

RENAISSANCE UNITED LIMITED

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

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (THE “SIAS”) ON THE FY2024 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 2024. The Company is scheduled to hold its Annual General Meeting on 30 August 2024. The Board’s response to the queries are as follows:

Q1.

As highlighted in the letter to shareholders, the group is expanding into the marketing and distribution of kitchen cabinetry and other customised flatpack furniture in the United States. It has also entered into a sale and purchase agreement to acquire land and a commercial building located in the Pelangi district of Johor Bahru.

Based on the statements of financial position (page 50 of the annual report), equity attributable to owners of the company amounted to just \$22.8 million as at 30 April 2024, after the company has accumulated losses of \$(245.0) million.

The group’s financial results since FY2014 are as follows:

FY2014 - \$(161,626,000)

FY2015 - \$(3,941,000)

FY2016 - \$2,637,000 (restated)

FY2017 - \$493,000

FY2018 - \$(27,558,000)

FY2019 - \$(15,944,000) (restated)

FY2020 - \$161,000

FY2021 - \$(4,839,000)

FY2022 - \$(12,284,000)

FY2023 - \$(7,945,000)

FY2024 – \$(9,871,000)

- (i) **Has the board undertaken a rigorous evaluation of its effectiveness in providing entrepreneurial leadership, setting strategic directions, and monitoring management’s performance? What insights have emerged from this evaluation, particularly in relation to the board’s role in navigating the company’s ongoing challenges?**
- (ii) **What are the key performance indicators (KPIs) utilized by the board to assess management’s performance? To what extent is the board satisfied with management’s execution against these KPIs, especially in the context of the company’s historical financial performance?**
- (iii) **What deliberations did the board have regarding the diversification into new businesses when the group has accumulated losses of \$(245.0) million? Has the board conducted a thorough capability assessment, particularly focusing on the adequacy of human capital and operational expertise required to execute these new ventures successfully?**

- (iv) **What are the key strategic and operational risks associated with the new ventures, particularly in penetrating the highly competitive U.S. furniture market?**
- (v) **With net current liabilities of \$(13.2) million as at 30 April 2024 and cash and cash equivalents at the company level amounting to \$2.37 million, how does management plan to fund the new ventures? How capital intensive are the new businesses, and what are the implications for the company's financial stability?**

Company's response to Q1

- (i) The current management and Board, appointed in 2018/2019, inherited a Group with serious challenges, not least, CAD investigations into (and later, criminal charges levied against) some of its previous officers and directors. The management and Board have also had to defend the Group in various legal proceedings, detailed information of which can be found in the Company's announcements over the years since 2018.
The gas distribution business, the Group's primary revenue source, has always faced a structural challenge: gas prices charged to retail customers are controlled by the Chinese government, regardless of upstream supply price fluctuations. This long-standing issue, highlighted in various announcements and annual reports, limits management's actions to mitigation strategies in the absence of government reform.

However, the Board would like to draw shareholders' attention to the growth in the revenue of the Group, rising from S\$46.4m in FY2017 to S\$93.4m in FY2024. This represents a CAGR of 10.5%. During FY2024, the Group's Property and Electronics segments reported profits.

Shareholders may recall that in 2021, the Group had to reclassify its gas distribution business to align with SFRS(I) INT 12. The consequence of doing so was that the Group had to make impairments to intangible assets relating to its gas distribution assets. This resulted in an impairment of \$12.72-million (FY2022) and \$7.06-million (FY2021, restated). In FY2023, intangible assets were amortised by a sum of \$3.85 million, and a sum of \$3.97 million was recognised as an impairment loss on intangible assets. In FY2022, these sums were \$4.88 million and \$12.72 million, respectively. In FY2024, these were \$2.84 million and \$7.90 million, respectively.

These impairments and impairment losses have impacted our profitability as recorded in our financial statements.

The primary focus of the current Board and management has been to protect the Group's assets and interests from the aforementioned legal proceedings, which ranged from claims of defamation, monetary claims from previous key management personnel to claims under a promissory note executed in 2002 for a sum of US\$404,214.38, carrying an interest rate of 8% per month.

Shareholders will see that most of these legacy issues have as of the beginning of 2024 been resolved.

As disclosed in the Company's corporate governance report for FY2024, the Nominating Committee assessed the performance of the Board as a whole and also of each Director. Against a background of multiple issues and legal proceedings stemming from legacy issues, the Nominating Committee assessed that the Board and each Director performed satisfactorily.

The Group is now in a position to chart the next stage of its development. The Group has begun this process with the entry into of the marketing representative agreement with Maxstar of Malaysia and the acquisition of Pelangi Avenue.

- (ii) As disclosed in the Company's corporate governance report for FY2024, key management personnel's remuneration is guided by financial and non-financial performance objectives. The financial performance of each segment is disclosed in page 101 of the annual report for FY2024. As explained, the profitability of the gas distribution business has been hampered by structural constraints. In addition, as recorded in the FY2024 financial statements, owing to impairment and impairment losses made to intangible assets, the gas distribution business recorded a loss in FY2024 of \$9,343,000, after tax.

The Group's electronics and trading business recorded a modest profit of \$518,000.

The Group's Property Development completed the sale of Tract B of its Falling Water Project for a total consideration of US\$9.47 million. However, as shareholders may have read in the Company's various announcements, this sale was beset with litigation commenced by Sawyer Falls which made claims against the Group arising from a promissory note with a face value of US\$404,214.38 and carrying interest at a rate of 8% per month.

As stated above, most of these legal proceedings arising from legacy issues have as at the beginning of this year been resolved.

- (iii) As explained above, the recorded losses arising from the Group's gas distribution business have been impacted by the impairments the Group had to make relating to intangible assets.

The diversification into new business insofar as the acquisition of Pelangi Avenue and potential acquisition of property and property development projects in new countries within the Asia Pacific region is a geographical expansion and diversification. The Group's infrastructure development and turnkey construction and property development segment will not change under the diversification.

The entry into of the marketing representative agreement with Maxstar was an organic development, initiated by management seizing an opportunity to leverage on its contacts with property developers in the United States.

As disclosed in the Company's announcement on 26 June 2024, the Company is assessing the feasibility of the geographical expansion of its property business. As advised, the Company will be issuing a circular to shareholders in this connection, which will contain the rationale and the Board's assessment of venturing into these new geographical locations.

- (vi) The Group's primary role in the new venture with Maxstar is as an exclusive marketing agent for Maxstar in the United States. The key strategic and operational risks associated with penetrating the American market for kitchen cabinets lie with Maxstar. The Board understands that Maxstar is a fairly well-established brand and currently conducts business in the United States. The forthcoming circular will provide a more comprehensive assessment of the risks associated with the proposed geographical expansion and diversification of the Group's property business.

Q2. As noted in the letter to shareholders, the group, through its subsidiary Hubei Zonglianhuan Energy Investment Management Inc. ("HZLH"), holds equity interest in four companies supplying natural gas under 30-year exclusive contracts with the cities of Anlu, Dawu, Xiaochang, and Guangshui in Hubei Province, People's Republic of China. HZLH reported FY24 revenue of \$65.9 million, reflecting an increase from \$60.4 million in FY23. However, the loss widened from \$(5.9) million to \$(9.3) million (Note 28: Segment Information, page 101)..

- (i) **Can management provide shareholders with insights into the current market sentiment and operational environment in Hubei, particularly in the cities of Anlu, Dawu, Xiaochang, and Guangshui?**

- (ii) **Could management provide a detailed breakdown of the group's key customer profiles, including their respective industries, size, and consumption patterns? How does the current customer mix influence HZLH's risk exposure and revenue stability**
- (iii) **What is the expected timeline for the implementation of the new pricing policy?**
- (iv) **Is the group (including its officers and the directors) familiar with the Singapore Financial Reporting Standards (International) (SFRS(I))?**
- (v) **Apart from the impending changes to the pricing policy, what strategic initiatives are being considered or executed by management to mitigate the ongoing and increasing losses at HZLH?**
- (vi) **What are the key operational and financial priorities for HZLH in FY25?**

Company's response to Q2

- (i) HZLH is a downstream gas utility company with a mature customer base comprising residential, commercial and industrial users. As mentioned in the annual report in FY2024, installation revenue continues to decline as fewer new residential developments require connection. This fall in installation revenue is a consequence of a.) the maturing of cities in China, and b.) the general real estate market sentiment in China. Local management is, however, optimistic about future growth in industrial users as more industry re-locate to lower tier cities in line with government policies.
- (ii) The company's main business is the installation of urban gas facilities and equipment and gas sales, and its gas supply customers include residential users, commercial users, public service users, industrial users and various natural gas vehicle refuelling. There are a total of approximately 255,303 gas users, more than 800 CNG vehicle users, and the cumulative laying of pipelines (including courtyard pipe network) of about 2,770 kilometres.

As indicated above, the number of residential installations is expected to fall for the reasons given above. However, the number of industrial users is expected to increase.

- (iii) Local management in China anticipates that the new pricing policy to be implemented by the end of 2024. However, there is no assurance that it will be implemented by the time as anticipated.
- (iv) Please refer to the second paragraph of the independent auditor's report for FY2024.
- (v) In carrying out the gas distribution business, the Group is continuously seeking opportunities to obtain working capital accommodations from financial institutions with better terms and lower rates, replacing aging meters and introducing new and better technology (where appropriate) and entering strategic alliances with LNG suppliers.
- (vi) In addition to (iv), the key operational priorities are the safe supply of gas to HZLH's customers, as well competition of the approximate 28km new pipeline connecting Xiaochang and Anlu concessions.

Q3. As noted earlier, the company has accumulated losses of \$(245.0) million, with \$(9.87) million in losses recognised in FY2024. In the remuneration report, the company disclosed the following:

For FY2024, a discretionary bonus was awarded to each of Mr. Blythman, Mr. William Koh and Mr. Danny Ong Swee Hin (being key management personnel). The Remuneration Committee is comfortable that the current remuneration framework operated as intended..... The discretionary bonus awarded to Mr. Blythman is in recognition of his significant contributions, including his management of the Sawyer Falls Litigation in the United States, facilitating the completion of the property sale to KB Home, and overseeing the efficient operations of the Group's various business segments.

Executive Director Above S\$250,000 to below S\$500,000	Salary^{*(a)} %	Fees %	Bonus %	Other benefits %	Total %
Mr. James Moffatt Blythman	23%	25%	47%	5%	100%

(Source: company annual report)

Mr James Moffatt Blythman was appointed as CFO on 1 March 2018 and was subsequently appointed as executive director on 28 May 2018.

- (i) **Can the remuneration committee (RC) clarify if it had factored in the settlement amount of US\$4 million which adversely impacted the company's financial position 1, as announced by the company on 12 February 2024?**
- (ii) **What is the total amount of losses incurred by the group from FY19 to FY24? What key performance indicators (KPIs) were used to assess the performance of the executive director, and did these metrics also incorporate a high-water mark to ensure alignment with sustained growth and value creation?**
- (iii) **Can the RC provide a detailed justification for the bonus paid to the executive director, especially in light of the group's continued losses, including the \$(9.87) million loss recognised in FY2024?**
- (iv) **Can the RC elaborate further on how the current compensation practices align with shareholders' interests? Specifically, can the RC help shareholders understand if the level and structure of remuneration are appropriate and proportionate to the sustained performance and value creation (Principle 7 of the Code of Corporate Governance 2018)?**

Company's response to Q3

- (i) As disclosed in the Company's corporate governance report for FY2024, the Remuneration Committee's policy for remunerating directors and key management personnel encompasses financial and non-financial achievements. As explained in the Remuneration Committee's report for FY2024, the current remuneration framework for the Executive Director and key management personnel comprised a basic salary component and a variable discretionary bonus tied to the performance of the Group as a whole and their individual performances, as well as considerations of other financial and non-financial targets, including the successful conclusion of the sale of the balance plats held by Capri to KB Home and Falling Water Litigation. There were no pre-determined performance conditions for the grant of discretionary bonuses. The discretionary bonus is, as explained, based on qualitative criteria (including successful conclusions of certain matters, leadership, people development, commitment, teamwork, current market and industry practices)

and quantitative criteria (including production, profit after tax and relative financial performance of the Group to its industry peers).

Mr. Blythman is charged not just with the overall responsibility of managing the operations of the Group, but with the groundwork it takes to resolve issues as and when they arise. Resolution of legal proceedings and operational issues are an important part of ensuring the sustainability of the Group as a whole.

Specifically, in relation to the Sawyer Falls litigation, Mr. Blythman's performance was not evaluated based on the specific sum of money the Group would receive or settle for. Instead, the Board and the RC recognised his efforts in bringing the legal dispute to a conclusion, in the best interest of the Group. It is important to note that this issue originated from a US\$404,214.38 promissory note with an interest of 8% per month, which previous board did not deem necessary to pay off. The interest rate as well as other salient terms of the promissory note were never disclosed in the Annual Report or SGX Announcements by previous boards. Mr. Blythman's actions were focussed on resolving the matter swiftly to prevent further financial strain and operation disruption to the Group, specifically, not holding up the completion of Tract B to KB Home.

The Company subscribes fully to UN SDG 8 which promotes decent work and economic growth for all. As stated, the Company's remuneration policy includes using financial and non-financial measures and does not include tying an executive's reward directly to obtaining the highest award or settling for the least sum in a legal dispute. Such a policy would incentivise an executive to pursue aggressive or high-risk strategies to minimise the settlement amount, potentially exposing the Group to greater legal and financial risk. This would be a misalignment with the ethos of the Company and Group and its commitment to the UN SDGs it espouses.

- (ii) Kindly refer to the Company's previous annual reports and SGXNet announcements available at www.ren-united.com. The financial statements, notes thereto and corporate governance sections address the specific questions based on the performance, operating environment and achievements in their respective periods.
- (iii) As explained the Remuneration Framework of the Company encompasses financial and non-financial targets. The loss of \$9.8 million is in part the consequence of impairments and impairment losses made to intangible assets. It is crucial for shareholders to recognise that when rewarding key management personnel, the specific circumstances of the Company or Group must be considered. The current Board and management inherited serious legacy issues and should not be penalised for actions beyond their control. Mr. Blythman competently and efficaciously dealt with these issues to the satisfaction of the Board and the RC.
- (iv) Please refer to the corporate governance section of the Company's annual report for FY2024, where the Company's remuneration framework and philosophy are explained and disclosed.

BY ORDER OF THE BOARD

Allan Tan
Company Secretary
29 August 2024