

LORENZO INTERNATIONAL LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200508277C)

RESPONSE TO SGX-ST'S QUERIES

The Board of Directors ("Board") of Lorenzo International Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce the following in response to the additional queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") to the Company in relation to the Company's unaudited results announcement for the third quarter ended 31 December 2023 ("**Q3FY2024**") (the "**Q3FY2024 Results**"):

SGX-ST's Query 1

Please provide an update on the current status of the Company's exit offer, the steps taken by the Company to-date and an indicative timeline to comply with Listing Rule 1309.

Company's response

The Company would like to inform shareholders that it has approached a few legal firms and financial institutions to act as its legal counsel and independent financial adviser respectively for the exit offer. It has yet to formally appoint the professionals for the said exercise. It will meet up with the respective professionals before signing the letter of engagement in the next few weeks.

The Company will update shareholders if there is further development in this issue.

SGX-ST's Query 2

We have noted material discrepancies between the Company's interim financial statements for the 9 months ended 31 December 2023 ("3Q2024") and the unaudited financial statements for the financial year ended 31 March 2023 ("FY2023 FS"). In particular, the balances as at 31 March 2023 as disclosed in the balance sheet in respect of 3Q2024 do not correspond with those in the FY2023 FS.

Please tabulate the differences in comparison with the previously disclosed figures, reconcile and explain the discrepancies, and quantify the adjustments for each item clearly.

Company's response

Please see the tabulation below for the differences and explanations: -

	3Q2024 31/3/2023 S\$'000	FY2023 FS 31/3/2023 S\$'000	Variance S\$'000	
Non-Current Assets				
Property, plant and equipment	319	543	(205)	a
Rights of use assets	5,437	4,442	995	b
Deferred assets	7	7	-	
	<u>5,763</u>	<u>4,992</u>	771	
Current Assets				
Inventories, at cost	7,030	7,396	(366)	c
Trade receivables	727	1,739	(1,012)	d
Other receivables	8,477	8,433	44	e

Cash and cash equivalents	1,888	1,864	24	f
	<u>18,122</u>	<u>19,432</u>	(1,310)	
Total assets	23,885	24,424	(539)	
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	39,949	39,949	-	
Reserves	(37,665)	(37,379)	(286)	
	<u>2,284</u>	<u>2,570</u>	(286)	
Non-Current Liabilities				
Borrowings	1,461	943	518	g
Deferred income	20	11	9	h
Deferred taxation	96	96	-	
	<u>1,577</u>	<u>1,050</u>	527	
Current Liabilities				
Trade payables	1,125	580	545	i
Other payables	7,411	7,650	(239)	j
Contract liabilities	1,679	3,089	(1,410)	k
Amount due to directors	301	351	(50)	l
Provision for taxation	98	-	98	m
Borrowings	9,410	9,134	276	n
	<u>20,024</u>	<u>20,804</u>	(780)	
Total equity and liabilities	23,885	24,424	(539)	

The Company would like to inform that it has stated on page 2 of the results announcement released on 14 February 2024 that the Balance Sheet for year ended 31 March 2023 has been revised with the audited numbers of its Malaysia and Taiwan subsidiaries.

The reasons for the revision are as follows: -

- a. Reduction was due to reclassification of plant and equipment from property, plant and equipment to right of use assets by auditors in its Malaysia business unit;
- b. Increase was due to audit adjustments to include new lease extensions to right of use assets and the reclassification from property, plant and equipment in Malaysia;
- c. Decrease was due to audit adjustments made to inventories in reducing the cost of inventories and the allowance for stock obsolescence;
- d. Reduction arose from reclassification to other receivables and audit adjustments made to trade receivables reducing the gross amount of trade receivables and the allowance for doubtful debts in Malaysia;
- e. Increase was due to reclassification from Trade receivables and audit adjustments made to other receivables made by auditors in both Malaysia and Taiwan business units;
- f. Increase arose from audit adjustments made to cash and cash equivalents of Malaysia business unit;
- g. Increase was attributed to audit adjustments to include new lease liabilities arising from lease extensions in Malaysia;
- h. Increase was due to audit adjustments made to deferred income in Taiwan business unit;
- i. Increase arose from reclassification from other payables and audit adjustments for trade payables under-taken by its Malaysia business unit offset by reduction in trade payables in its Taiwan business unit;
- j. Decrease was attributed to reclassification to Trade payables made by auditors for its Malaysia business unit;
- k. Decrease was due to audit adjustments made to contract liabilities in Malaysia;
- l. Decrease was attributed to audit adjustments made to amount due to directors in Malaysia business unit;
- m. Increase was due to audit adjustments for tax payable in its Taiwan business unit; and
- n. Please see explanation in g above.

SGX-ST's Query 3

Please disclose:

- (a) a breakdown of the Group's trade receivables;
- (b) aging of the Group's trade receivables;
- (c) the general credit term extended to customers;
- (d) quantify the impairments made, the reasons for the impairment on trade receivables, including the reasons for delays or non-payment by these customers, where applicable. To also disclose separately the amounts due from related parties (current and former) and the respective impairments;
- (e) what were the actions taken to recover the trade and other receivables;
- (f) the Board's opinion and their basis relied on to determine the value of the impairment of the trade receivables and reasonableness of the value and the methodologies used; and
- (g) the Board's assessment of the recoverability of the remaining trade receivables.

Company's response

- a. The breakdown of the Group's trade receivables is provided in the table below: -

	31/12/2023
	S\$'000
Retail customers and licensed dealers	1,596
Other third-party customers	2,240
Current related parties	14
Allowance for doubtful debts	(2,304)
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	1,546

Allowance for doubtful debts is made when the probability of collection from the respective customers is remote after exhaustion of all methods of collection, legal and otherwise. The reason for the delay or non-payment of debts relate mainly to cash flow constraints of customers.

- b. The ageing of the trade receivables is stipulated below: -

	31/12/2023
	S\$'000
Current	973
1 to 3 months	300
4 to 6 months	2
7 to 9 months	-
10 to 12 months	-
Above 12 months	271
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	1,546

- c. The Company would like to advise that the general credit term extended to customers is between 30 to 60 days.
- d. Please see paragraph a above for the quantification and reason for impairment on trade receivables.
- e. The Company would like to inform shareholders that the net trade receivables as at 31 December 2023 comprised mainly of retail customers and licensed dealers. Customers paid deposits to the group upon confirmation of sales orders and balance payment is made via cash, credit cards or bank transfer.

For other third-party customers, letters of demands are issued to chase for collection and legal suits are taken to recover outstanding receivables.

- f. The Company would like to clarify that the Group applies a simplified approach in calculating expected credit loss (“ECL”). It recognizes a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Board of Directors is of the opinion that the current methodology used is sufficient having considered the Group’s current business operations.

- g. As explained in paragraph e above, the net trade receivables comprised mainly of retail customers and licensed dealers. Accordingly, the Board opines that no further impairment is required for the trade receivables as at 31 December 2023.

SGX-ST’s Query 4

Please disclose a breakdown of ‘Other payables’ amounting to S\$7.87 million as at 31 December 2023. To also disclose the aging and nature of these ‘Other payables’ and whether the counterparties are related parties.

Company’s response

The Company would like to clarify that a breakdown of “Other payables” amounting to S\$7.87 million had been provided on page 7 of the unaudited results announcement released on 14 February 2024. Please see the breakdown below: -

	31/12/2023
	S\$’000
Other creditors	2,669
Accruals	5,200
	7,869

The nature of other creditors is that of vendors or suppliers providing services and goods that is not related to the Group principal activities in the manufacture and distribution of sofas and furniture.

The ageing of the other creditors is stipulated below: -

	31/12/2023
	S\$’000
Current	120
1 to 3 months	182
4 to 6 months	208
7 to 9 months	259
10 to 12 months	19
Above 12 months	1,881
	2,669

Of the amount of S\$2.67 million, only S\$22,000 were due to current related parties (companies that are controlled by the Executive Director of the Company).

SGX-ST's Query 5

Please disclose what are the 'Contract Liabilities' incurred which increased from S\$1.68 million as at 31 March 2023 to S\$3.47 million as at 31 December 2023, the nature of the underlying transactions and to whom these 'Contract Liabilities' are payable

Company's response

The Company would like to inform shareholders that "Contract Liabilities" is basically deposits received from customers upon confirmation of sales and is recognised as a liability in the balance sheet. This would be recognised as sales revenue upon completion of the sales orders.

SGX-ST's Query 6

In relation to 'Other debtors net of allowance for doubtful debts' as disclosed on page 7:

- (a) please disclose the nature and underlying transaction which gave rise to these amounts owing to the Company of S\$6.97 million as at 31 December 2023 and S\$7.11 million as at 31 March 2023 respectively;*
- (b) please provide a breakdown for the 9 months ended 31 December 2023 and the financial year ended 31 March 2023. To also explain the movement for each material item in detail; and*
- (c) on 20 November 2023, the Company announced that it has commenced legal proceedings to recover the outstanding sale consideration due from the purchaser of Lorenzo Furniture (Kunshan) Co., Ltd. Please provide an update on the legal proceedings, including its current status and the next steps. If the Court has rendered its decision on the matter, please disclose the detail of the judgment and whether the Company will be filing any appeal against the Court's decision.*

Company's response

- a. The Company would like to inform shareholders that the main bulk of the other debtors' net of allowance for doubtful debts arose from the disposal of its subsidiary company, Lorenzo Furniture (Kunshan) Co., Ltd in 2021. The rest of the other debtors were mainly those of services provided to customers that are not related to its principal activity of manufacture and distribution of sofas and furniture.
- b. The breakdown for the other debtors is tabulated below: -

	31/12/2023	31/03/23	Variance
	S\$'000	S\$'000	S\$'000
Purchaser of Lorenzo Kunshan	6,690	6,690	-
Third party customers	277	416	(139)
Current related parties	47	48	(1)
Allowance for doubtful debts	(48)	(48)	-
	<hr/> 6,966	<hr/> 7,106	<hr/> (140)

The decrease in the third-party customers was due to collection received from the customers.

- c. The Company would like to inform shareholders that the court in the People's Republic of China has set the hearing date for the recovery suit on 13 March 2024. It would update shareholders of any further development thereafter.

SGX-ST's Query 7

In relation to 'Deposits' as disclosed on page 7, please disclose the reasons for the increase in 'Deposits' of 20% to S\$1.03 million as at 31 December 2023, and to whom these 'Deposits' were made.

Company's response

The company would like to inform that the increase in "Deposits" was mainly due to deposits paid to legal firms in Singapore and the People's Republic of China for the legal suit against the purchaser of Lorenzo Kunshan Furniture (Kunshan) Co., Ltd. The firms are Kelvin Chia Partnership and Tian Yuan Law firm respectively.

By Order of the Board

Lim Pang Hern
Executive Director
1 March 2024