RENAISSANCE UNITED LIMITED

(Company Registration No. 199202747M)
Incorporated in Singapore

RESPONSE TO SGX-ST QUERIES

The Board of Directors of Renaissance United Limited (the "**Company**") would like to announce its responses to the queries raised by Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 2 June 2020 ("**SGX-ST Queries**") in relation to the Company's financial results for the third quarter ended 31 January 2020, which was announced on 15 May 2020.

Query (i)
What is the nature of the "Employee benefit expenses" financial statement line item?

These comprise remuneration, allowances, bonuses and defined contribution plan expenses paid to Directors and Employees of the Company and the Group. Most of the expenses are remuneration of staff and management of the group's electronics and gas businesses. The Group's USA subsidiary based in Washington State has no full-time equivalent staff.

Query (ii)
Please provide a breakdown of the "Other expenses" financial statement line item and the reason(s) for its increase:-

	Group			Group		
	3 Months to 31/01/20	3 Months to 31/01/19	%	9 Months to 31/01/20	9 Months to 31/01/19	%
	S$'000	S$'000	Increase/ (decrease)	S$'000	S$'000	Increase/ (decrease)
Other expenses	(1,080)	(694)	55.6	(2,934)	(1,881)	56.0

The breakdown is as follows:

	Group			Group		
	3 Months to 31/01/20	3 Months to 31/01/19	%	9 Months to 31/01/20	9 Months to 31/01/19	%
	S$'000	S$'000	Increase/ (decrease)	S$'000	S$'000	Increase/ (decrease)
Audit Fees provided	(45)	(46)	(2.2)	(238)	(223)	6.7

Provision for Directors' Fees	(85)	(27)	nm	(145)	(96)	51.0
General repair and maintenance	(30)	(41)	(26.8)	(364)	(217)	67.7
Professional and Consultancy Fees	(359)	(380)	(5.5)	(969)	(590)	64.2
Travelling Expenses	(120)	(64)	87.5	(290)	(213)	36.2
Utilities	(11)	(79)	(86.1)	(398)	(355)	12.1
Fixed Assets written off	(398)	-	nm	(398)	-	nm
Other Admin Expenses	(32)	(57)	(43.9)	(132)	(187)	(29.4)
Total	(1,080)	(694)	55.6	(2,934)	(1,881)	56.0

3QFY20 Other expenses increased by 55.6% from S$0.7 million to S$1.1 million, mainly due to S$0.4 million fixed assets written off (two gas tank trucks) in 3QFY20 from a China subsidiary.

9MFY20 Other expenses increased by 56% from S$1.9 million to S$2.9 million, mainly due to increases of S$0.4 million professional and consultancy fees largely for Capri's Falling Water project and costs related to USA legal proceedings and S$0.4 million fixed assets written off in 9MFY20.

Query (iii)
It is noted that the Group has "Intangible assets" of S$416,000 as at 31 January 2020. It is stated on page 11 of the announced results:- "An increase of S$0.4 million in Intangible Assets mainly due to S$0.4 million new distribution and licensing rights of a China subsidiary in 9MFY20."

Please clarify the name of the China subsidiary and the elaborate on what the new distribution and licensing rights relate to?

The increase of Intangible assets relates to China subsidiary Guangshui Zhong Huan Natural Gas Development Co., Ltd. Land use rights are component of gas grid infrastructure being amortised over the appropriate period.

Query (iv)
Please provide a breakdown of the "Trade and other receivables" financial statement line item. Please also provide (i) an aging analysis of the trade receivables; and (ii) the Board of Director's assessment of the recoverability of the trade receivables.

	Group as at 31/01/20 S$000
Trade and Other Receivables	**12,585**

Breakdown as follows:

	Group as at 31/1/20 S$000	Current	1 to 90 days	91 to 180 days	181 to 365 days	Over 365 days
Trade Receivables						
- third parties	3,733	1,515	1,255	279	233	451
Less:						
Allowance for impairment	(427)					
Non - Trade Receivables						
- third parties	20,887					
- KMP	2,620					
Less:						
Allowance for impairment	(18,346)					
Good and Services tax recoverable, net	23					
Prepayments	3,681					
Rental, utilities and other deposits	339					
Staff advances	75					
	12,585					

The Board has assessed the recoverability of the Trade Debtors and has made appropriate allowances for impairment for those debts. The allowance for non-trade impairment includes the amount owing from Xiaogan He Shun Investment Management Centre LLP ("He Shun") and a Key Management Personnel for the sale of Hubei Zonglianhuan Energy Investment Management Inc. shares to the China management team back in 2015.

Query (v)

Please provide a breakdown of the "Trade and other payables" financial statement line item and the reason(s) for its decrease from approximately S$22,209,000 as at 30 April 2019 to S$18,825,000 as at 31 January 2020.

	Group as at 31/01/20 S$000	Group as at 30/04/19 S$000
Trade and Other Payables	18,825	22,209
Breakdown as follows:		
Trade Payables	2,072	1,553
Non trade payables		
- third parties	8,236	12,095
- KMP	68	158
- payable for property, plant and equipment	6,859	5,575
- accrued operating expenses	1,590	2,828
	18,825	22,209

The decrease in Trade and Other Payables of S$3.4 million from S$22.2 million to S$18.8 million, is largely due to settlement of non-trade payables of S$3.8 million by ESA Electronics Pte Ltd and the China gas companies.

Query (vi)
What is the nature of the "contract liabilities" financial statement line item of approximately S$14,549,000 as at 31 January 2020?

The Group receives payments from customers who purchase or reload prepaid cards which are used to pay for the consumption of natural gas provided by the Group.

These payments received in advance are recognised as contract liabilities.

Query (vii)
We note that the Group has borrowings and debt securities as at 31 January 2020 of S$12,667,000 which are repayable in one year or less, or on demand, and S$10,332,000 which are repayable after one year.

(a) How does the Group intend to repay the amount of S$12,667,000?

Gas infrastructure is Capex intensive and the Group's China operations borrowed funds to finance its gas receiving stations, grid etc. Principal payments are made over-time. The S$12,667,000 represents the maturing principal due within 12 months, part of which would be paid from cash and the balance to be re-negotiated as part of the roll-over process.

(b) How much of the amount of S$12,667,000 is attributable to borrowings and debt securities which are repayable on demand? Further, what are the conditions or circumstances which would trigger repayment to be made on demand?

Of the S$12,667,000 bank borrowings compromising of S$10,518,000 as explained in the response vii(a) above and is secured by property, plant and equipment. The balance of S$2,149,000 is a bank overdraft facility, secured by cash and used by the Company's electronics subsidiary.

If interests and principal repayments are not made, it is possible this could trigger repayment to be made on demand.

(c) Please provide further information on whether the Company expects cash flow or liquidity issues with regard to the repayment of S$12,667,000, in light of the COVID-19 situation and its impact on the Company's business operations (if any). Please substantiate the Company's stand with specific details.

Where applicable, please elaborate on the matters set out in our Regulator's Column "What SGX expects of issuer's disclosures during COVID-19" dated 22 April 2020.

The Company does not expect cash flow or liquidity issues on the S$12,667,000 repayment in the light of COVID - 19 as explained in the vii(a) and (b). Its gas distribution business is an essential utility with a recurring cashflow and stable customer/subscriber base. Current operations are able to service its debt borrowings via its gas sales and installation fees. Due to the lock-down, lower gas sales to the Company's commercial and industrial customers is expected in Q4. However, as local residents spent more time indoors as part of the restrictions, gas sales for residential users is expected to increase compared with the previous period.

(d) In respect of the Group's secured long term borrowings of S$10,332,000, please clarify when these borrowings are due and how the Group intends to repay this amount.

In respect of the S$10,332,000 borrowings, S$655,000 is due in March 2022, S$4,269,000 is due in December 2022 and S$5,408,000 is due in August 2028.

The Group's natural gas business is an essential utility that is able to service its debt borrowings via its gas sales and installation fees.

Query (viii)
We note that the Group is in a negative working capital position. On page 7 of the announced results, the Company has stated that:- "The Board believes that going concern assumption of the Company and the Group still is appropriate. The COVID-19 situation had affected businesses and households globally. The Company and Group will make necessary arrangements to ensure that the Company and Group continues to meet liabilities when fall due."

(a) Please provide the Board assessment and its basis with regard to the Company and the Group's ability to operate as going concerns.

The Directors of the Company are of the view that the Company and the Group can continue to operate as a going concern based on the following assessment.

The Company is an investment holding Company whose ability to continue as a going-concern is based predominately on the performance of its three operating subsidiaries.

(i) Capri Investments L.L.C. ("Capri")

Capri has made substantial progress on and considerable investment in the Falling Water Plat/PDD since the Hearing Examiner's March 26, 2018 decision, which adopted a comprehensive set of milestone conditions for the project to meet in order to be eligible for further annual extensions ("Milestone Conditions"). Capri has met all Milestone Conditions for the project to date. As Milestone Conditions are met, Capri moves closer to development of its Falling Water Project Division 4. The COVID-19 situation has had limited impact on Capri, as engineers and consultants have been able to continue services by working remotely as per the proclamation of Governor Inslee.

Capri is 6 to 9 months away from being able to obtain all the regulatory requirements to commence land preparations for its 1st phase of Division 4. The US recovery following COVID-19 is still uncertain with businesses such a locally headquartered Boeing being adversely affected and a high unemployment rates throughout the country. The macro environment has a flow-on effect to local property markets.

(ii) ESA Electronics Pte Ltd (“ESA”)

Prior to the impacts of COVID-19, ESA results were impacted by the China-US trade war with weaker global demand. ESA continues to operate during the Circuit Breaker Temporary Measures as an essential service under the applicable laws and regulations. However, as to be expected, demand for ESA’s products is lower compared with the same period last financial year. ESA was eligible for assistance under the Job Support Scheme which has helped to offset its operating expenses.

As the global economy recovers, ESA will look to focus its efforts on customers in mainland China and Taiwan where economic recovery is already well underway. ESA has limited borrowings all of which are cash backed. China and Taiwan also form part of global supply chains and are therefore impacted by the speed by which the rest of the world recovers.

(iii) Hubei Zonglianhuan Energy Investment Management Inc. (“HZLH”)

HZLH’s gas sales to its industrial and commercial users had been disrupted due to the “lockdown” imposed by the Chinese. The “lockdown” took effect 23 January 2020, and was a precautionary measure taken by the Chinese government to contain the coronavirus. The staged lockdown restrictions began to ease in early April and the China operations began to normalize. Despite not being able to provide installation services for new customers during the lockdown, gas sales continued for existing residential users/subscribers.

HZLH is a privately owned public utility company which supplies natural gas under 30-year exclusive contracts with the cities of Anlu, Dawu, Xiaochang, and Guangshui all located in Hubei province. HZLH has a broad customer base consisting of both residential, commercial and industrial users.

Due to the up-front capital required for gas network infrastructure HZLH does have significant borrowings from local financial institutions. The People’s Bank of China have already reduced interest rates with cuts being passed on to HZLH. HZLH has good rapport with the local governments and its banks. Its banks are unlikely to “call-in” loans without a long notice period as this may cause disruption to civic services. Banks in the People’s Republic of China (“PRC”) do recognise such concession type arrangements as it is an increasing popular way for local governments to fund infrastructure projects. As such, the maturing principals due within 12 months can be successfully negotiated for further repayment terms with a longer tenure.

(b) Please also provide the Board’s assessment and its basis on the ability of the Company and the Group in meeting its short term debt obligations as and when they fall due.

The majority of short-term debt obligations are secured in nature either by cash or by Property, plant and equipment collaterals. The Board believes the operational cash flow is sufficient to meet payments when they fall due. Please see above viii(a) for further details on the Company’s and Group’s operating subsidiaries.

Query (ix)
It is stated on page 6 in relation to the transaction relating to employee share scheme:- "The Board through Management is in discussions with the previous auditors to facilitate access to prior years' work papers to verify figures flowing from accounting treatments and adjustments made relating to the purported ESS. However, the Board and management continues to believe that the professional legal advice obtained supports the restatement made in the financial year ended 31 April 2018 ("FY2018")."

Please elaborate on the professional legal advice which was obtained which supports the restatement made in FY2018.

On 3 August 2016, the Company received legal advice from Shanghai Shen Da (Wuhan) Law Firm with its key findings below:

> (a) The equity transfer from China Environmental Energy Protection Investment Limited ("CEEP") to He Shun was completed on 31 March 2015. CEEP cannot rely on the letter of trust declaration to claim it owns the shares that have already been disposed to He Shun;
>
> (b) Under the Share Disposal Agreement, CEEP and He Shun can resolve any monetary dispute on the shares disposed in the Agreement through mediation or court process under the Laws of the People's Republic of China.

No subsequent legal advice has been obtained on this matter.

Query (x)
It is stated on page 7 in relation to contingent liabilities:- "The Board has discussed the legal claims with its lawyers in Seattle and Singapore and based on the professional legal advice received, the Board believes the claims are without merit and hence supporting the view that no provisions are required."

Please elaborate on the professional legal advice received which supports the view that no provisions are required.

The Company is relying on the professional legal advice from its attorneys Foster Garvey PC in Seattle that the claims are without merit and thus no provisions are required. The Company is in the process of vigorously defending all claims.

The Company is not a party to any court proceedings in Singapore.

By Order of the Board

James Blythman
Executive Director and Chief Financial Officer
8 June 2020