relation to the proper maintenance of the financial statements of the Company and/or any Group company under the Companies Act.
- (v) The AC is of the view that the Company's finance team is sufficiently resourced. ESA and HZLH have their own financial team and are audited by RSM Chio Lim and BDO China Shu Lun Pan as key component external auditors. The AC chairman is a practising public accountant. The Executive Director and CFO as well as key members of the Singapore finance team all have professional accounting and finance qualifications.
- (vi) The qualified opinions refer to specific legacy issues which does not impinge on the question of whether the AC has discharged its duties objectively or otherwise under principle 10 of the Code. The material variances between the audited and unaudited financial statements were mainly due to application of SFRS(I) INT 12 Service Concession Arrangements and SFRS(I) 15 Revenue from Contracts with Customers

Q3. In addition, the auditor has also highlighted a material uncertainty related to going concern. The

auditor drew attention to Note 3.1 to the financial statements with respect to the group's and the company's ability to continue as going concerns. During the financial year ended 30 April 2022, the group and the company incurred a net loss of \$12,284,000 (2021: \$4,839,000) and \$5,759,000 respectively. As at 30 April 2022, the group's and the company's current liabilities exceeded the current assets by \$14,341,000 (2021:\$12,286,000) and \$5,059,000 (2021: \$4,977,000) respectively. These conditions give rise to material uncertainties on the ability of the group and the company to continue as going concerns.

(i) **How can the company and the group improve its working capital?**

(ii) **What are the major capital expenditure in the next 18-24 months?**

In Note 30(c) (page 88 – Financial instruments: Capital management), the company has stated that it will “balance its overall capital structure through new shares issues as well as the issue of new debt”.

(iii) **Are there near-term plans to issue new shares to strengthen the financial position of the group? How will the company be carrying out any equity fund raising?**

Company's response to Q3

- (i) As mentioned in the Annual Report substantial resources were spent on legal fees which have arisen from legacy issues and are non-recurring in nature. The Company is working to generate additional revenue from the remaining tracts of the Falling Water Project.
- (ii) The single largest capital project is HZLH's new pipeline.
- (iii) The Company understands that its low share price restricts capital raising. Please see announcement on 3 October 2019.

BY ORDER OF THE BOARD

James Moffatt Blythman
Executive Director and Chief Financial Officer
29 November 2022