Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries

Issues
SGX has raised queries in relation to the following:
SGX-ST's Query 3
1. Write back of $1.2 million for impairment of trade receivables and
2. Write back of $0.9 million for slow moving stocks
SGX-ST's Query 5
1. Export sales from the building materials

Background Information
In 2014, one of the wholly owned subsidiaries of Lorenzo, Builders Shop Pte Ltd ("Builders Shop"), sold its inventories comprising of tiles and ceramics to a customer from Myanmar, Myanmar Worldwide Resource Trading Co. Ltd ("Myanmar Worldwide") at a selling price of $2,364,045.

Based on our understanding from management, Myanmar Worldwide is a property developer in Myanmar and had purchased these inventories for the purpose of furnishing the property after development. The arrangement the Group had with Myanmar Worldwide was to deliver the goods to them upon their request, notwithstanding that the customer had taken ownership over the entire risk and rewards to the goods through the acknowledgement on the invoices. Approximately 60% of the goods were delivered to Myanmar Worldwide as at 31 December 2014. However, there was no repayment received from the customer. Management had made repeated reminders to the customer to make payment but without any success.

As of 31 December 2015, the receivables from Myanmar Worldwide remained outstanding and long overdue without any repayment. In view of the long outstanding status of the debts, management agreed to make a provision on the entire outstanding receivables of $2,364,045 from this customer.

In 2017, the Group had sourced an interested customer, Kimson Investment Limited ("Kimson") to purchase the tiles and ceramics, including the goods of Myanmar Worldwide that remained unpaid. Kimson is a subsidiary of Sino Haijing Holding Limited ("Sino Haijing"). After much negotiation with Kimson on the selling price of the inventories, both Mr Jeffrey Lim and Jason Teoh (Group CEO) agreed to sell the inventories to Kimson at a discounted value. The financial impact of the various transactions is as follows:-

	$	$
Sales to Kimson (note A)		3,836,320
Less: Cost of sales		
Inventories returned from Myanmar Worldwide (note B)	(1,236,363)	
Builders Shop's existing inventories(other than Myanmar stocks) (note C)	(1,689,759)	
		(2,926,122)
Gross profit		910,198
Other income		
Reversal of allowance of impairment loss on trade debts due from Myanmar Worldwide (note B)	1,236,363	
Reversal of allowance of slow moving stock (existing stocks) which were sold to Kimson (note C)	931,315	
		2,167,678
Net impact of the transactions		**3,077,876**

Appendix A

Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

SGX-ST's Query 3 and Query 5 (Cont'd)

Background Information (Cont'd)

Note:

A The total sales to Kimson amounted to $3,836,320.

B To facilitate the sales to Kimson, Builders Shop had issued credit notes and the relevant goods return notes to Myanmar Worldwide amounting to $1,236,363 which was equivalent to the cost of the unpaid goods. Following the sales to Kimson, management had written back the impairment allowance for trade receivables of $1,236,363 relating to Myanmar Worldwide as other income.

C Apart from Myanmar Worldwide inventories, Builders Shop sold its existing inventories to Kimson costing $1,689,759 as cost of sales and also recognised a reversal of the provision for slow-moving inventories of $931,315 for its existing inventories as other income.

It was separately arranged for the inventories sold to Kimson to be kept by Kimson's appointed logistics agent i.e. MEP Logistics Pte Ltd ("MEP"), an entity that is controlled by Mr Jeffrey Lim.

Procedures

In order to establish the validity and accuracy of the sales return in relation to Myanmar Worldwide and the subsequent sale to Kimson, Foo Kon Tan LLP ("FKT") had carried out the following procedures:

1. Obtained and verified the approval on the goods return notes by Myanmar Worldwide to ascertain the validity and accuracy of the sales return
2. Obtained an understanding of the commercial reasons for the bulk purchases made by Kimson
3. Obtained relevant supporting documents such as approved sales invoices and delivery orders acknowledgment to establish the validity and accuracy of the sales made to Kimson
4. Performed stock count on a sampling basis for the goods held at MEP warehouse facilities at 23 Neythal Road, Singapore 628588 to ascertain the existence and completeness of the goods held on behalf of Kimson by MEP.

Findings

1. FKT noted that the goods return notes bear no signs of approval from Myanmar Worldwide (i.e. relevant authorised signature and Company stamp). Based on the clarification provided by management, the Group was unable to contact Myanmar Worldwide despite efforts and reminders through phone calls and correspondences with the customer. To avoid and reduce further losses to the Group, the management team had agreed to sell the goods of Myanmar Worldwide that remained unpaid to Kimson. To facilitate the sales to Kimson, management had issued credit notes and the relevant goods return notes to Myanmar Worldwide amounting to S$1,236,363.

In addition, FKT conducted a background check and search on Myanmar Worldwide and did not note any bearing on the relationship with Lorenzo International Limited and its subsidiaries. Notwithstanding that there was no signs of approval from Myanmar Worldwide on the goods return notes, the Group had fully impaired the entire outstanding receivables from this customer amounting to $2.37 million as of 31 December 2015. As a result of the issuance of the credit notes and the relevant goods return notes to Myanmar Worldwide, the Group had reversed the previous impairment allowance on trade receivables of $1,236,363 with the recovery of the cost of the inventories.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

SGX-ST's Query 3 and Query 5 (Cont'd)

Findings (Cont'd)

2. Being the developer for the project 'Back to Ha Long Bay' – Amphitheatre Performance. Sino Haijing plans to build an Amphitheatre that is located at Ha Long Bay which is approximately 178 km east of Hanoi. Ha long Bay is an UNESCO World Heritage Site and is one of the popular tourist destinations in Vietnam owing to its beautiful natural scenery. The Amphitheatre will showcase folktales that have been told over the past generations. With the anticipated growth in tourist and visitor traffic, Sino Haijing is targeting to attract the local and international visitors to this Amphitheatre performance in the middle of the sea of Ha Long Bay.

Based on our discussion and understanding with Mr Jeffery Lim, the project will require building materials which the Group is selling to complete the development. Being a subsidiary of Sino Haijing, Kimson will be overseeing the development of the above project.

3. Both Kimson and the Group agreed on the sale transaction in bulk for a total trade discount of 16% provided by the Group. In addition, with repayment to be made in the following payment terms:
-10% by the first 30 days
-10% by the next 30 days and
-Remaining balance for the next 120 days

We had sighted to the receipt of the 5% partial payment to the bank statements of Builders Shop (bank account: 101-307-91509) amounting to $191,815.99 dated 31 March 2017.

Based on the terms and conditions stipulated on the sales invoices to Kimson, the goods will remain the property of Builders Shop until the full payment is made.

MEP was also appointed as the logistics service provider on a non-exclusive basis to Kimson. Based on the agreement dated 1 April 2017 entered into between MEP and Kimson,

The scope of services which MEP had agreed to provide to Kimson included:

1. In connection with the storage of the goods of Kimson which are to be received or dispatched from MEP warehousing facilities at 23 Neythal Road, Singapore 628588, MEP had agreed to accept, receive, handle, and store the goods and to retrieve and prepare for the collection of the goods.
2. To accept each batch for storage at MEP warehousing facilities.
3. To provide manpower for handing of inbound cargoes.
4. Any additional services as may be required by Kimson.

The duration of the service contract is for one year commencing from 1st Mach 2017 and ending on 28 February 2018. The agreement may be renewed by either party giving to the other party not less than 3 months of written notice of its intention to renew the agreement for a period of one year.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

SGX-ST's Query 3 and Query 5 (Cont'd)

Findings (Cont'd)

As at 31 March 2017, all the inventories sold to Kimson were held on behalf of Kimson by MEP as the project 'Back to Ha Long Bay – Amphitheatre Performance has not commenced. FKT had also conducted further checks to the announcement of Sino Haijing on 29 May 2017 and it was noted that part of the proceeds from its rights issue will be applied to the development of the project stated above. Based on the latest development and update from management, the project is likely to be delayed until proper approval is obtained from the relevant regulatory authorities in Vietnam.

From our review of the logistics services agreement ("Agreement") entered into between MEP and Kimson, we noted the following observations:

(i) It was stated under Article 3-MEP Warranties that MEP shall not act on the instructions of any other person in relation to this Agreement except where expressly authorised in writing by Kimson to do so. Based on our audit work performed, there was no authorised documents in writing from Kimson to clearly indicate the details of items to be received and stored by MEP.

(ii) Article 6-Goods states that the goods for which the services are assigned to MEP by Kimson are such products as defined in the recitals. We have yet to receive the recitals from management for our review.

(iii) Article 10-Title stipulates that MEP shall undertake to keep all goods under its possession and control segregated from other items and goods in the MEP facility and agrees to identify and marked each of the goods as the property of Kimson. Based on our stock count conducted at MEP warehouse, it was observed that no clear identification or markings were made on the goods to indicate ownership of the goods for Kimson. Moreover, no floorplan detailing the separation of goods for each of the customers of MEP was furnished during our stock count. This is inconsistent with the terms stipulated under Article 10 of the Agreement. Clarifications were obtained from Mr. Jason Teoh (Chief Executive Officer) and Mr. Ramadas (Logistics and Warehouse Manager) who had confirmed that all the goods stored in MEP's warehouse belonged to Kimson.

(iv) The authorised signatory on the Agreement from Kimson was Li Zhenzhen, the executive Director of Kimson but the actual signatory indicated otherwise and there was no Company stamp from Kimson noted.

(v) The services agreement did not mention about the services fee MEP will charge.

(vi) There is no fees stated for services rendered by MEP as the logistics agent.

During the course of our audit in establishing the sales to Kimson, we noted the following:

(i) No formal sales agreement was made between Kimson and Builders Shop.

(ii) No purchase order was received from Kimson to trigger the transaction.

(iii) No credit evaluation was performed by management on Kimson, especially when the sale transactions were significant to the Group.

(iv) Sales invoices billed to Kimson were acknowledged by Li Zhenzhen but there was no indication of date of acknowledgment on the documents.

(v) Based on the terms and conditions stipulated on the sales invoices to Kimson, the goods will remain the property of Builders Shop until the full payment is made.

(vi) All the delivery orders were received and signed by MEP on behalf of Kimson.

(vii) No delivery schedule had been drawn up to indicate the timing and delivery of goods from MEP to Kimson.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

SGX-ST's Query 3 and Query 5 (Cont'd)

Findings (Cont'd)

(viii) Partial 5% payment amounting to $191,815.99 in the form of cheques issued by MEP as payment on behalf of Kimson was received by Builders Shop. The two cheques were cleared on 31 March 2017 after our verification to the bank statements. We had also validated the receipt of the deposit dated 31 March 2017 to bank advices and bank statement.

(ix) Another partial payment of 5% amounting to S$192,815.99 was received by Lorenzo on behalf of Builders Shop. We had verified to the bank statement of Lorenzo (bank account: 352-333-021-5) as of 25 April 2017. There was also another partial payment of S$167,793 being received by Lorenzo on behalf of Builders Shop. We had verified to the bank statement of Lorenzo International Limited (bank account: 352-333-021-5) dated 17 April 2017. Furthermore, another payment of S$257,400 was received by Uhin on behalf of Builders Shop. We had also verified to the bank statement of Uhin (bank account no: 401-319-800-9) dated 17 April 2017. The total payments of S$618,008.99 were settled through cheque payment by S H Visual Pte Ltd on behalf of Kimson. Based on management's clarification, S H Visual Pte Ltd is a subsidiary of Sino Haijing.

4. Discrepancies were noted between our sample count and the inventory listings furnished by the management. During our physical stocktake observation, it was observed that there was no proper tagging or markings on the inventories against the product or item description on the inventory listing to facilitate the specific identification. Hence we were unable to establish with certainty over the ownership of the inventories. It was also observed during the stocktake that some of the goods that were previously sold to Kimson were sold to other customers.

We noted that there was no formal approval in writing from Kimson in respect of the commitment of goods to other customers from the existing inventory pool of Kimson. This arrangement is also not in line with Article 3 of the Agreement which states that MEP shall not act on the instructions of any other person in relation to the Agreement except where expressly authorised in writing by Kimson. Furthermore, in the absence of the credit notes approved by Kimson in respect of the above list of committed goods to other customers, we are unable to establish the validity and ownership of these goods.

Conclusion

In accordance to FRS 18, revenue should be recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Notwithstanding that the sales invoices billed to Kimson were acknowledged by Li Zhenzhen, the authorised representative to Kimson, there was no indication of date of acknowledgment on the documents to establish the period of recognition for the revenue. There was also no authorised documents in writing from Kimson to clearly indicate the details of items to be received and stored by MEP although all these delivery orders were received and signed by MEP on behalf of Kimson.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

SGX-ST's Query 3 and Query 5 (Cont'd)

Conclusion (Cont'd)

Based on the terms and conditions stipulated on the sales invoices to Kimson, the goods will remain the property of Builders Shop until full payment is made. The terms of repayment stipulated that full payment needs to be settled within 180 days from the date of transaction i.e. 29 March 2017. As of the date of this report, the initial agreed repayment terms between Kimson and Lorenzo Group was not adhered to since only 21% of the sales consideration amounting to S$809,824.98 was received by the Group.

In addition, we were unable to establish that there was no continuing management involvement with the goods sold to Kimson since these pool of goods could be committed to other customers in the absence of formal approval from Kimson to return these goods back to Lorenzo.

In view of the above factors and that a probable recovery of the consideration from Kimson is a critical consideration for revenue recognition, management had agreed to reverse the sales to Kimson as at 31 March 2017 since there was no substantial collection from Kimson as of the date of this report. Accordingly, the write back of the slow moving inventories amounting to S$0.9 million and the write back of impairment allowance of S$1.2 million for trade receivables that were initially recorded should be reversed since the sales to Kimson was not recognised.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

Issue
SGX-ST's Query 1 and Query 2
Based on the query raised by SGX, an update on the status of the refundable deposit to Straitsworld Advisory Limited is required.

Background information
On 8 May 2015, the Board announced that Lorenzo International Limited (the "Company" or "Lorenzo") had entered into a non-binding term sheet with Straitsworld Advisory Limited ("Straitsworld") for the proposed acquisition from Straitsworld of medical facilities comprising premises and equipment at a prime location in Singapore (the "Medical Facilities") (the "Proposed Transaction") . The Company paid a refundable deposit of S$2 million to Straitsworld, which should be utilised solely for the proposed transaction. The deposit would be refunded to the Company without interest within 7 days after the expiry of exclusive period (45 days from the date of term sheet). The sole legal and beneficial shareholder of Straitsworld is Mr Michael Chan Ewe Teik ("Chan") whom had an interest of 4.5% in the issued capital of the Company at the date of the announcement.

On 25 June 2015, the Company and Straitsworld mutually agreed to extend the exclusive period in the term sheet to 6 July 2015. The exclusive period was extended to 31 July 2015 on 6 July 2015. On 31 July 2015, the Company announced that it had entered into a supplemental deed with Straitsworld in relation to the revised term sheet. Both parties mutually agreed that the exclusive period should be extended to 14 August 2015 and the refundable deposit to be paid to Straitsworld should be S$2.8 million instead of S$2 million. The exclusive period was extended to 7 September 2015 on 14 August 2015.

On 14 September 2015, it was further announced that the Company and Straitsworld had not been able to finalise and agree on the structure and terms of the proposed transaction. The Board of the Company had also decided not to extend the exclusive period. Accordingly, the exclusive period expired on 7 September 2015. The deposit should be refunded without interest within 7 days after the expiry of the exclusive period unless a binding definitive agreement on the transaction had been executed between the parties. More time for the payment of deposit was agreed provided that Straitsworld and Chan jointly and severally undertake to pay the Company the deposit of S$2.8 million together with an interest at 5% per annum calculated on the outstanding deposit from and on 7 September 2015 up to and including the date of full payment of the deposit ("specified interest").

On 7 December 2015, the Company announced about its discussions with Straitsworld and Chan for the refund of the deposit and specified interest. On 10 December 2015, the parties mutually agreed that Straitsworld and Chan jointly and severally agreed to make payment of the specified interest sum of S$35,287.67 to the Company. The deadline for payment of the refundable deposit together with the specified interest should be extended to 7 March 2016. The extension of the deadline was subject to Straitsworld and/or Chan using its/his best endeavours to pursue the recovery of the deposit of S$2.8 million from a Medical Vendor. The Medical Vendor is an integrated healthcare provider offering a comprehensive range of services in specialist medical care, general practice medicine, dentistry, health screening as well as the operations of nursing homes, senior activity centres and day surgery centre.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

SGX-ST's Query 1 and Query 2 (Cont'd)

Background information (Cont'd)

On 31 March 2017, the Company announced that Straitsworld and Chan had settled the legal dispute with the Medical Vendor. The refundable deposit (less cost and expenses) paid by the Company to Straitsworld had been applied towards the acquisition agreements. Subsequent to the settlement, the Company had been involved in preliminary negotiations with the Medical Vendor with a view to participate in the purchase of equity interest of its medical business ("proposed acquisition").

Procedures

(i) Discussed with the management to obtain an understanding of the status of the proposed acquisition and

(ii) Reviewed relevant email correspondences made between Mr Jason Teoh (CEO) and an authorised personnel on behalf of the Medical Vendor for the settlement agreement.

Findings

From our enquiries and understanding from the management, an arrangement was made with Straitsworld to negotiate on the proposed acquisition based on the terms as set out in the non-binding term sheet entered into by both parties. Based on the non-binding term sheet between the Company and Straitsworld, the deposit paid was refundable; but non-refundable under the terms entered into between Straitsworld and the Medical Vendor. Furthermore, based on our review of the announcement made by the Medical Vendor on 9 March 2016, it was announced that the Medical Vendor had previously entered into two sale and purchase agreements with Straitsworld for the proposed acquisition. The sale and purchase agreements for the proposed acquisition was terminated as the conditions precedent were not fulfilled or waived by the long stop date. This resulted in a claim made by Chan and Straitsworld against the Medical Vendor for the recoveries of monies in respect of the loans advanced by Straitsworld and Chan to the Medical Vendor and in relation to the part consideration for the proposed acquisition in subsidiaries of the Medical Vendor. On 31 March 2017, the Company announced that Straitsworld and Chan had settled the legal dispute with the Medical Vendor. Following the settlement of the dispute between Straitsworld and the Medical Vendor, the Company had been negotiating directly with the authorised personnel from the Medical Vendor on the terms and conditions of the new sale and purchase acquisition in the Medical Vendor's subsidiaries.

The settlement agreement was made on 15 February 2017 between:

1. Chan Ewe Teik (Michael Chan)
2. Straitsworld Advisory Ltd
3. The Medical Vendor and its subsidiary.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

SGX-ST's Query 1 and Query 2 (Cont'd)

Findings (Cont'd)

It was noted that the parties agreed to a full and final settlement of any disputes and claims between the parties, arising from the action in the Singapore High Court commenced by Chan against the Medical Vendor and the action in the Singapore High Court commenced by Mr Chan and Straitsworld against the Medical Vendor. The parties also agreed to enter into a new agreement for the sale and purchase of the total issued and paid up share capital of the Medical Vendor's subsidiary to which Straitsworld, the Medical Vendor and Straitsworld's nominee i.e. Lorenzo will be parties of the new sale and purchase agreement. Upon all terms and conditions of the Medical Vendor's subsidiary's sale and purchase agreement being completed, and the relevant consideration furnished as well as all the issued paid up capital of Medical Vendor's subsidiary being transferred to Lorenzo, this shall constitute the completion of this agreement. Under the Medical Vendor's subsidiary's sale and purchase agreement, Chan and Straitsworld would be jointly and severally liable to pay to the Medical Vendor S$2 million upon completion as the settlement sum and that the aggregate consideration to be received by the Medical Vendor for Straitsworld's or its nominee i.e. Lorenzo's acquisition of Medical Vendor's subsidiary shall be S$4.5 million (S$2.5 million previously paid under the previous sale and purchase agreement and the settlement sum of S$2 million).

Email correspondences were exchanged between Mr Jason Teoh (Group CEO) and the authorised personnel of the Medical Vendor. On 31 March 2017, Jason Teoh sent a draft announcement to the authorised personnel of the Medical Vendor for his comments. Based on the draft announcement, it was highlighted that Chan and Straitsworld had settled the legal dispute with the Medical Vendor, which included partial settlement involving the assignment from Straitsworld to the Company, of the agreements entered into between Straitsworld and the Medical Vendor in respect of the acquisition of the medical business from the Medical Vendor . The refundable deposit paid by the Company to Straitsworld had been paid to the Medical Vendor in respect of this acquisition. Subsequent to the settlement, the Company has been involved in preliminary negotiations with the authorised personnel of the Medical Vendor with a view to participate in the purchase of all the equity shares of the Medical Vendor's subsidiary. As per understanding from Mr Jason Teoh, Lorenzo is now interested in acquiring a controlling stake in the Medical Vendor instead of purchasing all the equity shares of the Medical Vendor's subsidiary as stated in the settlement agreement.

Subsequently on 3 May 2017, Mr Jason Teoh sent a draft copy of the expression of interest to the authorised personnel of the Medical Vendor. The expression of interest relates to the proposed participation in the equity of the Medical Vendor. According to the draft expression of interest, the Company will be acquiring a controlling stake in the Medical Vendor and the purchase consideration shall be determined after the Company had conducted a financial due diligence on the valuation of the Medical Vendor. There was an assumed valuation of S$30 million for the entire issued share capital of the Medical Vendor and a sum of S$2.5 million shall constitute part of the purchase consideration. In addition, the due diligence shall be completed on or before 30 October 2017 or by such extended time. A follow-up was made on 8 May 2017 in which Mr Jason Teoh sent a proposed timeline, draft Memorandum of Understanding and the due diligence checklist to the authorised personnel of the Medical Vendor.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

SGX-ST's Query 1 and Query 2 (Cont'd)

Findings (Cont'd)

On 7 August 2017, Mr Jason Teoh requested a confirmation from the authorised personnel of the Medical Vendor via email that:

- both parties discussed about various solutions including novation or assignment of interest to unravel the Straitsworld interest, expected valuation and extent of the Medical Vendor's business as a whole;
- a draft MOU, due diligence timeline and information request pack were sent;
- an update on 31 July 2017 was given that the information memorandum and data room for the due diligence will be ready in approximately 2 weeks; and
- both parties meeting on 4 August 2017 for a status update.

The authorised personnel of the Medical Vendor confirmed the above mentioned details by email on the same day and added that the timing of the information memorandum and data room is an approximation provided and the sale of the authorised personnel of the Medical Vendor will have to go through a formal sales process.

A non-disclosure agreement was signed between Lorenzo and the authorised personnel of the Medical Vendor regarding the proposed acquisition. The information memorandum was subsequently sent after the execution of the non-disclosure agreement.

Conclusion

As at 31 December 2015, the deposit had been fully impaired since the Company was unable to recover the deposit from Straitsworld. As at August 2017, there was ongoing negotiations between the Company and the authorised personnel of the Medical Vendor based on our review of the email correspondences. However, the transaction on the proposed acquisition was not completed at the date of this report. In the event that the acquisition of equity interest in the authorised personnel of the Medical Vendor is successful, the deposit paid previously would constitute part of the payment for the acquisition, subject to the terms to be agreed between the relevant parties. Owing to the uncertainty in the outcome of the acquisition and that the Company had yet to recover its deposit, full impairment allowance on the deposit was still considered appropriate as at 31 March 2017.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)

Issue
SGX-ST's Query 4
SGX has raised queries in relation to the loan from directors/shareholders amounting to $3.3 million as at 31 March 2017

Background information
On 31 March 2017, S$3 million was being deposited into the UOB bank account of Uhin Holding Pte Ltd ("Uhin"), a wholly owned subsidiary of Lorenzo. Prior to this deposit, the bank account was in an overdraft position of S$1,495,139.20. Based on our discussion and understanding from Mr. Jeffrey Lim (executive director and deputy chairman of Lorenzo), the deposit was an advance from him to Uhin whose use is conditional upon matching cash advance from a controlling shareholder of the Company, Mr Ding Lei.

On 3 April 2017, the entire sum of S$3 million was returned to Mr Jeffery Lim through a cheque issuance as the controlling shareholder did not provide the matching cash advance.

Procedures
As part of our audit procedures on cash and cash equivalents, FKT had performed cut off test on the cheques issued:

1. Obtained the last 5 cheques and first 5 cheques before and after the financial period as at 31 March 2017 respectively.
2. Evaluated the business rationale for significant transactions that may appear to be outside the normal course of business or unusual.
3. Ascertained that the cheques issued before and after 31 March 2017 are in running sequence.
4. Ascertained that the posting to the General Ledger is appropriate and for the correct accounting period.

Findings
Based on the samples selected for the cheques issued after financial period ended 31 March 2017 for Uhin, FKT noted that cheque number 147431 from UOB with an amount of S$3 million was issued to Mr Jeffrey Lim on 3 April 2017. FKT had verified to the UOB bank statement for the clearance of this cheque. As the amounts were significant and that the cheque was issued to Mr Jeffrey Lim, the audit engagement team performed additional audit work to obtain better understanding over the transaction.

FKT traced the transaction and noted that S$3 million was being deposited to the UOB bank account of Uhin on 31 March 2017. FKT had verified the deposit to the bank advice and bank statement of Uhin as of 31 March 2017. Based on our discussion and understanding from Mr. Jeffrey Lim, the deposit was an advance from him to Uhin whose use is conditional upon matching cash advance from a controlling shareholder of the Company. However, the controlling shareholder did not provide the matching cash advance and this led to the return of entire S$3 million to Mr Jeffrey Lim. Prior to the deposit, the bank account was in an overdraft position of S$1,459,139.20. FKT had verified to the bank statement and obtained bank confirmation as of 31 March 2017 to establish the completeness, existence and accuracy of the bank overdraft. However, no formal loan agreement was drawn up between Mr Jeffery Lim and Uhin despite the significance of the loan advance.

Appendix A
Detailed additional procedures for Lorenzo International Limited and its subsidiaries (Cont'd)
SGX-ST's Query 4

Conclusion

In view of the absence of a formal loan agreement and the subsequent return of funds back to Mr Jeffrey Lim within a short period of time after the financial period ended 31 March 2017, we do not deem it appropriate to classify the funding to Uhin as a loan advance at 31 March 2017. Consequent to this, management has agreed to make adjustment to the amounts from both cash balances and loan from director accordingly since Uhin does not have control and ownership over the cash deposit as at 31 March 2017. FKT has also further disclosed this in the consolidated financial statements of Lorenzo that these are cash deposit from an executive director of the Company whose use is conditional upon matching cash advance from a controlling shareholder of the Company.