



## REENOVA INVESTMENT HOLDING LIMITED

(formerly known as ISR Capital Limited)

(Incorporated in the Republic of Singapore | Company Reg. No.: 200104762G)

SGX Stock Code: 5EC

### RESPONSE TO SGX QUERIES ON THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS FOR THE FIRST QUARTER FINANCIAL PERIOD ENDED 31 MARCH 2020

The Board of Directors (the “**Board**”) of Reenova Investment Holding Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to provide the following additional information in response to the queries raised by Singapore Exchange Securities Trading Limited (“**SGX-ST**”) in their email dated 24 June 2020 in relation to the Company's unaudited financial statements for the first quarter financial period ended 31 March 2020 announced on 15 June 2020.

#### Query by SGX-ST:

1. We refer to the first quarter financial results for FY2020 announced on 15 June 2020. With reference to the consolidated income statement:
  - a. We noted that the restated figures for 31 March 2019 for “Employee benefits expense” of S\$250,993 and “Other operating expenses” of S\$913,312, differed materially from the unaudited figures announced on 15 May 2019 of S\$160,513 and S\$379,330 respectively. Please disclose the breakdown for the increase and state the reasons for the significant restatements, including where the expenses were previously recorded.
  - b. We noted that there had been a significant translation gain for both 1Q2019 and 1Q2020 of S\$401,701 and S\$529,433 respectively recorded in “Other comprehensive income”. Please explain the reason for the gain when there were significant forex losses that were charged to P&L. Please provide the breakdown of the underlying items/accounts that resulted in the 1Q2020 gain of S\$529,433.

#### Company's Response:

- 1.a. The breakdown for the increase and reasons for the significant restatements are as follow:

Description	Q1 FY2019 (Restated) <sup>(1)</sup>	Q1 FY2019 (Unaudited) <sup>(2)</sup>	Variance	Explanation
	S\$	S\$	S\$	
Employee benefits expenses	250,993	160,513	90,480	The variance was mainly due to RREM's employee benefits expense for Q1 FY2019 that was previously capitalised as part of

Description	Q1 FY2019 (Restated) <sup>(1)</sup>	Q1 FY2019 (Unaudited) <sup>(2)</sup>	Variance	Explanation
	S\$	S\$	S\$	
				RREM's development costs under Intangible Assets in RREM's statement of financial position as at 31 March 2019. The Group has subsequently accounted for such development costs (including such employee benefits expenses) that were previously capitalised as Intangible Assets, by treating such balances as expenses in profit or loss. As such, the unaudited figures for employee benefits expense for Q1 FY2019 were restated to be comparable with the unaudited figures for Q1 FY2020.
Other operating expenses	913,312	379,330	533,982	The variance of S\$533,982 was mainly attributed to the exchange loss of S\$490,382 that was previously capitalised as part of RREM's development costs under Intangible Assets in RREM's statement of financial position as at 31 March 2019. The Group has subsequently accounted for such development costs that were previously capitalised as Intangible Assets, by treating such balances as expenses in profit or loss. As such, the unaudited figures for other operating expenses for Q1 FY2019 were restated where applicable to be comparable with the unaudited figures for Q1 FY2020.

(1) As announced via SGXNET on 15 June 2020

(2) As announced via SGXNET on 15 May 2019

- 1.b. For consolidation purposes, the assets and liabilities of Reenova Rare Earth (Malagasy) S.A.R.L.U. ("**RREM**") were translated into S\$ at the rate of exchange ruling at the end of the reporting period and RREM's profit or loss items were translated at average exchange rates (unless the average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the profit or loss items were translated using the exchange rates at the dates of the transactions). All resulting currency translation differences were recognised in "Other Comprehensive Income" and accumulated in the currency translation reserve. For Q1 FY2020 and Q1 FY2019, the resulting exchange difference was a gain of S\$529,433 and S\$401,701 respectively.

As explained in the Company's response to query no. 3 below, the exchange loss recorded in "Other Operating Expenses" of approximately S\$599,000 mainly arose from the revaluation, as a result of transaction exchange differences, of the loan payable by RREM to Reenova Holding (Mauritius) Limited ("**RHM**") of approximately Malagasy Ariary ("**MGA**") 67.7 billion as at 31

December 2019, where after revaluation, the amount of loan payable increased to approximately MGA 69.2 billion as at 31 March 2020. As mentioned in the Company's response to SGX-ST's query no. 5 that was announced on 17 March 2020, the unrealised exchange loss from transaction exchange difference was accounted for in accordance with paragraph 45 of SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* and was therefore, not eliminated on consolidation along with the intercompany loan. Paragraph 45 of SFRS(I) 1-21 states that "...an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss..."

#### Query by SGX-ST:

2. We refer to the consolidated statement of financial position.
  - a. Other receivables increased more than 100% from S\$45,349 to S\$104,996. We noted that the Company explained that it was due to "deposits held by legal firms". Please provide a breakdown of the items and explain the reason for the significant increase in deposits held by legal firms.
  - b. Convertible bonds increased by S\$989,479 from S\$1,439,057 to S\$2,428,536. We noted that the total net amount utilised on page 11 as at 31 March 2020 is S\$13,846,000, an increase of \$884,000 from the total net amount utilised as at 31 December 2019 of S\$12,962,000 (extracted from the fourth quarter financial results for FY2019 announced on 29 February 2019. Please reconcile the increase in convertible bonds of \$989,479 to the increase in the total net amount utilised of \$884,000. Please also provide the full breakdown of the amount utilised for "Investments and general corporate purposes" as at 31 March 2020.

#### Company's Response:

- 2.a. The increase in deposits held by legal firms was due mainly to a deposit of US\$40,000 (equivalent to S\$56,424) that was placed with a legal firm in Indonesia in relation to a mediation claim against the heirs of the late Mr Harun Abidin (the "**Guarantor**") in Indonesia courts to recover the amounts owed by the Guarantor. Further details can be found in the disclosures under "Debt Facility 1" on page 92 of the Company's Annual Report 2019 and the Company's response to SGX-ST's query no. 3 as announced on 25 June 2020 via SGX-NET.
- 2.b. The increase in convertible bonds of S\$989,479 and the increase in net amount utilised of S\$884,000 were computed/accounted for differently. The increase in convertible bonds of S\$989,479 mainly pertains to the face value of S\$1,000,000 of sub-tranche 5 of Tranche 3 Bonds that was discounted to the present value using a discounted rate of 5.5% p.a. over the period from subscription of the sub-tranche 5 of Tranche 3 Bonds to the maturity date of the Bonds on 16

September 2020 recognised in the Q1 FY2020 unaudited financial statements, whereas the increase in net amount utilised of S\$884,000 pertains to the actual cash proceeds received less any expenses related to the issuance of the Bonds.

The details of the utilisation for “Investments and general corporate purposes” as at 31 March 2020 are as follows:

	<b>Amount utilised</b>
	<b>S\$'000</b>
Loans provided to Reenova Holding (Mauritius) Limited (utilised between FY2017 to Q1 FY2019)	3,328
Loans provided to Tantalus Rare Earths AG (utilised in FY2017 and FY2018)	653
Investment in Straits Hi-Rel Pte. Ltd. (utilised in FY2017 and FY2018)	1,340
Loan to PT Permata Selaras Mandiri (utilised in FY2015 and FY2016)	3,108
Project and investment-related expenses (utilised between FY2015 to Q1 FY2019)	836
<b>Total:</b>	<b>9,265</b>

**Query by SGX-ST:**

- We refer to the “Analysis of the Group’s Other Operating Expenses” on page 10. It was disclosed that the unrealized exchange losses arose from the revaluation of RREM’s loan payable. Please disclose the amount of loan payable and the exchange rate movement that resulted in the forex loss of S\$598,644.

**Company's Response:**

- The amount of loan payable by Reenova Rare Earth (Malagasy) S.A.R.L.U. to Reenova Holding (Mauritius) Limited was approximately Malagasy Ariary (“MGA”) 67.7 billion as at 31 December 2019 and after revaluation, the amount of loan payable increased to approximately MGA 69.2 billion as at 31 March 2020. The loan payable was mainly denominated in Euro and USD currencies. The exchange rate movement that resulted in the foreign exchange loss was mainly the depreciation of the Malagasy Ariary against Euro and USD during Q1 FY2020 where MGA 1: Euro 0.0002474 and MGA 1: USD 0.00027 as at 31 December 2019 and MGA 1: Euro 0.0002428 and MGA 1: USD 0.00026 as at 31 March 2020.

**Query by SGX-ST:**

- We refer to paragraph 10 on page 12. Relating to the prospects for the next reporting period and the next 12 months, the Company disclosed that “the impending growth trend for electric vehicles....bodes well for the Group's prospect”. We also note that the Company is expecting revenue generation of the Madagascar mine when it receives its full mining licence only in Nov 2021. Please elaborate how the electric vehicles trend will affect the Company's prospects in the next reporting period and the next 12 months. If this has no impact, please disclose clearly the known factors or events that will affect the group in the next reporting period and the next 12 months as

required under paragraph 10 of Appendix 7.2.

**Company's Response:**

4. The Rare Earth Project in Madagascar is one of the areas in the world outside China that host rare earth elements including neodymium, praseodymium, and dysprosium. The rare earth elements neodymium, praseodymium, dysprosium, gadolinium, and terbium are used in the production of batteries for electric vehicles.

The Company is in the midst of making preparations to deploy a team to Madagascar as early as July or August 2020, barring any further lockdowns or travel restrictions due to the COVID-19 pandemic, to commence works on the Rare Earth Project to facilitate the application of the full mining licence before November 2021. The due date for submitting the application for a full mining licence to the Madagascar authorities is 5 November 2021. Presently, there is no certainty that the Group will be able to obtain a full mining licence before then. As such, until the Group has successfully obtained a full mining licence and has commenced commercial mining, the electric vehicles trend may not directly affect the Company's prospects in the next reporting period and the next 12 months. However, the impending growth trend for electric vehicles as global demand for rare earth elements for the production of magnets will likely to continue in the long run, remains a factor to be considered by potential investors/lenders, when the Group carries out fundraising activities with potential investors/lenders to fund the Group to bring the greenfield mine into commercialisation.

The Company is monitoring the situation surrounding the ongoing COVID-19 pandemic closely. The Company has recently resumed discussions and negotiations on its fundraising activity with the lifting of the lockdown/circuit breaker measures.

The known factors or events that will affect the Group in the next reporting period and the next 12 months are as follows:

- i. Ability to deploy a team to Madagascar to commence the next phase of work on the Rare Earth Project; and
- ii. Ability to secure sufficient funding to enable the Group to continue operating as a going concern.

**Query by SGX-ST:**

5. As per required under Listing Rule 705(6) for Mineral, Oil and Gas issuers, please announce the use of funds/cash for the quarter and a projection on the use of funds/cash for the next immediate quarter, including material assumptions.

**Company's Response:**

5. As disclosed in Paragraph 14 of the Company's announcement on SGXNET on 15 June 2020, there were no exploration and production activities conducted by the Group during Q1 FY2020.

The use of funds/cash for Q1 FY2020 and a projection on the use of funds/cash for Q2 FY2020 are set out as follows:

	<b>Use of funds/cash for Q1 FY2020</b>	<b>Projection on use of funds/cash for Q2 FY2020</b>
	<b>S\$'000</b>	<b>S\$'000</b>
Exploration and evaluation activities	-	-
General working capital	425	464
<b>Total:</b>	<b>425</b>	<b>464</b>

**Query by SGX-ST:**

6. We refer to paragraph 15 on page 13. We noted that the negative assurance confirmation provided in Paragraph 15 is only in relation to Rule 705(5). Please confirm that this also applies to 705(6) relating to use of funds for the quarter and a projection of the use of funds for the next immediate quarter, including material assumptions applicable to Mineral, Oil and Gas companies.

**Company's Response:**

6. The Board confirms that the negative assurance confirmation provided in Paragraph 15 on page 13 also applies to Rule 705(6) relating to use of funds for the quarter and a projection of the use of funds for the next immediate quarter, including material assumptions made by the Group.

On behalf of the Board

**Reenova Investment Holding Limited**

Chen Tong  
Executive Chairman

30 June 2020