

REENOVA INVESTMENT HOLDING LIMITED

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

Website: www.reenovagroup.com

SGX Stock Code: **5EC**

**RESPONSE TO SGX-ST QUERIES ON THE COMPANY'S FOURTH QUARTER AND FULL YEAR
UNAUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 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 10 March 2021 in relation to the Company's Fourth Quarter ("**Q4 FY2020**") and Full Year Unaudited Financial Statements for the Financial Year Ended 31 December 2020 ("**FY2020**") announced on 1 March 2021.

Query by SGX-ST:

1. We noted that the investment in Straits Hi-Rel Pte Ltd ("**SHR**") has been fully impaired in Q4 FY2020.
 - a) When did operations in SHR commence and is it currently still operating?
 - b) Please quantify and disclose a breakdown of all investments, loans and advances made to-date to SHR.
 - c) What is its NPBT and revenue for FY2020 and how much of the revenue has been collected to-date.

Company's Response:

- 1.a) SHR commenced operations in March 2018. It has ceased operations with effect from 1 January 2021.
- 1.b) The Group's total cost of investment in SHR for a 14.29% equity stake to-date amounted to S\$1,340,000. There were no loans and/or advances made to SHR to-date.
- 1.c) SHR incurred a net loss before tax of approximately S\$600,000 for the period from 1 January 2020 to December 2020 and its revenue for FY2020 was approximately S\$95,000, which has been collected to-date

Query by SGX-ST:

2. We refer to the amounts due from subsidiaries of \$13,608,487. Based on the Company's responses to our queries announced on 25 June 2020, we note that it comprised of among others:-
 - i. amounts due from its subsidiary, Infiniti Advantage Pte. Ltd. of S\$1,779,591, of which \$316,094 was impaired. "The remaining amount outstanding of S\$1.46 million mainly relates to the investment of S\$1.34 million in Straits Hi-Rel Pte. Ltd. ("**SHR**") that was funded by the Company and operating expenses paid on behalf of Infiniti Advantage Pte. Ltd. by the Company. No further impairment was made as Infiniti Advantage Pte. Ltd. is currently in negotiations with a potential acquirer to dispose its investment in SHR at cost of investment".
 - a) Please provide a status update on the repayment progress since June 2020 from Infiniti Advantage Pte. Ltd.
 - b) Given that SHR has been fully impaired in Q4 FY2020 due to SHR being "significantly impacted by the market and environment in which SHR operates", please elaborate on why the Company has not similarly impaired the receivable from Infiniti Advantage Pte. Ltd. relating to the investment and operating expenses paid on behalf of Infiniti Advantage Pte. Ltd. by the Company.

- ii. amounts due from its subsidiary, Dynamic Return (Singapore) Pte. Ltd. of S\$29,479,067 of which "[f]ull impairment has been made in prior years and the subsidiary continues to be in a net liability position as at 31 December 2019". Please provide a status update on the financial performance of Dynamic Return and the debt owing to the Company of S\$29.5 million.

Company's Response:

- 2.i.a) There has been no repayment from Infiniti Advantage Pte. Ltd to-date.
- 2.i.b) The receivable from Infiniti Advantage Pte Ltd has been fully impaired as at 31 December 2020.
- 2.ii. Dynamic Return (Singapore) Pte Ltd incurred a net loss before tax of approximately S\$32,000 for FY2020 and there was no revenue generated for FY2020. It remains in a net liability position as at 31 December 2020 and as such, is unable to repay the debt owing to the Company of S\$29.5 million.

Query by SGX-ST:

3. We refer to the intangible assets of \$36.0 million which relates solely to the mining right in Reenova Rare Earth (Malagasy) S.A.R.L.U. ("**RREM**").
 - a) Please clarify who the valuer of the mining right was and the date of the valuation report.
 - b) Has the Group undertaken a subsequent valuation as at 31 December 2020 to revalue the fair value of the mining rights?

Company's Response:

- 3.a) The valuer of the mining right was Ernst & Young Ltd, Mauritius and the date of the valuation report was 27 December 2019. The valuation was performed in connection with the Purchase Price Allocation ("**PPA**") on the Group's acquisition of a 60% shareholding in Reenova Holding (Mauritius) Limited ("**RHM**") as at 28 December 2018 in accordance with the requirements of Singapore Financial Reporting Standard (International) 3 *Business Combinations*.
- 3.b) The Group has not undertaken a subsequent valuation as at 31 December 2020 as there has been no further exploration work done in the last two years. However, the Board is of the view that the value of the mining right recorded in the Group's statement of financial position as at 31 December 2020 remains appropriate for the following reasons:
 - i. the Group has made an application for a full mining licence in September 2020 and it has been making preparations to commence pilot production as soon as possible; and
 - ii. the prices of rare earth oxides are on the rising trend and the average selling price of rare earth oxides with a 92% grade ("**TREO ≥ 92%**"), which will be the Company's key product, increased by approximately 71% from the range of US\$21,000 – US\$22,490 per tonne as of 18 September 2020 to US\$36,920 – US\$38,450 per tonne as of 8 March 2021. (Reference source: Association of China Rare Earth Industry).

Query by SGX-ST:

4. Please provide a breakdown for other receivables of S\$125,479 (FY2019: S\$45,349). In relation to the "deposit of USD40,000 (equivalent to S\$56,424) that was placed with a legal firm in Indonesia in March 2020 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. " referred to in the 26 August 2020 announcement, please provide an update on the status of the receivable and the mediation claim.

Company's Response:

4. The breakdown for other receivables is set out as follows:

Description	Amount (S\$)
Refundable deposits	71,301
GST refund for Q4 FY2020	13,978
Jobs Support Scheme receivable	5,520
Others	34,680
Total	125,479

Update on the status of the mediation claim against the heirs of the late Mr Harun Abidin (the "Guarantor") to recover the amounts owed by the Guarantor:

After several rounds of mediation in the District Court of North Jakarta, the heirs of the Guarantor have indicated that they are willing to consider a potential settlement of the claim, but they lack access to the information on the assets owned by the Guarantor to effect such settlement. Consequently, the Group is taking steps to obtain information on alternative assets available to the estate of the Guarantor before negotiation with the heirs resume.

Query by SGX-ST:

5. We refer to the announcements by the Company on 9 June 2019 and 13 April 2020 regarding the Enforcement of Pledges. We note that the Company holds 75% of Reenova Holding (Mauritius) Limited ("RHM"). please provide updates on the following matters:
- Does Tantalus Rare Earths AG ("TRE AG") still hold the remaining 25% of RHM? If not, please disclose who holds the remaining 25% and the ultimate beneficial shareholders of the entities holding the balance interest.
 - The Company was previously unable to provide information on the status of the insolvency proceedings of TRE AG and as far as the Company is aware, TRE AG has yet to officially appoint a liquidator as at 13 April 2020. Is the Company aware of any new information regarding the status of TRE AG? what are the legal implications to the Company if its JV partner is under liquidation and how will the Company's investment in the Rare Earth mine in Madagascar be affected by the insolvency of its JV partner? Will TRE AG still be bearing its share of profit and losses on the mine if it is under liquidation or ceases to be no longer in existence?

Company's Response:

- Based on the current members' register of Reenova Holding (Mauritius) Limited ("RHM"), Tantalus Rare Earths AG ("TRE AG") is still the registered holder of the remaining 25% stake of RHM.
- While RHM has received a letter from a German law firm that a liquidator has been appointed for TRE AG, as far as the Company is aware, there has been no significant progress in the insolvency proceedings of TRE AG. The Company further understands that, based on an attorney letter addressed to RHM, the liquidation process in Germany requires the remaining assets of TRE AG to be distributed before TRE AG can be deleted from the Commercial Register in Germany. The Company therefore infers that TRE AG's shareholding in RHM constitutes assets capable of being distributed by the liquidator of TRE AG. Upon completion of this process, it is possible that a new minority shareholder will take the place of TRE AG in RHM.

As far as the Company is concerned, the Company is of the view that its investment in the Rare Earth mine in Madagascar (the "Project") will not be materially affected by the insolvency of TRE AG as it has not relied on any funding from TRE AG to further develop the Project. In terms whether TRE AG will be bearing its share of profit and losses on the mine if it is under liquidation or ceases to be in existence, the Group is currently having discussions to resolve this issue.

Query by SGX-ST:

6. We note that employee benefits expense increased 49% from \$1.07 mil to S\$1.60 mil for FY2020 due to share awards granted to eligible employees and Independent Directors. Please provide details of the basis of how the number of share awards to grant were determined, noting that there was no revenue earned in FY2020, the only source of income was payouts by the government grants for job support and rental rebates during Covid, and other operating expenses increased by 62%, including a significant impairment recognised for an investment in joint venture of \$1.2 million.

Company's Response:

6. The number of share awards granted was based on the Company's scoring/evaluation process that took into account the length of service, performance and responsibilities of the eligible employees and independent directors notwithstanding that there was no revenue generated in FY2020. The share awards were granted to incentivise and recognise the past performance and loyalty of the employees and more importantly, to retain such employees with the Company.

Query by SGX-ST:

7. We note an exchange loss of S\$2.67 million mainly due to a revaluation of a loan payable between RHM and RREM.
- Please quantify and clarify how an intercompany loan between 2 subsidiaries results in exchange losses being recognised at group level and disclose the breakdown of the amounts owed in EUR and USD.
 - Please disclose what are the functional currencies of RREM and RHM.

Company's Response:

- 7.a) As previously explained in the Company's response to SGX's queries on 17 March 2020, the foreign exchange loss 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..."

The breakdown of amounts owed by RREM to RHM in EUR and USD are set out below:

Amount Owing	Amount in Local Currency	Exchange Rates as at 31 Dec		Variance	Movement in Malagasy Ariary (MGA)	Exchange Rate as at 31 Dec 2020 (MGA to S\$)	Exchange loss in S\$
		2019	2020				
in EUR	8,969,203	4,041.90	4,686.98	(645.08)	(5,785,853,536)	2,848.19	(2,031,414)
in USD	8,639,590	3,627.27	3,824.84	(197.57)	(1,706,923,719)	2,848.19	(599,301)
Total:							(2,630,715)

- 7.b) The functional currencies of RREM and RHM are Malagasy Ariary and Singapore dollars respectively.

Query by SGX-ST:

8. We note that \$616,000 was used from the placement proceeds to repay existing creditors. We further refer to the announcement made on 3 March 2021 regarding the use of proceeds of the placement and noted that an additional \$209,000 was utilised in Q1 2021 to repay existing creditors, which amounts to an aggregate of \$825,000. This is higher than the initial amount allocated of \$700,000. Please disclose which creditors have been paid and how much. Please explain why the amount utilised is higher than the initial allocation.

Company's Response:

8. Please refer to the table below for details of the payments to the creditors:

Creditors	Amount S\$'000
Consultant / Project Manager in Madagascar	413
Independent director (for payment of fees for FY2019)	45
Employees (including executive director)	158
Professionals (including auditors, investor relations and secretarial)	59
Insurance company (Madagascar)	9
Madagascar tax authority	40
Madagascar national welfare fund	10
Landlord (Madagascar)	65
Others	26
Total	825

We had computed the Group's initial allocation of funds during the placement exercise based on our best understanding and expectation of the Group's payables at that point in time. However, as disclosed in the Company's announcement on 3 March 2021, as a result of further negotiations with some of the existing creditors (including the consultant/project manager in Madagascar), the Group paid out more monies than initially allocated to those creditors in order to avoid disruptions to the continued provision of services by such creditors.

On behalf of the Board
Reenova Investment Holding Limited

Chen Tong
 Executive Chairman

14 March 2021