

RENAISSANCE UNITED LIMITED

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

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (THE “SIAS”) ON THE FY20 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 2020. The Company is scheduled to hold its Annual General Meeting on 25 November 2020. The Board responds as follows:

Question 1

As noted in the letter to shareholders, the group’s three main operating subsidiaries are:

- Capri Investments LLC (“Capri”)
- Hubei Zonglianhuan Energy Investment Management Inc. (“HZLH”)
- ESA Electronics Pte Ltd (“ESA”)

For the financial year ended 30 April 2020, the group recognised \$52.5 million in revenue. Loss attributable to equity holders of the company amounted to \$(131,000).

Capri is involved in various legal proceedings (see page 103 of the annual report). On 3 November 2020, the company announced that it had sold Tract C of the Falling Water Plat/Planned Development District (“PDD”) to a subsidiary of KB Home for US\$8.03million

The company’s interest in HZLH was diluted from 85% to 65%, but the proceeds were not received and have been impaired (page 102).

With regard to ESA, the company has impaired \$16.725 million in prior years and carry ESA at \$5.31 million, as at 30 April 2020. However, the independent auditors were unable to obtain sufficient appropriate audit evidence about the recoverable amount of the company’s investment in ESA.

- (i) **Would the company clarify how it is actively managing its three main operating subsidiaries during the COVID-19 pandemic especially as national borders are mostly closed? How effective is its oversight?**
- (ii) **In particular, who is driving the development of Capri? Following the sale of Tract C to KB Home, what percentage of the plat/PDD and how many residential lots remain with Capri?**
- (iii) **In particular, can the company confirm the amount that it received following the sale of Tract C? In the company’s announcement dated 3 November 2020, it stated that a sum of US\$4.0 million has been received by the escrow agent although, on page 41 of the annual report, the company disclosed that it received US\$3.619 million as the initial net payment.**
- (iv) On page 112, the company has disclosed that Mr Wilson On Wang Sang (director of HZLH) is one of the group’s key management personnel. Mr On Wang Sang appears to be involved in the dilution of the company’s interest in HZLH from 85% to 65%. In addition, the amount due from Mr On for the supposed disposal of HZLH shares to Mr On remains payable. The group recognised an impairment loss of \$2.741 million. **Can the board/company elaborate further on the working relationship it has with Mr On Wang Sang and with the senior management of HZLH? How**

does the board determine that it still has control of HZLH? How did the board assess that HZLH's internal controls (including financial, operational, compliance and information technology controls) and risk management systems are adequate and effective?

- (v) **Given that the three operating businesses do not appear to be synergistic, has the board evaluated its options for HZLH and ESA? In particular, has the board considered a sale of ESA?**

Company's response to Question 1

As a preface to the set of queries under Question 1, the Company would like to say that the issues raised under Question 1 are legacy issues that the new board since it took over in 2018 had been trying to resolve. The Company has managed to avert a disclaimer of opinion by resolving some of these legal issues for the year ended 30 April 2020.

Response to the specific queries:

- (i) (a) The Company's Executive Director and CFO Mr Blythman is based in Singapore. He is in daily contact with ESA's management and also with the management of HZLH, ESA and HZLH who have their own management team that reports regularly to Mr Blythman and the board of directors of the Company on a scheduled reporting process in the course of a financial year.

(b) In respect of Capri, in order to market the land that Capri holds, certain preparatory work had to be completed prior to any sale. Notwithstanding the time difference, Mr. Blythman managed Capri's consultants in Washington State, USA and was able to successfully market Tract C of the Falling Water Planned Development District.

Prior to COVID-19, in addition to telephone and video conference, Mr. Blythman was active in travelling to China and the USA to meet with the management teams and consultants of HZLH, ESA and Capri.

Once travel restrictions are lifted, Mr. Blythman will resume his scheduled work visits to these subsidiaries.

- (ii) After the sale of Tract C, there remains 97 residential lot entitlements.
- (iii) The Company received US\$4.0 million from the purchaser. From the funds received Capri paid accounts 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 million.
- (iv) (a) As disclosed in the FY18 Annual Report, 10% of CEEP was sold to Mr. On. As of today, he has only paid a deposit, and has not paid in full the purchase consideration. This is another legacy issue which the Company will resolve. On the other hand, Mr. On continues to act a guarantor for the operating loans of HZLH. The Company owns 65% of HZLH and has not had any issue with control so far. The Company regards Mr. On's interests to be aligned to the Company's as he is a shareholder of HZLH.
- (b) HZLH has SOPs in place that have been approved by the board of the Company. The Company owns 65% of HZLH and has management oversight. As mentioned above, once travel restrictions are lifted, the management of the Company will resume its visits to HZLH, as was the case prior to the pandemic.
- (v) The Company is an investment holding company and has had these 3 subsidiaries for a number of years now which have in better years, served the Company well. While the Company does not consider the business of the 3 subsidiaries to conflict with each other or to be disadvantageous to each other, it is constantly reviewing acquisitions opportunities which may require divestments to rebalance portfolios.

Question 2

The company has stated that the audit committee (AC) has appointed an external firm, M/s. PKF LLP, to carry out the internal audit function. An agreed scope of internal audits has been agreed between the AC and the internal auditors for the financial year beginning 1 May 2019 to 30 April 2020.

However, as disclosed on page 128, the AC did not meet with the internal auditors on its own as there was no issue that required such a meeting.

- (i) Would the AC help shareholders understand the scope of the internal audit?**
- (ii) In particular, did the internal audit cover its major operating subsidiaries in the USA (Capri) and in China (HZLH)?**
- (iii) What were the findings by the internal auditors?**

Even though the AC did not see it necessary to meet with the internal auditors, the company had to make material adjustments to the financial statements following the finalisation of audit. Profit for the year was reduced from \$641,000 to \$161,000. The adjustments were as large as \$22.8 million. In addition, the independent auditor also issued a qualified opinion in their report dated 11 November 2020 on the audited financial statements of the group for the year ended 30 April 2020. The basis for qualified opinion included:

- Financial information of HZLH group (bank confirmation letter from a financial institution not received by the component auditor)
- Transaction between China Environmental Energy Protection Investment Limited and Xiaogan He Shun Investment Management Centre LLP
- Development property (management was unable to provide supporting documents for the accumulated brought forward costs of the development property)
- Contingent liabilities
- Investment in subsidiary (insufficient appropriate audit evidence to ascertain the appropriateness on the recoverable amount of ESA)

In addition, the independent auditor has highlighted that the group's and the company's current liabilities exceeded the current assets by \$7,096,000 (2019: \$13,846,000) and \$5,640,000 (2019: \$5,591,000) respectively. This gives rise to material uncertainties on the ability of the group and company to continue as going concerns.

- (iv) Given the significant matters raised by the independent auditors in the independent auditor's report, on what basis does the board consider that it has reasonably assess its financial position and informed the market accordingly?**
- (v) With the legacy issues still unresolved after years, has the board considered if it would be necessary to suspend the trading of the securities of the company on SGX-ST in the interest of maintaining a fair, orderly and transparent market?**

Company's response to Question 2

As a preface to the set of queries under Question 2, the Company would like to say the internal auditor (IA) is appointed by the AC, and the scope of the internal audit review is set by and agreed to between the IA and the AC.

- (i) The scope of the Internal Audit Review was to review the terms and conditions of the bank borrowings for all borrowing covenant requirements in particular security /guarantees/charges/pledges.
- (ii) For FY20, the Internal Audit focuses on HZLH only. For FY19 the Internal Audit's focus was ESA. Capri has no operations other than the land holdings.
- (iii) The IA addressed the issues within the scope of internal audits. As at the current date, the IA report has not been finalised owing to logistical issues of travel challenges during this period of the pandemic. Once the AC/Board receives the IA report, they will review the same and will implement the recommendations of the report.
- (iv) Please see the Company's announcement of 18 November 2020.
- (v) Please see the Company's announcement of 18 November 2020. Where possible these legacy issues are being resolved as supported by the Company's FY20 Financial Statements no longer having a disclaimer of opinion from its auditors.

Question 3

The board comprises four directors, three of whom are non-executive and independent. The profiles of the directors can be found on pages 108 and 109 of the annual report.

The board does not have a chairman since August 2006.

- (i) **Can the board help shareholders understand the delay in appointing a chairman to the board? Are there any special circumstances that prohibit the appointment of a chairman? Is Mr James Moffatt Blythman, being the only executive director on the board, acting as the de facto chairman of the board?** The company may be the only board on SGX that does not have a chairman for an extended period of time.

The three independent directors are Mr Sazali Bin Mohd Nor, Mr Aswath Ramakrishnan and Mr Koh Beng San. They were appointed on 30 January 2019, 17 July 2020 and 13 October 2020.

All three directors have no prior experience as a director on a company listed on the SGX.

- (ii) **Can the board elaborate further on the search and nomination process for directors, especially independent directors?**
- (iii) **Given that the board consists mostly of first-time directors, how effective is the board at setting the strategic direction and at setting the company's approach to governance, especially as the company is facing challenges in its operating subsidiaries?**

It is observed that the board does not have directors with deep experience or a track record in the real estate, semiconductor and natural gas/energy industries, nor does the board collectively have past working experience in China or USA.

- (v) **Has the board considered if it would benefit from appointing directors with specific and relevant industry and geographical experience??**

Company's response to Question 3

- (i) The Company currently does not have a chairman or a Chief Executive Officer. Notwithstanding the above, the Board is of the view that there is no concentration of power in the management, as

there is only one executive director. The current composition of the board is such that there are three independent directors versus one executive director.

- (ii) New directors are appointed by the Board after the Nominating Committee (“NC”) has reviewed and recommended their appointments. When the need for a new director arises, the NC will review the expertise, skills and attributes of the current Board, identify its needs and shortlist candidates with the appropriate profiles for nomination. New directors are identified from contacts of the Directors and/or through executive search firms, if a particular director with specialised skillsets is required.
- (iii) Save for lack of SGX listed company experience, these independent directors all have specific industry experience, and they were appointed with that requirement in mind.
- (iv) Yes. The Board already does.

BY ORDER OF THE BOARD

James Moffatt Blythman
Executive Director and Chief Financial Officer
24 November 2020