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 28 March 2022 ("**SGX-ST Queries**") in relation to the Company's financial results for the third Quarter ("**3QFY22**") and nine months ended 31 January 2022 ("**9MFY22**") which was announced on 17 March 2022.

<u>SGX-ST Query 1</u>

The Group obtained a disclaimer of opinion for its financial statements for the full financial year ended 30 April 2021 ("**FY2021**").

(a) The Company's external auditors, Baker Tilly TFW LLP ("**Baker Tilly**"), noted the following in its independent auditor's report for FY2021:

> *"As disclosed in Note 3.1 to the financial statements, HZLH group supplies natural gas under 30-year exclusive contracts with the cities of Anlu, Dawu, Xiaochang, and Guangshui in Hubei Province, People's Republic of China ("PRC"). Significant amount of judgement is required to determine if such exclusive contracts fall within scope of Singapore Financial Reporting Standard (International) Interpretation 12 Service Concession Arrangements ("Interpretation").*
>
> *The Interpretation requires an assessment on whether:*
>
> *(i) the local authorities control or regulate the type of services, to whom services are provided and the pricing of these services; and*
>
> *(ii) control of the significant residual interest in the assets are with the authorities at the end of the arrangement.*
>
> ***<u>We are unable to satisfy ourselves with respect to the Group's assessment and conclusion of the above considerations</u>****. As the Interpretation, if applicable, may affect accounting of revenue from such contracts, we are also unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the revenue recognition policies of HZLH group is appropriate, and if any further disclosure on the application of the Interpretation is required. In addition, we are unable to determine whether any adjustments in respect of HZLH group's property, plant and equipment of $75,717,000 are necessary.*

Our opinion on the current financial year's financial statements is also modified because of the possible effect of these matters on the comparability of the current financial year's figures and the corresponding figures." (emphasis added)

The Company provided the following update in its 3Q2022 Financial Statements:

"As stated on Page 35 of the FY21 Annual Report, the Company believes the adoption of SFRS(I) INT12 is not appropriate. The assessment of whether such exclusive contracts fall within scope of Singapore Financial Reporting Standard (International) Interpretation 12 Service Concession Arrangements ("Interpretation") requires significant amount of judgement. The Group had previously applied Singapore Financial Reporting Standard 112 Service Concession Arrangements, which was effective for annual periods beginning on or after 1 January 2008, and had then assessed that such exclusive contracts did not fall within scope of Interpretation."

"The Group believes that this assessment remain appropriate and accordingly, the Group recognises revenue from these natural gas supply contracts based on the accounting policy as described in Note 2.4 of the FY21 Annual Report."

Please clarify and provide details on how the Company intends to resolve the outstanding audit issue raised by Baker Tilly on the applicability of the Interpretation to these exclusive contracts.

(b) Baker Tilly also raised the following audit issue in relation to the fair value of intangible assets in its independent auditor's report for FY2021:

"Fair value of intangible assets

At 30 April 2021, the carrying amount of the Group's intangible assets amounted to $13,193,000 (2020: $22,774,000). An impairment loss of $7,056,000 was recognised in the financial year ended 30 April 2021 to write down the carrying amount of intangible assets to its recoverable amount.

Fair value of intangible assets At 30 April 2021, the carrying amount of the Group's intangible assets amounted to $13,193,000 (2020: $22,774,000). An impairment loss of $7,056,000 was recognised in the financial year ended 30 April 2021 to write down the carrying amount of intangible assets to its recoverable amount."

The Company provided the following update in its 3Q2021 Financial Statements:

"Management is attempting to confirm the underlying assumptions of the allocation of Intangible Assets following the acquisition into natural gas distribution in China as well as subsequent periods. An external report was commissioned by the Company in 2007 which formed the basis of allocation."

Please clarify and provide details on how the Company intends to resolve the outstanding audit issue raised by Baker Tilly on the carrying amount of the Group's intangible assets. In particular, please provide details of the external report commissioned by the Company in 2007, including its purpose, findings and the organisation which prepared the said report. Additionally, was the report provided to Baker Tilly as part of the FY2021 audit? Has an updated report been issued after 2007, and if no, why not?

The Company's response to Queries 1(a)

The Company refers to page 20 of its Q3FY22 Announcement which addresses the disclaimer issue and how the Company intends to resolve same with the Auditors.

The Company's response to Queries 1(b)

The Company commissioned AV Capital to provide "Analysis and Valuation of Intangible Assets for China Environmental Energy Protection Ltd". The report is dated 30 June 2007.

The purpose of the Report was to conduct analysis and findings on the purchase price and allocation of intangibles relating to the Group's acquisition and investment in a natural gas distribution business in China (business combination). On 12 July 2006 the Company's shareholders approved the conversion of the sum of US$32,995,086 being the aggregate capital advances and interest made to Excellent Empire Limited (an intermediate holding company) which hold shares of wholly owned China Environmental Energy Protection Ltd. At that time under FRS 103 (Business Combination) guidelines, the acquirer shall, allocate the cost of a business combination by recognizing the acquirer's identifiable assets, liability and contingent liability that satisfy the recognition criteria and any difference between the cost of the business combination and the acquirers interest in the net fair value of the identifiable assets, liability and contingent liability shall be accounted for as goodwill.

The Report was provided to Baker Tilly. Management and Auditors are working together to access how this issue can be resolved for the FY22 Financial Statements.

SGX-ST Query 2

It was disclosed in the 3Q2022 Financial Statements that the Group reported an increase in the "Trade and other receivables" financial statement line item under its non-current assets from S$2,794,000 as at 30 April 2021 to S$2,837,000 as at 31 January 2022. It also reported a decrease in the "Trade and other receivables" financial statement line item under its current assets from S$13,744,000 as at 30 April 2021 to S$13,430,000 as at 31 January 2022. At pg 26, it was provided that*: "a decrease in Trade and Other Receivables of S$0.3 million, mainly due to S$1.6 million decrease from Capri's debtors, S$2.4 million decrease from ESA, offset by S$3.7 million increase mainly from China subsidiaries which is in line with the increased Turnover".*

Please disclose the following:

(a) The nature and breakdown of the Group's trade and other receivables in its current and non-current assets;
(b) The underlying transactions and terms of the transactions (including contract sum) and payment terms of the underlying contracts;
(c) Aging of the Group's trade and other receivables;
(d) The Group's plans to recover these trade and other receivables; and
(e) The Board's assessment on the recoverability of these trade and other receivables.

The Company's response to Queries 2(a) and 2(c)

As at 31 January 2022, the breakdown and nature is as follows:

	Group as at S$'000	Current	1 to 90 days	91 to 180 days	181 to 365 days	Over 365 days
Non-current						
Trade Receivables						
- third parties	2,818	2,818	-	-	-	-
Non - Trade Receivables						
- advance to contractors	19					
	2,837					
Current						
Trade Receivables						
- third parties	5,517	2,886	1,445	215	813	158
Less:						
Allowance for impairment	(541)					
Non - Trade Receivables						
- third parties	18,331					
- KMP	2,885					
Less:						
Allowance for impairment	(19,144)					
GST recoverable (net)	141					
Prepayments	5,989					
Rental, utilities & other deposits	150					
Staff advances	102					
	13,430					

The Company's response to Queries 2(b)

Please see Company's SGX announcement of 3 November 2020 which sets out details of the partial sale of the Falling Water Plat/Planned Development District ("**PDD**") to KBHPNW LLC ("**KB**").

The other trade receivables of approximately S$4.4 million are part of the normal course of ESA Electronics Pte Ltd's business where it offers payment terms to customers.

The Company’s response to Queries 2(d) and 2(e)

Trade Receivables:

1. Under the terms of the Sale to KB, payment of the balance of US$2,779,800 (Approximately S$3,751,000) is tied to the respective payment schedule of the individual lot sales. Discussions between the Company and KB’s management have indicated that the marketing of the lots is expected to commence in the spring and closings anticipated to begin in September/October subject to KB receiving regulatory approval and utility “hook-up”.

2. Receivables due from ESA’s customers are assessed by Management and where appropriate provisions are made for slow debt settlement. Legal Action may be pursued if deemed necessary.

Other Non-trade Receivables:

3. Xiaogan He Shun Investment Management Centre LLP - S$5.7 million and Mr Wilson On (KMP) - S$2.9 million

   This relates to the purported 2015 Employee Share Scheme which details have been provided on pages 7-9 of the Company’s FY18 Annual Report.

   In March 2021, a legal demand letter was sent by the Company’s attorneys Messrs. Alpha Leader, requesting return of the shares as the balance of the consideration was not made. To date, no formal reply has been received.

   It appears that this transaction was the result of poor corporate governance by past management which has been raised with ACRA and SGX. No mechanism was included for the shares to be returned, and no penalties clauses were stipulated for non-payment under the share disposal agreement. As a result, Shareholders’ interests may not have been protected.

   Also, any legal action would be counter-productive as such legal action would be against the Company’s own management under the laws of the P.R. China.

4. Grand Prosper Limited (“**GP**”) - S$7.7 million

   As GP has no assets, recovery is remote. GP was an entity used by former management to invest in Select Equity Growth Limited which held significant holdings in penny stocks linked to the 2013 crash. The debt has been fully impaired, and GP was deconsolidated in FY19.

5. Hudson Minerals Holdings Pte Ltd (“**Hudson**”) - S$1.5 million.

   As announced on 13 April, the High Court of Singapore awarded judgment in favour of the Group’s wholly-owned subsidiary, Nueviz Investment Private Limited, against Hudson for the sum of S$1,545,296.71. Nueviz through its solicitors, Messrs. Ang Seah & Hoe, is pursuing the judgment debt.

As announced on 26 May 2021, Nueviz commenced HC/S 458/2021 in the General Division of the High Court of Singapore on 21 May 2021 against Mr Carlson Clark Smith, a director of Nueviz at the material times when the said loan was made to Hudson and subsequently renewed. The Company will make further announcements as and when there are material updates in this matter.

6. Management Fees Receivable – S$2.8 million

   This relates to Management Fees receivable by the Company's former subsidiary, Sun Spirit Group Limited which was struck off the BVI registry in 2016. Management has assessed recovery to be extremely remote, and as such, it does not warrant the expenditure that would be incurred if the Company were to start legal proceedings in BVI. The amount has been fully impaired.

SGX-ST Query 3

At pg 17, the Group reported an aggregate of S$22,464,000 of secured borrowings (comprising bank borrowings of SS20,609,000 and bank overdrafts of S$1,855,000), an unsecured loan from a third party of S$546,000, and lease liabilities of S$432,000 as at 31 January 2022.

Pg 26 provides *"The Net Current Liabilities of the Group increased by S$0.6 million to S$12.9 million as at 31 January 2022, as compared with S$12.3 million as at 30 April 2021".*

In this regard:

(a) Please disclose the pro-active actions which management plans to take to ensure that the Company's financial position remains strong.
(b) Please assess the Company's ability to operate as a going concern.
(c) Please assess the Company's ability to meet its debt covenants (if any).
(d) Please assess the Company's ability to meet its short-term obligations when they fall due.

The Company's response to Queries 3(a), 3(b) and 3(c)

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

(A) Capri Investments L.L.C. "(**Capri**)"

Capri closed on a partial sale of the Falling Water Plat/Planned Development District ("PDD") to KBHPNW LLC ("KB"), a subsidiary of USA national home builder KB Home. The aggregate purchase price for that certain tract of real property known as "Tract C, Falling Water/PDD – Tracts" ("Tract C") within the Falling Water Plat/PDD is US$8,030,000, with the initial payment of US$4,000,000. From the funds received, Capri paid fees due to its consultants, title company as well as real estate excise tax.

The net amount received in Capri's bank account was US$3,619,000. Capri on 3 November 2021 received payment of US$1,250,000 (Approximately S$1,687,000) due under the Sale and Purchase Agreement. The remainder of US$2,779,800 (Approximately S$3,751,000) is due upon KB sales to third parties over the next 6 to 18 months.

As announced by the Company on 17 May 2021 and 26 May 2021 Notices of Appeals have been filed and the Company through its US attorneys are vigorously defending the appeals. The Company will continue to update shareholders as and when there are further material developments in this matter.

The conclusion of legal proceedings brought against Capri and the Company will pave the way for sale of further tracts in the Falling Water development.

Capri does not have any borrowings.

(B) Hubei Zonglianhuan Energy Investment Management Inc. ("**HZLH**")

Due to the up-front capital required for gas network infrastructure, HZLH does have significant borrowings from local financial institutions. The People's Republic of China ("PRC") has 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 PRC do recognise such 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.

The majority of short-term debt obligations are secured in nature either by cash or by property, plant and equipment collaterals, and HZLH will be able to obtain additional fundings, if necessary, from the banks or financial institutions. The Board believes the operational cash flow is sufficient to meet payments when they fall due.

HZLH like its industry peers, continues to face supply challenges however, significant industry reform is underway which should see new pipelines constructed and more deregulation.

(C) ESA Electronics Pte Ltd ("**ESA**")

ESA continues to focus on sales to mainland China to leverage their faster recovery as well as their strategy of pursuing technology self-sufficiency.

With the lifting of restrictions, ESA's salesforce will once again be able travel to service, calibrate and commission its products without the need of serving Stay-Home Notices.

ESA is an operating subsidiary company without borrowings other than bank overdrafts which is fully backed by its cash collaterals

<u>The Company's response to Queries 3(d)</u>

The majority of short-term debt obligations are secured 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 for further details on the Company's and Group's operating subsidiaries.

As mentioned above, discussions between the Company and KB's management have indicated that the marketing of the lots will commence in the spring and closings expected to commence in September/October with lot payments flowing up to the Company.

Currently the Company has sufficient cash on hand to meet its short-term obligations at the holding company level and it can draw on cash reserves held in its subsidiaries if required.

By Order of the Board
James Moffatt Blythman
Executive Director and Chief Financial Officer
31 March 2022