



2 Executive Summary

2.1 Introduction

2.1.1 On 8 January 2021, Lorenzo International Limited (“Lorenzo” or the “Company”) appointed KPMG Forensic, a division of KPMG Services Pte. Ltd., (“KPMG”) to conduct an independent investigation in relation to Lorenzo Furniture (Kunshan) Co., Ltd. (“Lorenzo Kunshan”), a wholly owned subsidiary of Lorenzo located in China which ceased operations in 2017. Our findings are reported to the Company’s Audit Committee and Singapore Exchange Regulation Pte. Ltd. (“SGX RegCo”).

2.2 Background

2.2.1 On 16 November 2020, Lorenzo received a written response from SGX RegCo to its draft circular dated 7 October 2020 (the “Draft Circular”) on a proposed disposal of Lorenzo Kunshan (the “Proposed Disposal”). In the written response, SGX RegCo requested Lorenzo complete an independent investigation on the matters (the “Matters”) below:

- *“The veracity of the disposal of Lorenzo Kunshan and the parties involved;*
- *Amount due to trade and other creditors of Lorenzo Kunshan of approximately SGD 0.94 million [“Amount Due to Creditors”]; and*
- *Payments made by Uhin Holding Pte Ltd [“Uhin”] to trade and other creditors of Lorenzo Kunshan on behalf of Lorenzo Kunshan between 2012 and 2017 of approximately SGD 5.46 million [“Payments by Uhin”].”¹*

2.3 Objective and scope of work

2.3.1 The objective of this engagement is to establish whether there is evidence which *prima facie* indicates improprieties in relation to the Matters.

2.3.2 The work performed to achieve the objective is summarised below:

- Obtained an understanding of the background of the Matters and management’s responses to the Matters.
- Reviewed the supporting documents, including agreements, minutes of meetings, valuation reports, court judgments and accounting books and records in connection with the Matters to establish the chronology of events and circumstances of the Matters.

¹ Extracted from the reply letter issued by SGX RegCo to the Company’s submission of *Circular Clearance - Corporate Action Circular Clearance Application for LORENZO INTERNATIONAL LIMITED* dated 07 October 2020.



- Performed background search procedures on selected corporate entities and individuals.
- Acquired and analysed the forensic images of a laptop and email archives assigned to selected key personnel to identify *prima facie* evidence of improprieties in connection with the Matters.
- Conducted interviews with relevant parties.
- Performed a “maxwellisation” of our findings with the relevant persons referenced. We considered the comments raised by each of the relevant persons, and made necessary amendments to our report, if deemed valid.

2.3.3 The starting date of our review period was dependent on the substance of the Matters and our review period ended at 11 October 2022, unless where stated.

2.4 Limitation of our review

2.4.1 Certain critical information and documents in relation to the Matters were not disclosed to us during the early stage of our review, including legal proceeding between the Company and the purchaser of Lorenzo Kunshan, SKWI, and agreements signed between the Company and SKWI. As of the date of this report, we were not provided with a copy of the Letter of Intent dated 21 July 2017 (the “Letter of Intent”), one of the agreements signed between the Company and SKWI. Interviewees represented that they did not have a copy of the agreement.

2.4.2 We sought access to the accounting records (e.g. supplier invoices, payment vouchers) in relation to Amount Due to Creditors and Payments by Uhin. The Company’s management stated that its document archives had the following limitations, which affected their ability to obtain and review the accounting records:

- A fire occurred at the server room at Lorenzo Kunshan’s office building in 2016, which caused the loss of electronic and physical accounting records; and
- Lorenzo is unable to locate the past physical accounting records of Uhin as a result of multiple changes of warehouse in recent years.

2.4.3 As management advised us that there were no computers assigned to certain key management who may have relevant knowledge of the Matters, we sought access to their personal mobile phone and any computer(s) used for business purposes. However, our request was declined due to privacy concerns.

2.4.4 We sought to interview the owners of SKWI to verify the details of the Proposed Disposal, however, our request was declined by the General Manager of SKWI, who was also one of the shareholders of SKWI.



2.5 The Proposed Disposal

Origins of the Proposed Disposal

- 2.5.1 Lorenzo Kunshan is a wholly owned subsidiary of the Company, which was incorporated in the People's Republic of China on 14 July 2006 with the principal activity of manufacturing and trading of wood-based furniture. Lorenzo Kunshan ceased operations in 2017 and has remained dormant since then. Lorenzo Kunshan owns a property in Kunshan (the "Property") with a state-owned land use rights certificate expiring on 3 March 2057, and the building ownership certificates.
- 2.5.2 Contrary to the Draft Circular which states that "*Sometime in April 2019, the Group informed the Purchaser of the China Subsidiary that it was intending to dispose of Lorenzo Kunshan*", Board meeting minutes, agreements signed between the Group and SKWI in relation to the Proposed Disposal and interview representations indicate that the Proposed Disposal commenced in 2017 as part of the disposal of certain assets of the Group in China and Singapore to improve the Group's cashflow.
- 2.5.3 Interviewees represented that:
- Several approaches were used to search for potential buyers, including online advertisements, referrals and property agent.
 - The purchaser of Lorenzo Kunshan, SKWI, which was recommended by China Merchants Group ("Zhao Shang Ju", a state-owned corporation that is involved in development and operation of cities) made the highest bid.
 - SKWI was an independent third party unrelated to Lorenzo or any key Lorenzo management prior to the Proposed Disposal.
 - The corporate registries, subscribed databases and media sources to which KPMG has access did not record any common directorships or shareholdings between the Company/Lorenzo Kunshan's key management.

Agreements entered into between the Group and SKWI

- 2.5.4 Between 18 July 2017 and 15 July 2019, five agreements were entered into between the Group and SKWI in relation to the lease of the Property, the Proposed Disposal and loans provided by SKWI to the Group:
- Lease Agreement dated 18 July 2017 (the "2017 Lease Agreement");²
 - Letter of Intent dated 21 July 2017;
 - Equity Framework Agreement dated 20 March 2018 (the "Framework Agreement");

² Where an original document is in a non-English language, we have attempted to provide an accurate English translation. However, this is an unofficial translation provided for reference only.



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- Share Transfer Agreement dated 15 July 2019 (the “Share Transfer Agreement”);
and
- Supplemental Agreement dated 15 July 2019 (the “Supplemental Agreement”).

- 2.5.5 However, when we commenced our work on 8 January 2021, the background of the Proposed Disposal was largely based on the Share Transfer Agreement, information in the Draft Circular and the announcements made in SGXNet in relation to the Proposed Disposal³ (the “Announcements”), all of which only included the details in relation to the Share Transfer Agreement. In addition, all but the Share Transfer Agreement were not disclosed to us despite multiple fact-finding discussions held with the Group’s key management.
- 2.5.6 The legal proceedings between the Company and SKWI in late 2019 and the Court Judgment released on 30 October 2020 (the “2020 Judgment”) were not disclosed to us until we were notified by the Company on 29 March 2021 that there would be an announcement in relation to the Court Judgment, which was released on 26 February 2021 (the “2021 Judgment”). As these proceedings were active both before and during our review, they should have been made known to us for the purposes of this review.
- 2.5.7 Please refer to section 2.12 for further details of the legal proceedings between the Company and SKWI. However, in summary, as a court of competent jurisdiction in the jurisdiction in which Lorenzo Kunshan is incorporated, the 2020 and 2021 Judgments (the first on which is dated 30 October 2020) broadly have the effect of compelling the transfer of Lorenzo Kunshan on the basis set out the 2020 Judgment. This basis appears to be the Framework Agreement (see section 2.8 below) dated 20 March 2018 which stipulated that all business registration change procedures in relation to the Proposed Disposal should be completed before 20 April 2019. Arguably therefore, any activity in relation to the consideration of the sale after 20 March 2018 (if not from the date of the Letter of Intent on 21 July 2017) is moot. Mr Teo Kok Meng, the Company’s current Chief Financial Officer (the “Current CFO”) stated by email on 17 December 2021 and restated by email on 4 March 2022 that Lorenzo is still in the process of negotiating with SKWI to resolve all discrepancies and finalize the consideration for the Proposed Disposal as described at section 2.12 of this report. If the Group had indeed continued to negotiate with SKWI, it may have been that a variation on the terms of the Proposed Disposal could have been agreed.
- 2.5.8 Similarly, our review of all Directors’ resolutions, Audit Committee and Board meetings minutes maintained by the Company’s previous company secretary identified discussion

³ Seven announcements were made by Company via SGXNet in relation to the Proposed Disposal on 13 August 2019, 25 September 2019, 30 October 2019, 16 November 2019, 7 December 2020, 29 March 2021 and 30 June 2021.



and Board's approval on the Share Transfer Agreement but not the remaining four agreements.

- 2.5.9 As the existence of the Letter of Intent, the Framework Agreement and the Supplemental Agreement were not disclosed by the Company in the Announcements, the Draft Circular and fact discussion with the Company's key management, they were only made known to us following our request for a copy of the 2020 and 2021 Judgments and independent verification of the 2020 and 2021 Judgments.
- 2.5.10 Sections 2.6 to 2.11 below set out the agreements between the Company and SKWI in chronological order in relation to the Proposed Disposal. These agreements set out the key clauses which are relevant to the eventual disposed value and condition precedent for the Proposed Disposal.

2.6 Lease of the Property to SKWI

- 2.6.1 The 2017 Lease Agreement, interview representations and email correspondence identified indicate that:
- Although the 2017 Lease Agreement was signed by Mr Jason Teoh, the Company's former Chief Executive Officer (the "Former CEO"), Mr Lim Pang Hern, the Company's current Executive Director (the "Current ED"), and Mr. Colin Tay, former General Manager of Lorenzo Kunshan (the "Former GM"), were the key individuals involved in drafting and reviewing the 2017 Lease Agreement.
 - The full rental amount of CNY 18 million for a lease period of 39 months from 1 August 2017 to 30 October 2020 (the "Lease Period"), with a monthly rent of CNY 0.5 million was paid by SKWI to Lorenzo Kunshan's related company, Supreme Furniture (Kunshan) Co. Ltd ("Supreme Kunshan") in July and August 2017. The Lease Period includes waiver⁴ of rental for three months from 1 August 2017 to 30 October 2017. The CNY 18 million received was recorded as prepayment received and amortised over the Lease Period in Lorenzo's Kunshan GL.
 - SKWI was still occupying the Property as of the date of interview with Mr Colin Tay, as of 29 June 2021. However, we did not identify discussion between SKWI and the Group in relation to the renewal of lease nor did Lorenzo Kunshan's GL record additional receipts of rental aside from the prepayment of CNY 18 million.

2.7 Letter of Intent dated 21 July 2017

⁴ Waivers of rental are not uncommon in commercial property agreements, although no statistics are available on its prevalence in the China market specifically, no regulation in China prohibits such a waiver. A research paper on the 2017 China Office Rental market by Savills noted that, due to an oversupply in the market, tenants retain the 'upper hand' in many negotiations. (Source: <https://pdf.savills.asia/selected-international-research/2017-china-office-en-lr.pdf>)



- 2.7.1 Despite requests to the Company, we have not been provided with a copy of the Letter of Intent as of the date of this report. The interviewees stated that they did not have a copy of the Letter of Intent. We extended the request further to the legal counsel engaged by Lorenzo, Shanghai Shenyu Law Firm (“Shanghai Shenyu”), for the lawsuit brought by SKWI through Mr Teo Kok Meng, the current CFO, who represented that Shanghai Shenyu does not have a copy of the Letter of Intent as well. Nor did the electronic data reviewed contain a copy. We observe that, as parties to the proceedings in which the Letter of Intent was evidence, Lorenzo would normally have had access to a copy as part of the litigation process, even had it been unable to find a copy itself. In the event, we were not provided with a finalized copy of the Letter of Intent by Lorenzo.
- 2.7.2 The 2020 Judgment refers to a Letter of Intent dated 21 July 2017 agreed between the Company and SKWI. The terms identifiable from the 2020 Judgment states that:
- Lorenzo is to offer 100% of its equity in Lorenzo Kunshan to SKWI prior to offering it for sale to third parties.
 - Lorenzo has valued 100% of its equity in Lorenzo Kunshan at CNY 88 million. However, Lorenzo and SKWI may engage external valuers to perform a valuation. If the reassessed value is higher than CNY 88 million, SKWI is willing to acquire 100% of equity in Lorenzo Kunshan at the reassessed value.
 - SKWI is to provide a loan of CNY 10 million⁵ to Lorenzo Kunshan at a monthly interest rate of 1% with a tenure of four months and Lorenzo Kunshan is to mortgage the Property to SKWI until the full repayment of loan and interest from Lorenzo and Lorenzo Kunshan.
- 2.7.3 As we have not been provided with a copy of the Letter of Intent as of the date of this report, we are unable to identify:
- The individual who signed the Letter of Intent on behalf of the Group.
 - The other terms of the Letter of Intent.
 - Whether or not the Letter of Intent is legally binding on its own. The 2020 and 2021 Judgments appear to indicate that the Court viewed the Framework Agreement as binding as described at paragraph 2.8.6 of this report. However, this would not preclude a previous agreement, such as the Letter of Intent, from also being binding as of an earlier date. For the purposes of this report, we have proceeded on the assumption that the Framework Agreement was the first binding agreement in relation to the Proposed Disposal. Section 2.8 of this report details our findings on the Framework Agreement.
- 2.7.4 Interview representations and email correspondence identified indicate that:

⁵ The 2020 Judgment did not include further detail of the CNY 10 million loan to Lorenzo Kunshan, stating that the loan between SKWI and the Group was irrelevant to the proceedings. Paragraphs 2.7.8 to 2.7.10 details our findings on the loan of CNY 10 million.



- The terms identifiable from the 2020 Judgment were initially included as part of the terms of the 2017 Lease Agreement.
- Mr Lim Pang Hern, the Current ED, proposed the consideration of the Proposed Disposal to be at CNY 88 million based on a valuation report of Lorenzo Kunshan of CNY 68 million.
 - However, we were not provided with a copy of the said valuation report, nor did we identify any email correspondence in relation to the said valuation report.
- He was of the view that the consideration included in the Letter of Intent was not a final consideration as the Letter of Intent was structured in a way that allow the Group to re-assess the consideration.
 - However, we did not identify evidence suggesting that a re-assessment of consideration occurred. Instead, CNY 88 million was included in the Share Transfer Agreement.
- Mr Lim Pang Hern proposed to include a loan in the Letter of Intent. Although the Mr Lim Pang Hern represented that the proposal was likely proposed by Mr Ding Lei, the Company's former Executive Director and Chairman (the "Former Executive Director and Chairman"), the Former Executive Director and Chairman denied that he was involved in all agreements signed between the Group and SKWI.

Valuation of the Property/Lorenzo Kunshan before the date of the Letter of Intent

- 2.7.5 As described above, the Letter of Intent appears to have indicated that Lorenzo valued 100% of its equity in Lorenzo Kunshan at CNY 88 million. It also appears to have recorded that Lorenzo and SKWI may engage external valuers to perform a valuation and that, should the reassessed value be higher than CNY 88 million, SKWI would acquire 100% of equity in Lorenzo Kunshan at the reassessed value.
- 2.7.6 Mr Teo Kok Meng provided the two copies of valuation reports for the Property, which he stated that based on his understanding, the independent valuation reports were performed for annual statutory audit purposes, not for the Proposed Disposal:
- A valuation report dated 20 January 2015 prepared by Suzhou Huaren, which valued the Property at CNY 88,250,300 using a market approach; and
 - A valuation report dated 27 June 2017 prepared by Jiangsu Jinningda, which valued the Property at CNY 110,105,090 using a market approach.
- 2.7.7 Although the valuation report dated 20 January 2015 had similar valuation to the valuation of CNY 88 million in the Letter of Intent and the valuation report dated 27 June 2017 was closed to the date of the Letter of Intent, these independent valuation reports value the Property, not 100% of the equity of Lorenzo Kunshan. Nor were they performed to value the Property for sale. Accordingly, the independent valuation reports may not have been an appropriate basis of the valuation of CNY 88 million for 100% equity in Lorenzo Kunshan stated in the Letter of Intent.



CNY 10 million loan to Lorenzo Kunshan

- 2.7.8 As described at paragraph 2.7.2, the Letter of Intent quoted in the 2020 Judgment made reference to a loan of CNY 10 million from SKWI to Lorenzo Kunshan at a monthly interest rate of 1% with a tenure of four months. However, the 2020 Judgment did not include further details on the CNY 10 million loan to Lorenzo Kunshan as it stated that the loan between SKWI and the Group was irrelevant to the proceeding.
- 2.7.9 Lorenzo Kunshan's GL records two receipts from SKWI of CNY 2 million and CNY 8 million (i.e. a total of CNY 10 million) on 1 September 2017 and 19 September 2017 respectively and a repayment of the CNY 10 million loan on 30 April 2018. No interest element is recorded, notwithstanding the monthly interest rate of 1%.
- 2.7.10 Interview representations indicate that the CNY 10 million loan amount provided by SKWI as stated in the Letter of Intent was used for the retrenchment costs resulting from the closure of Lorenzo Kunshan in 2017.

2.8 Framework Agreement dated 20 March 2018

- 2.8.1 The 2020 Judgment refers to the Framework Agreement, which forms part of the Proposed Disposal agreements. To reiterate paragraph 2.5.9, the Framework Agreement only became known to us following our request for a copy the 2020 and 2021 Judgments and independent verification of the 2020 and 2021 Judgments.
- 2.8.2 The Framework Agreement and documents identified indicate that Mr Jason Teoh, the Former CEO was mandated to sign the Framework Agreement on behalf of the Company. Mr Jason Teoh represented that he was unable to recall signing the Framework Agreement, however, he acknowledged that the signature on the Framework Agreement is his and he would have signed the Framework Agreement on the behest Mr Lim Pang Hern, the Current ED. He denied his involvement in the negotiation of the Framework Agreement due to language barrier. This was confirmed by Mr Lim Pang Hern.
- 2.8.3 We were unable to assess the key individuals' involvement in the negotiation of the Framework Agreement:
- Our review of all Directors' resolutions, Audit Committee and Board meetings minutes maintained by the Company's previous company secretary did not identify any discussions in relation to the drafting or approval of the Framework Agreement;
 - Our Keyword Searches did not provide any indication of the involvement of the Company's key management; and



— All interviewees who were the Company’s key management at the material times represented that they were not involved in the negotiation of the Framework Agreement.

2.8.4 The key clauses set out in the Framework Agreement, i.e. requirement to seek approval from SGX RegCo and Lorenzo’s shareholders, deadline to complete the Proposed Disposal, additional loan from SKWI and bank loan to Lorenzo Kunshan with the General Manager, who is also a SKWI’s shareholder as bank guarantor. The Framework Agreement did not, however, specify a final sum in consideration for the Proposed Disposal. The key clauses set out in the Framework Agreement and our findings to the clauses are detailed below.

2.8.5 Clause 7 of the Framework Agreement stipulates that the Proposed Disposal is subject to relevant approvals to complete the Proposed Disposal, including but not limited approval from SGX RegCo and Lorenzo’s shareholders.

— Although the Proposed Disposal was a “major transaction” which require approval of shareholders in general meeting, the Proposed Disposal was completed in June 2021, prior to obtaining shareholder approval, *prima facie* appears to be a breach of Rule 1014(2)⁶ of the SGX ST Listing Manual.

2.8.6 Clause 8 of the Framework Agreement stipulates that all business registration change procedures in relation to the Proposed Disposal should be completed before 20 April 2019. Clause 16 further stipulates that if the Proposed Disposal is not completed before 20 April 2019, Lorenzo is to provide compensate to SKWI of CNY 18 million.

— As described at paragraph 2.5.7 of this report, it appears that the 2020 Judgment treated the Framework Agreement as binding. It is possible that the earlier Letter of Intent may also have been a binding agreement but, as described at paragraph 2.7.3 of this report, no copy is available on which to form a conclusion. For the purposes of this report, we have proceeded on the basis that the Framework Agreement was the earliest binding agreement between the Group and SKWI to sell Lorenzo Kunshan.

— As the Framework Agreement forms part of the Proposed Disposal, a “major transaction,” the Company was required to announce the relevant information. However, the Company did not make any announcement in relation to the Framework Agreement and the details of the Framework Agreement, including the deadline and the penalty for delay. *Prima facie*, this appears to be a breach of Rule 1014(1)⁷ of SGX ST Listing Manual.

⁶ Rule 1014(2) of SGX ST Listing Manual states that “a major transaction must be made conditional upon approval by shareholders in general meeting.”

⁷ Rule 1014(1) of SGX ST Listing Manual states that “Where any of the relative figures as computed on the bases set out in Rule 1006 exceeds 20%, the transaction is classified as a major transaction. The issuer must, after terms have been agreed, immediately announce the information required in Rules 1010, 1011, 1012 and 1013, where applicable.”



- 2.8.7 Clause 4 of the Framework Agreement records that SKWI had extended an additional loan of CNY 1 million to Lorenzo Kunshan at a monthly interest rate of 1% with a tenure of four months. No interest element is recorded, notwithstanding the monthly interest rate of 1%.
- 2.8.8 Clause 5 of the Framework Agreement records that Lorenzo Kunshan had obtained a loan of CNY 29.9 million (the “JKRC Bank Loan”) from the Jiangsu Kunshan Rural Commercial Bank Co., Ltd (“JKRC Bank”) with the Property as security and the General Manager and shareholder of SKWI had agreed to be the bank guarantor as Lorenzo Kunshan has agreed to transfer 100% of its equity to SKWI. Of the CNY 29.9 million, CNY 16.84 million was to be paid to SKWI for:
- Repayment of the loans provided by SKWI to Lorenzo Kushan of CNY 11.25 million.
 - A “*guarantee fee*” for the JKRC Bank Loan of CNY 4.32 million.
 - A “*repayment of third-party loans*” of CNY 1.27 million.
- 2.8.9 Lorenzo Kunshan’s GL records a payment of CNY 16.84 million to SKWI on 30 April 2018, which matches the total amount to be paid to SKWI stipulated in Clause 5 of the Framework Agreement. However, the said payment of CNY 16.84 million is recorded as “repayment of loans to SKWI”, inconsistent with all of the purposes of the payments recorded at clause 5 of the Framework Agreement above.⁸
- 2.8.10 We refer to paragraph 2.8.3 above that all interviewees represented that they were not involved in the negotiation of the Framework Agreement, and as such, they were unable to provide any details pertaining to the “guarantee fee” of CNY 4.32 million and the “repayment of third-party loans” of CNY 1.27 million.
- 2.8.11 We are unable to ascertain from the documents available to us:
- Verify the rationale for clause 5 of the Framework Agreement, which stipulates a “guarantee fee” of CNY 4.32 million to be paid to SKWI as the JKRC Loan agreements did not require a bank guarantor; or
 - Any details of the “third-party loans” to which the CNY 1.27 million “repayment” relates.

2.9 Company announcement of 13 August 2019 and the Share Transfer Agreement dated 15 July 2019

⁸ The audit opinion of the Group’s audited financial statements for the FYE 31 March 2019 was qualified but the basis of qualification did not include any matter related to the inconsistency in recording of the repayment.

- 2.9.1 On 13 August 2019, the Company announced via SGXNet that on 15 July 2019, the Company had entered into a conditional sale and purchase agreement (also known as the Share Transfer Agreement) with SKWI in relation to the Proposed Disposal for an aggregate consideration of CNY 88 million. It was also announced that the Proposed Disposal was conditional upon shareholders' approval under Rule 1014 of the Listing Manual.
- 2.9.2 In fact, as described above, the 2020 and 2021 Judgments broadly have the effect of compelling the transfer of Lorenzo Kunshan on the basis set out in the Framework Agreement dated 20 March 2018, which stipulated that all business registration change procedures in relation to the Proposed Disposal should be completed before 20 April 2019. The condition precedent to obtain shareholders' approval for the Proposed Disposal had also been removed by this time, as described at section 2.11 of this report.
- 2.9.3 The Share Transfer Agreement was signed by Mr Lim Pang Hern, the Current ED on behalf of the Company on 15 July 2019. Pursuant to the Share Transfer Agreement, SKWI would pay 20% of the Consideration as deposit within 5 working days from the date of execution of the Share Transfer Agreement. The remaining 80% of the Consideration would be paid within 10 working days from the Change Registration Date.⁹ The completion date of the Proposed Disposal was expected to be 30 October 2019.
- 2.9.4 Email correspondence and message log¹⁰ of the WhatsApp group chat used by the Company's Board of Directors (the "Board") indicate that:
- The key individuals involved in the negotiation of the Share Transfer Agreement were Mr Lim Pang Hern and Mr Teo Kok Meng, the Current CFO.
 - The Share Transfer Agreement was sent by Mr Teo Kok Meng, under the instruction of Mr Lim Pang Hern to the Board for approval prior to the execution of the Share Transfer Agreement.
 - The Board except Mr. Ding Lei, the Former Executive Director and Chairman approved the announcement in relation to the Share Transfer Agreement.

The consideration for the Proposed Disposal

- 2.9.5 The announcement dated 13 August 2019, and the Draft Circular state the consideration for the Proposed Disposal to be CNY 88 million, whereas the Share Transfer Agreement states that the consideration for the Proposed Disposal shall be CNY 88 million less the

⁹ As defined in the Share Transfer Agreement, the Change Registration date is the date on which a new business licence reflecting the Share Transfer is issued by the competent corporate registry. As Lorenzo Kunshan will be transformed from a wholly foreign owned enterprise into a domestic limited liability company by way of the Share Transfer, a new business licence is needed.

¹⁰ The WhatsApp group chat was created by the Current CFO on 29 January 2019.



total indebtedness of Lorenzo Kunshan as agreed by both parties as of the Change Registration Date.

- 2.9.6 As described at paragraph 2.7.2, the 2020 Judgment records that the Letter of Intent states that Lorenzo has valued 100% of its equity in Lorenzo Kunshan at CNY 88 million. While the consideration of CNY 88 million stated in the Share Transfer Agreement for the sale of Lorenzo Kunshan may be based on the amount stated in the Letter of Intent, it excludes the total indebtedness of Lorenzo Kunshan from the consideration, which lowered the net consideration of Lorenzo Kunshan sold by the Company to SKWI.
- 2.9.7 The 2020 Judgment also records that the Letter of Intent states that Lorenzo had valued 100% of its equity in Lorenzo Kunshan at CNY 88 million but that Lorenzo and SKWI may engage external valuers to perform a valuation. If the reassessed value is higher than CNY 88 million, the Letter of Intent apparently stipulated that SKWI was willing to acquire 100% of equity in Lorenzo Kunshan at the reassessed value.
- 2.9.8 Interview representations indicate that:
- The consideration of CNY 88 million was determined by Mr Lim Pang Hern, however, it was not a finalised amount and that it was structured in a way to allow the Group to re-assess the consideration. Mr Teo Kok Meng stated that he attempted to re-negotiate the consideration of CNY 88 million through Mr Colin Tay, the Former GM, but it was unsuccessful. We did not identify evidence suggesting that a re-assessment of consideration occurred nor were we provided an explanation of why re-assessment was not performed.
 - The total indebtedness of Lorenzo Kunshan as of 30 September 2020 comprised the JKRC Bank Loan, the amount due to SKWI, other creditors and a related company, Uhin.
 - Although the Draft Circular did not state the consideration of the Proposed Disposal to be *“CNY 88 million less the total indebtedness of Lorenzo Kunshan”, the total indebtedness was disclosed in the Draft Circular under “intended use of net proceeds from the Proposed Disposal”, comprising of “Repayment of the existing bank borrowings due to JKRC Bank by Lorenzo Kunshan”, “Repayment of the existing borrowings due to the Purchaser of the China Subsidiary by Lorenzo Kunshan”, and “Repayment of trade and other creditors of Lorenzo Kunshan.”*
 - The amount due to the related company, Uhin, was not included in the *“intended use of net proceeds”* as it would be waived by Uhin.

Section 2.4.3 of the Draft Circular outlines the intended use of the net proceeds in relation to the total indebtedness of Lorenzo Kunshan as follows:

Intended Use of Net Proceeds	SGD (million)
Repayment of the existing bank borrowings due to JKRC Bank by Lorenzo Kunshan	5.15
Repayment of the existing borrowings due to the Purchaser of the China Subsidiary by Lorenzo Kunshan	2.00
Repayment of trade and other creditors of Lorenzo Kunshan	0.94
Total	8.09

Repayment of the existing bank borrowings due to JKRC Bank by Lorenzo Kunshan

2.9.9 The Draft Circular states:

“The aggregate amount of existing bank borrowings due to JKRC Bank by Lorenzo Kunshan is approximately S\$5.15 million as at the Latest Practicable Date¹¹. JKRC Bank extended a loan of S\$6 million to Lorenzo Kunshan sometime in April 2018. The tenure of the loan is one year which may be extended annually subject to the approval of JKRC Bank. The loan has an interest rate of 7.105% per annum. The China Property has been pledged to JKRC Bank as security for the loan.”

2.9.10 As described at paragraph 2.8.8, Lorenzo Kunshan had obtained a loan of CNY 29.9 million (approximately SGD 6 million)¹² from JKRC Bank, consistent with Lorenzo Kunshan’s GL records and JKRC Bank Loan Agreements. However, Lorenzo Kunshan’s GL as of 30 September 2020 records that the outstanding balance of the JKRC Loan was CNY 25.88 million (approximately SGD 5.20 million), CNY 0.25 million (approximately SGD 0.05 million) more than the balance disclosed in the Draft Circular of CNY 25.62 million (approximately SGD 5.15 million).

2.9.11 To verify the JKRC Bank Loan movement and the outstanding balance of JKRC Bank Loan, we requested the latest copy of the JKRC Bank Loan statements. Despite multiple requests made from 10 June 2021 onwards, we have not been provided with them as of the date of this report. During the Maxwellisation process, Mr Teo Kok Meng stated that the Company was unable to provide the requested information above as they did not have access to it.

Repayment of the existing borrowings due to the Purchaser of the China Subsidiary by Lorenzo Kunshan

¹¹ Latest Practicable Date is defined as the date being the latest practicable date prior to the printing of the Circular. As the Draft Circular has not been finalised, the Last Practicable Date is not determined.

¹² Based on exchange rate of CNY 1: SGD0.2010 stated in the Draft Circular.



- 2.9.12 The Draft Circular states that SKWI has extended loans totaling CNY 10.16 million to Lorenzo Kunshan (the “SKWI Loans”) and they were unsecured, interest free and had no fixed terms of repayment.
- 2.9.13 Lorenzo Kunshan’s GL as of 30 September 2020 records an outstanding balance of SKWI Loans totaling CNY 7.01 million, CNY 3.15 million less than the amount disclosed in the Draft Circular of CNY 10.16 million, of which we were unable to reconcile to. We requested all proofs of receipt and repayments for SKWI Loans to verify the movements and ending balance of the SKWI Loans, however, we have not received complete supporting documents as of the date of this report. Consequently, we are unable to verify the eventual outstanding balance of the SKWI Loans.
- 2.9.14 The 2020 Judgment and the Framework Agreement¹³ indicate that the SKWI Loans were interest bearing and of four month’s tenure, contrary to the disclosure made in the Draft Circular that “*loans extended by the Purchaser of the China Subsidiary were unsecured, interest free and had no fixed terms of repayment.*” However, Lorenzo Kunshan’s GL did not record any interest expense or interest paid to SKWI from 2017 to September 2020. Mr Teo Kok Meng stated that he was not aware of the Letter of Intent and the Framework Agreement and stated that no interest was, in fact, paid on the SKWI Loans, as reflected in the Lorenzo Kunshan’s GL.

Repayment of trade and other creditors of Lorenzo Kunshan

- 2.9.15 Section 2.4.3 of the Draft Circular states that the Amount Due to Creditors is an aggregate amount of SGD 0.94 million comprising:
- Goods received but not invoiced by suppliers amounting to approximately SGD 0.28 million.
 - Indirect tax due to tax authorities classified as *other creditors* of Lorenzo Kunshan amounting to approximately SGD 0.43 million.
 - Accrued expenses due to *other creditors* of Lorenzo Kunshan amounting to approximately SGD 0.23 million.
- 2.9.16 We observe that the Amount Due to Creditors above excludes the outstanding balance of SKWI Loans.
- 2.9.17 We were unable to verify the Amount Due to Creditors due to almost complete absence of supporting documentation:

¹³ Clause 4 of the Framework Agreement records that SKWI had extended an additional loan of CNY 1 million to Lorenzo Kunshan at a monthly interest rate of 1% with a tenure of four months. Refer to paragraph 2.8.7.



- Interview representations indicate that all electronic and physical records accounting records from 2016 and earlier were destroyed in a fire at the server room of Lorenzo Kunshan’s office in 2016.
 - There were no official documents to evidence the fire, nor was it announced (for example, via SGXNet) at the time. Documents such as a police or fire brigade report or any fire insurance claim did not exist, as no official report was made, and Lorenzo Kunshan did not have fire insurance.
- Although the fire had destroyed most of the documents, leaving Lorenzo Kunshan with no supporting documents to prove the debt, the outstanding trade and other payables balance were not written off as Lorenzo Kunshan is of the view that the creditors may nonetheless return with supporting documents e.g. supplier invoice or proof of delivery and request for payment.
- The creditors of these long outstanding balances have not been chasing for payment and Lorenzo declined to pursue to obtain direct confirmations from the creditors in case they remind its creditors of outstanding amounts due to them.
- The supporting documents identified from the Keyword Searches were insufficient to draw conclusions on the outstanding balance as the aggregate amount of the identified supporting documents is *de minimis* and the existence of supporting documents for the creation of an obligation to pay creditors does not necessarily establish that the obligation remains outstanding, in whole or in part.

Payments by Uhin

- 2.9.18 Section 2.8.1 of the Draft Circular states that Uhin, a direct wholly owned subsidiary of the Company, made several payments to trade and other creditors of Lorenzo Kunshan on behalf of Lorenzo Kunshan between 2012 and 2017 which in aggregate amounted to approximately SGD 5.46 million and the outstanding balance shall be waived upon completion of the Proposed Disposal.
- 2.9.19 Lorenzo Kunshan’s Accounts Payable Listing (“AP Listing”) as of 30 September 2020 records the amount due to Uhin as CNY 28,220,998, or approximately SGD 5.67 million,¹⁴ which is higher than the amount stated in the Draft Circular of SGD 5.46 million by approximately SGD 0.21 million.
- 2.9.20 We were unable to verify the Payment by Uhin due to almost complete absence of supporting documentation:
- Vendor Transaction Listing for Payment by Uhin does not contain details of the payees, we were unable to perform corporate intelligence procedures on them.

¹⁴ Based on exchange rate of CNY 1: SGD0.2010 stated in the Draft Circular.

- Mr Teo Kok Meng stated that Uhin’s past physical accounting records could not be located due to multiple shifts of warehouses¹⁵ in recent years.
- Mr Colin Tay stated that all electronic and physical records accounting records from 2016 and earlier were destroyed in a fire at the server room of Lorenzo Kunshan’s office in 2016.

2.10 Valuation of the Property/Lorenzo Kunshan

- 2.10.1 The Draft Circular records the consideration for the purchase of Lorenzo Kunshan as CNY 88 million. As described previously, this closely corresponds to the valuation of the Property performed by Suzhou Huaren of CNY 88,256,300. However, the 2020 Judgment refers to a Letter of Intent dated 21 July 2017 agreed between the Company and SKWI, which states that Lorenzo and SKWI may engage external valuers to perform a valuation and that, if the reassessed value is higher than CNY 88 million, SKWI is willing to acquire Lorenzo Kunshan at the reassessed value.
- 2.10.2 On the basis that the 2020 and 2021 Judgments relied on the Framework Agreement, which does not appear to amend the methodology described in the Letter of Intent, the valuation of Lorenzo Kunshan is of vital importance to the consideration.
- 2.10.3 In total, we were provided with five valuations, prepared by various independent firms. Four of these relate to the value of the Property alone, while one relates to the value of Lorenzo Kunshan itself.

Valuation date	Report date	Valuer	Asset	Valuation amount (CNY)	Valuation approach
19 January 2015	20 January 2015	Suzhou Huaren	The Property	88,256,300	Market approach or replacement cost method ¹⁶

¹⁵ The Company announced via SGXNet on 15 December 2017 in relation to a tenancy agreement entered into by the Company and Manufacture Element Prefabricate Pte. Ltd that, “... *the various Group entities had been operating from three (3) separate locations [...] the Group has consolidated its operations at the 23 Neythal Road premises...*”

¹⁶ A market approach is a method of determining the value of an asset based on the selling price of similar assets. A replacement cost method is a method that indicates value by calculating the cost of a similar business offering equivalent utility.

Valuation date	Report date	Valuer	Asset	Valuation amount (CNY)	Valuation approach
23 June 2017	27 June 2017	Jiangsu Jinningda	The Property	110,105,090	Market approach or replacement cost method
31 August 2018	8 October 2018	Knight Frank	The Property	163,100,000	Income approach ¹⁷
9 April 2020	29 May 2020	JLL	The Property	115,000,000	Income approach
9 April 2020	29 May 2020	JLL	100% equity interest of Lorenzo Kunshan	56,665,394	Cost approach ¹⁸

2.10.4 As described above, the 2020 and 2021 Judgments broadly have the effect of compelling the transfer of Lorenzo Kunshan on the basis set out in the Framework Agreement dated 20 March 2018 which stipulated that all business registration change procedures in relation to the Proposed Disposal should be completed before 20 April 2019. Both the Knight Frank and JLL reports post-date 20 March 2018 (and the Letter of Intent of 21 July 2017). Their impact on the value of the Proposed Disposal is therefore arguably moot unless SKWI was willing to renegotiate the value determined by the 2020 Judgment. As described at paragraph 2.9.8 of this report, Mr Teo Kok Meng, the Current CFO stated that he attempted to re-negotiate the consideration of CNY 88 million through Mr Colin Tay, the Former GM, but it was unsuccessful.

¹⁷ An income approach is a method by which the valuer attempt to determine the fair market value of the property based on the amount of net operating income the property generates.

¹⁸ A cost approach determination of value of a subject works on the principle that a buyer will not pay any more for an asset / liability than the cost to obtain an equivalent one by purchase or by construction. Therefore, the cost approach considers the cost to reproduce or replace the subject in accordance with current market prices for similar subjects, with an allowance for accrued depreciation or obsolescence, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for subjects without a known secondary market. It is also advantageous when the subject is not directly income generating and / or is unique thus ruling out the applicability of the other two valuation approaches. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject. The JLL valuation report states that their valuation was carried out on market value basis, which is defined as " the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

- 2.10.5 The JLL valuation report dated 29 May 2020 is the only report with which we were provided to directly address the value of Lorenzo Kunshan itself. The JLL valuation report valued a 100% equity interest in Lorenzo Kunshan at CNY 56,665,394 as at 9 April 2020, which is derived as below:

	Book Value (CNY)	Fair Value Adjustment (CNY)	Fair Value (CNY)
Assets			
Cash and cash equivalents	127,807	-	127,807
Investment properties	29,704,900	71,495,100	101,200,000
Intangible assets ¹⁹	4,311,883	9,488,117	13,800,000
Total assets	34,144,590	80,983,217	115,127,807
Liabilities			
Trade creditors	2,221,932	-	2,221,932
Other creditors & accruals ²⁰	9,189,571	-	9,189,571
Short term loan	26,805,106	-	26,805,106
Deferred tax liabilities ²¹	-	20,245,804	20,245,804
Total liabilities	38,216,609	-	58,462,413
Net Assets	(4,072,019)	60,737,413	56,665,394
100% Equity Value			56,665,394

- 2.10.6 The value of the Property is derived from the sum of investment properties and intangible assets. The fair value of the Property (CNY 101,200,000 + CNY 13,800,000 = CNY 115,000,000), is the same value reported by JLL in their Property valuation report as described at paragraph 2.10.3.

¹⁹ Being land use rights for the location of the Property.

²⁰ The Current CFO stated that all inter-company balances were eliminated in their numbers provided to JLL as the probability of recovery for these inter-company balances is zero. Consequently, the amount due to Uhin is not considered in JLL valuation report.

²¹ The JLL valuation report states that the deferred tax liabilities of CNY 20,245,804 were computed based on the China headline corporate tax rate for 2020 (i.e. 25%) applied to the fair value adjustment gain on the Property (CNY 80,983,217 x 25%).



- 2.10.7 As described at paragraph 2.9.5, Clause 2.3 of the Share Transfer Agreement stated that the consideration for the sale shall be based on CNY 88 million less the total indebtedness of Lorenzo Kunshan, as agreed by both parties as of the Change Registration Date.
- Using the indebtedness of Lorenzo Kunshan from the JLL valuation report, the net consideration of the Proposed Disposal would have been CNY 49.78 million.
 - Using the book value derived from Lorenzo Kunshan’s Trial Balance (“TB”) as of 30 September 2020 to calculate the total indebtedness of Lorenzo Kunshan, the net consideration of the Proposed Disposal would have been CNY 50.38 million.

2.11 The Supplemental Agreement

- 2.11.1 The 2020 Judgment refers to the Supplemental Agreement, which forms part of the Proposed Disposal agreements. To reiterate paragraph 2.5.9, the Supplemental Agreement only became known to us following our request for a copy the 2020 and 2021 Judgments and independent verification of the 2020 and 2021 Judgments.
- 2.11.2 As the Supplemental Agreement forms part of the Proposed Disposal, a “major transaction,” the Company was required to announce the relevant information of Supplemental Agreement. However, the Company did not make any announcement in relation to the Supplemental Agreement. *Prima facie*, this appears to be a breach of Rule 1014(1) of SGX ST Listing Manual.
- 2.11.3 The Supplemental Agreement was signed by Mr. Lim Pang Hern, the Current ED on behalf of the Company. Email correspondence and interview representations indicate that the key individuals involved in the negotiation of the Supplemental Agreement were Mr Lim Pang Hern and Mr Teo Kok Meng, the Current CFO.
- 2.11.4 Interview representations indicate that the Supplemental Agreement was signed by Mr Lim Pang Hern under pressure without understanding it in detail because SKWI had refused to sign the Share Transfer Agreement unless the Company signed the Supplemental Agreement. We observe that no documentation is available to verify this representation. In addition, Keyword Searches did not identify any email correspondence on the threat made by SKWI.
- 2.11.5 The key clauses set out in the Supplemental Agreement and our findings to the clauses are detailed below.
- 2.11.6 The interviewees represented that they believed the Share Transfer Agreement was the main agreement and that, in the case of any conflict between the terms of the Share



Transfer Agreement and Supplemental Agreement, the Share Transfer Agreement would supersede the Supplemental Agreement. However, the Supplemental Agreement expressly purports to amend the terms of the Share Transfer Agreement.

- 2.11.7 The Share Transfer Agreement sets out the requirement to obtain relevant approvals, including but not limited to those of SGX RegCo and Lorenzo's shareholders. However, this requirement was removed in Supplemental Agreement. Consequently, the Proposed Disposal was no longer subject to approval, including that of Lorenzo's shareholders or SGX RegCo. Interviewees represented that the initial intention of the Supplemental Agreement was for the Supplemental Agreement to be effective only after the Share Transfer Agreement has been approved by SGX RegCo and shareholders, with the only change being the change of payment terms, which was consistent with the email correspondence identified from our Keyword Searches. However, Mr Teo Kok Meng believed that the relevant clause to effect the Supplemental Agreement after the Share Transfer Agreement was removed by SKWI and there was an oversight by the Company to ensure that the relevant clause was included in the Supplemental Agreement.
- 2.11.8 The Supplemental Agreement sets out longer payment terms, which appears to supersede the Share Transfer Agreement, which states that SKWI shall pay 20% of the consideration as a deposit within five working days and the remaining 80% shall be paid within ten working days from the Change Registration Date.
- 2.11.9 In addition, the Share Transfer Agreement states that the consideration for the sale shall be based on CNY 88 million less the total indebtedness of Lorenzo Kunshan, as agreed by both parties as of the Change Registration Date. The Supplemental Agreement refers to a total payment of CNY 60 million, and as at 31 May 2019, SKWI had paid CNY 17.52 million.
- 2.11.10 Mr Teo Kok Meng was unable to provide a clear explanation on the CNY 17.52 million received as stated in the Supplemental Agreement. The documents available are unclear or inconsistent as to both the final consideration of the Proposed Disposal and the amount received by the Company for the Proposed Disposal.

2.12 Company announcements and legal proceedings

- 2.12.1 The 2020 Judgment²² states that SKWI filed the proceedings against the Company on 17 September 2019 to enforce its legal rights under the Framework Agreement, Share Transfer Agreement and Supplemental Agreement, so as to compel the Company to transfer the shares of Lorenzo Kunshan to SKWI and SKWI was also seeking

²² We have obtained advice on and verified the legitimacy of the 2020 Judgment and 2021 Judgment.

compensation for the long delay in the completion of the shares transfer. The court hearing started on 12 August 2020 and the 2020 Judgment was released on 30 October 2020.

- 2.12.2 The 2020 Judgment refers to and relied on four agreements described above in this report: the Letter of Intent, the Framework Agreement, the Share Transfer Agreement and the Supplemental Agreement. The 2020 Judgment stated that:
- Lorenzo did not actively attempt to complete the Proposed Disposal by 20 April 2019, which was the agreed deadline in clause 8 of the Framework Agreement.
 - As SKWI had made instalment payments²³ of the considerations to Lorenzo and reminded Lorenzo multiple times to fulfil its responsibilities in accordance with the Framework Agreement, Lorenzo has deliberately breached the Framework Agreement.
 - Lorenzo was ordered that the sale of Lorenzo Kunshan be completed within 30 days of the release of the 2020 Judgment (i.e. by 30 November 2020).
 - Lorenzo was ordered to pay CNY 18 million in damages to SKWI within ten days of the release of the 2020 Judgment (i.e. by 9 November 2020).
- 2.12.3 On 16 November 2020, 16 days after the 2020 Judgment, the Company announced via SGXNet that SKWI had *commenced* proceedings to enforce its legal rights under the Share Transfer Agreement and that SKWI was seeking compensation for the long delay in the completion of the Share Transfer. In fact, proceedings had been commenced and concluded at the time of the announcement but it was not included in the Company's announcement. The Company only announced the legal proceeding on 16 November 2020, more than a year after the commencement of the legal proceeding, *prima facie*, appears to be a breach of Rule 703(1)²⁴ of the Listing Manual.
- 2.12.4 On 26 February 2021, the Shanghai QingPu People's Court dismissed Lorenzo's appeal filed on 4 January 2021, upholding the 2020 Judgment. The appellate Court upheld the 2020 Judgment in favour of SKWI, awarded CNY 18 million in damages to SKWI and ordered that the sale of Lorenzo Kunshan be completed within a month of 17 March 2021.
- 2.12.5 On 29 March 2021, one month after the 2021 Judgment, the Company announced via SGXNet the outcome of the 2021 Judgment. The omission that the proceedings referred to in the 16 November 2020 and 29 March 2021 announcements were an appeal against

²³ The Announcements did not mention that instalments were received from SKWI.

²⁴ Rule 703(1) of SGX ST Listing Manual states that "An issuer must announce any information known to the issuer concerning it or any of its subsidiaries or associated companies which: (a) is necessary to avoid the establishment of a false market in the issuer's securities; or (b) would be likely to materially affect the price or value of its securities.". Appendix 7.1 Corporate Disclosure Policy states that "Under Rule 703, the following events, while not comprising a complete list of all the situations which may require disclosure, are likely to require immediate disclosure:— [...] (m) Significant litigation [...]"

a judgment already rendered by 30 October 2020 against Lorenzo, which was not wholly disclosed by the Company, appears to be a breach of 703(4)(a)²⁵ of the Listing Manual, read together with Paragraph 25 of Appendix 7.1 and section 203(1) of the Securities and Futures Act 2001.

2.12.6 On 30 March 2021, KPMG requested a copy of the 2021 Judgment announced on 29 March 2021. On the same day, Mr Teo Kok Meng, the current CFO provided two copies of Court Judgments. Namely, the 2020 Judgment released on 30 October 2020 by the Shanghai QingPu People's Court, and the 2021 Judgment released on 26 February 2021 issued by the Shanghai No. 2 Intermediate People's Court.

2.12.7 On 30 June 2021, the Company announced that:

- On 18 June 2021, SKWI had informed that it had obtained a Court order for the transfer of shares.
- Lorenzo's legal adviser had confirmed to the Company that the shareholdings of Lorenzo Kunshan had been transferred to SKWI.
- Accordingly, Lorenzo Kunshan ceased to be a subsidiary company of the Company with effect from 18 June 2021. The corporate registry entries for Lorenzo Kunshan records that the legal representative²⁶ has been updated to Ms Dong Mei Hua of SKWI from 30 June 2021.

2.12.8 Mr Teo Kok Meng stated that the Company is commencing legal proceedings against SKWI to claim CNY 59.46 million based on:

Description	CNY (million)
Consideration	88.00
<i>Less:</i>	
Compensation (paragraphs 2.8.6 and 2.12.4)	(18.00)
SKWI Loans balance (CNY 23.85 million – CNY 16.84 million + CNY 3.53 million)	(10.54) ²⁷
Amount to be claimed	59.46

²⁵ Rule 703(4)(a) of the Listing Manual and Paragraphs 25(a) and 25(c) of Appendix 7.1 Corporate Disclosure Policy of states that "25. *The content of a press release or other public announcement is as important as its timing. Each announcement should:— (a) be factual, clear and succinct; [...] (c) be balanced and fair. Thus, the announcement should avoid:- (i) omission of important unfavourable facts, or the slighting of such facts [...]*"

²⁶ A Legal Representative is the individual who serves as the legal embodiment of the company's interests for purposes of the People's Republic of China Government. Theirs names appear on the company's business license and, under People's Republic of China law, the Legal Representative is responsible for the company and all of its operations.

²⁷ Of the CNY 10.54 million, we have not received the proof of receipts of CNY 5.4 million i.e. sum of CNY 1.87 million and CNY 3.53 million.



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- 2.12.9 We requested the engagement letter and email correspondence between the Company and its appointed legal counsel for the purported legal proceedings against SKWI above. We were not provided with any such documents. Mr Teo Kok Meng stated that legal counsel has not been formally appointed due to the Company's cash flow situation.
- 2.12.10 On 29 August 2022, the Company announced via SGXNet that:
- As of 30 June 2022, the total other receivables amount of the Company was SGD 8.355 million, SGD 6.69 million of which was related to an amount due from the purchaser of [*Lorenzo Kunshan*]; and
 - The Company will commence legal proceedings to recover the SGD 6.69 million from the purchaser of [*Lorenzo Kunshan*] after it has exhausted other avenues to recover the sum.
- 2.12.11 Mr Teo Kok Meng confirmed by email on 11 October 2022 that SGD 6.69 million was the outstanding consideration to be received from SKWI for the Proposed Disposal. However, SGD 6.69 million (approximately CNY 33.28 million)²⁸ is SGD 5.26 million (approximately CNY 26.18 million) less than the amount that the Company stated it intended to claim of SGD 11.95 million (approximately CNY 59.46 million) as described at paragraph 2.12.8.
- 2.12.12 Mr Teo Kok Meng stated in email on 11 October 2022 that:
- The Company has not received any monies from SKWI to date; and
 - The outstanding consideration of SGD 6.69 million²⁹ was derived from the sales consideration of SGD 14.50 million (approximately CNY 70 million)³⁰ less Lorenzo Kunshan's indebtedness as of 30 June 2021 totaling SGD 7.81 million, which the Company assumed that they need to absorb following the completion of the Proposed Disposal.
 - We have not been able to verify the indebtedness of Lorenzo Kunshan as of 30 June 2021, as we were unable to ascertain the existence, accuracy and completeness of Lorenzo Kunshan's indebtedness as of 30 September 2020, as described in paragraphs 2.9.9 to 2.9.17.

2.13 Conclusion

The negotiation of the Proposed Disposal

²⁸ Based on exchange rate of CNY 1: SGD0.2010 stated in the Draft Circular.

²⁹ Based on exchange rate of CNY 1: SGD0.2082 according to the workings provided by Mr Teo Kok Meng.

³⁰ Based on the sales consideration of CNY 88 million less CNY 18 million in damages awarded to SKWI and an exchange rate of CNY 1: SGD0.2071 according to the explanation provided by Mr Teo Kok Meng.



- 2.13.1 As described at sections 2.7 to 2.12, there are a number of significant irregularities related to the Proposed Disposal.
- 2.13.2 The negotiation of the Proposed Disposal, including the completion of contractual documentation, appears to have started in early 2017 but the Announcement and the Draft Circular gave the date as 2019. The personnel that we interviewed were unable, individually or collectively, to provide a full explanation of the key events from the initiation of the Proposed Disposal to its conclusion.
- 2.13.3 There is a conspicuous absence of supporting documents to substantiate the transactions recorded in Lorenzo Kunshan's accounts, which contribute to the consideration for the sale of the Property (e.g. the SKWI Loans, the Amount Due to Creditors and Payment by Uhin). In addition, the Company is unable to provide a copy of the Letter of Intent, one of the fundamental agreements for the Proposed Disposal, on which the 2020 and 2021 Judgments were based.
- 2.13.4 As a result of these irregularities and omissions, it is impossible to form a clear understanding of the governance of the Proposed Disposal or to demonstrate that the negotiations and agreements took place appropriately and in good faith. Given the absence of contemporaneous records, we are unable to conclude that any specific individual or entity made an improper profit from the Proposed Disposal.

Consideration for the Proposed Disposal

- 2.13.5 Likewise, the quantum of the consideration is subject to anomalies. Perhaps most fundamentally, an explanation for the mechanism for determining the consideration of the Proposed Disposal is unclear and documentation is conspicuously absent or contradictory. While the consideration of CNY 88 million seems to have been settled early in the negotiations, the option to revalue, where for example an independent valuation report from Knight Frank in 2018 valued the Property at CNY 163.1 million, does not seem to have been taken up or other options for disposal – including to other parties – considered.
- 2.13.6 The elements which make up the adjustments to the consideration are also lacking in documentary support, or the documentation is contradictory, in particular:
- The payment of CNY 4.32 million to SKWI for a “*guarantee fee*” for the JKRC Bank Loan described in the Framework Agreement.
 - The Draft Circular states that the loans from SKWI were unsecured, interest free and had no fixed terms of repayment, whereas the documents identified indicate the loans from SKWI were subject to a monthly interest rate of 1%.

- The Draft Circular states that the outstanding SKWI Loans amount to CNY 10.16 million, but the amount cannot be reconciled to Lorenzo Kunshan’s GL as of 30 September 2020.
- The Supplemental Agreement states that SKWI made payment of CNY 17.52 million for the Proposed Disposal as at 31 May 2019, whereas the documents identified and interview representation indicate that no such payment was made nor did the amount matched to the outstanding balance of SKWI Loans above.

2.13.7 As a result of these irregularities and omissions, it is impossible to form a clear understanding of how the final consideration for the Proposed Disposal was determined and provide assurance that this determination took place appropriately and in good faith, nor is it possible to conclude whether the Proposed Disposal itself was improper.

The amount owed to creditors

2.13.8 As described at section 2.8 to 2.9, there is a conspicuous absence of supporting documents maintained by the Company and Lorenzo Kunshan to substantiate the outstanding amount purportedly owed to creditors of Lorenzo Kunshan. The most significant documentary absences are:

- JKRC Bank Loan statements to verify the outstanding JKRC Bank Loan amount;
- Evidence of SKWI Loans; and
- Supporting documents to substantiate the Amount Due to Creditors and Payment by Uhin.

2.13.9 We were provided with photographs of a fire, which Mr Colin Tay, the Former GM represented that the fire destroyed the electronic and physical accounting records of Lorenzo Kunshan from 2016 and earlier. We were unable to verify that the photographs showed a fire at Lorenzo Kunshan. Supporting documents for transactions after 2016 were also not provided for our review.

2.13.10 As a result of these anomalies and the conspicuous absence of supporting documents, it is impossible to verify the accuracy of the amount owed to the creditors, including the amounts recorded in the books of Lorenzo Kunshan or those disclosed in the Draft Circular and/or Announcements.

Potential breaches of the SGX ST Listing Manual, Companies Act and Securities and Futures Act 2001

2.13.11 Rule 1014(1) of SGX ST Listing Manual states that *“Where any of the relative figures as computed on the bases set out in Rule 1006 exceeds 20%, the transaction is classified as a major transaction. The issuer must, after terms have been agreed, immediately*

announce the information required in Rules 1010, 1011, 1012 and 1013, where applicable.”

- 2.13.12 Section 203(1) of the Securities and Future Act 2001 states that, *“A person to whom this subsection applies must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the person is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.”*
- 2.13.13 Section 2.8.6 of the Draft Circular states that, *“As one of the relative figures computed on the bases set out in Rule 1006 exceeds 20%, the Proposed Disposal of the China Subsidiary is classified as a “major transaction” under Chapter 10 of the Listing Manual.”*
- 2.13.14 The first announcement made by the Company in relation to the Proposed Disposal was on 13 August 2019, approximately one and a half years after the execution of the Framework Agreement dated 20 March 2018. In addition, the Company did not disclose *all* Proposed Disposal Agreements. It disclosed the Share Transfer Agreement in the Announcement and the Draft Circular, but it did not disclose the Framework Agreement and Supplemental Agreement. *Prima facie*, this appears to be a breach of Rule 1014(1) of SGX ST Listing Manual and section 203(1) of the Securities and Futures Act 2001.
- 2.13.15 Rule 1014(2) of SGX ST Listing Manual states that *“a major transaction must be made conditional upon approval by shareholders in general meeting”*. The Proposed Disposal was completed without shareholders’ approval in general meeting, *prima facie* also appears to be a breach of Rule 1014(2) of the SGX ST Listing Manual.
- 2.13.16 Chapter 7 of the Listing Manual *Continuing Obligations* requires the immediate announcement of material information. Rule 703(1) of SGX ST Listing Manual states that *“An issuer must announce any information known to the issuer concerning it or any of its subsidiaries or associated companies which: (a) is necessary to avoid the establishment of a false market in the issuer’s securities; or (b) would be likely to materially affect the price or value of its securities.”*. Appendix 7.1 Corporate Disclosure Policy states that *“Under Rule 703, the following events, while not comprising a complete list of all the situations which may require disclosure, are likely to require immediate disclosure:—... (m) Significant litigation...”*

- 2.13.17 Rule 703(4)(a) of the Listing Manual and Paragraph 25(a) of Appendix 7.1 Corporate Disclosure Policy of states “25. *The content of a press release or other public announcement is as important as its timing. Each announcement should:— (a) be factual, clear and succinct;...*”
- 2.13.18 SKWI filed the proceedings against the Company on 17 September 2019 but the Company only announced the legal proceeding on 16 November 2020, more than a year after the commencement of the legal proceeding, *prima facie*, appears to be a breach of Rule 703(1) of the Listing Manual.
- 2.13.19 The Announcement dated 16 November 2020 omitted that a judgment had already been rendered by 30 October 2020 against Lorenzo (i.e. the 2020 Judgment). The 29 March 2021 announcement omitted that the proceedings referred to were *an appeal* against the 2020 Judgment, and the decision at first instance was upheld by the appellate court. SKWI had commenced proceedings significantly before the 16 November 2020 announcement and had won them, contrary to the impression given by that announcement. *Prima facie*, this appears to be a breach of Rule 703(4) of SGX ST Listing Manual and section 203(1) of the Securities and Futures Act 2001.
- 2.13.20 SGX Code of Corporate Governance Practice Guidance 9: *Risk Management and Internal Controls* requires that the Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls. Rule 719(1) of SGX ST Listing Manual states that “*An issuer should have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems.*”
- 2.13.21 Section 199(1) of the Companies Act states that “*Every company shall cause to be kept such accounting and other records as will sufficiently explain the transactions and financial position of the company and enable true and fair financial statements and any documents required to be attached thereto to be prepared from time to time, and shall cause those records to be kept in such manner as to enable them to be conveniently and properly audited.*”
- 2.13.22 Section 199(2) of the Companies Act states that “*The company shall retain the records referred to in subsection (1) for a period of not less than 5 years from the end of the financial year in which the transactions or operations to which those records relate are completed.*”
- 2.13.23 Section 199(2A) of the Companies Act states that “*Every public company and every subsidiary company of a public company shall devise and maintain a system of internal accounting controls sufficient to provide a reasonable assurance that —*

- a) *assets are safeguarded against loss from unauthorized use or disposition; and*
- b) *transactions are properly authorized and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.”*

- 2.13.24 The management did not have information on, *inter alia*, the Proposed Disposal and the Company was unable to furnish key documents in relation to the Proposed Disposal. Lorenzo appears to have failed to maintain an adequate and effective internal control over its financial and operational systems. *Prima facie*, this appears to be a breach of Rule 719(1) of SGX ST Listing Manual, and Section 199(1), 199(2) and 199(2A) of the Companies Act.
- 2.13.25 Notably, in the course of these *prima facie* breaches, information was withheld from shareholders and SGX RegCo. The Supplemental Agreement was the last agreement agreed between SKWI and the Company on the Proposed Disposal. It included major terms such as the conditions precedent, consideration and payment terms, superseding the terms set out in the Share Transfer Agreement. However, it was not disclosed in the Announcement and the Draft Circular.
- 2.13.26 Most significantly, the Supplemental Agreement removed the conditions precedent set out in the Share Transfer Agreement: the requirement to obtain approvals from SGX RegCo and Lorenzo’s shareholders. Consequently, the requisite approvals from SGX RegCo and Lorenzo’s shareholders were not obtained.
- 2.13.27 Section 157(1) of the Companies Act states that, “*A director must at all times act honestly and use reasonable diligence in the discharge of the duties of his or her office.*”
- 2.13.28 We would therefore have expected Mr Jason Teoh, the Former CEO to exercise due care when carrying out his duties as a director of the Company, including understanding the key terms of the agreements that signed by him on behalf of the Company. Mr Jason Teoh signed the Framework Agreement at the behest of Mr. Lim Pang Hern, the Current ED, without understanding the purpose of these agreements and the key terms.
- 2.13.29 Similarly, we would have expected Mr Lim Pang Hern to assess the consideration of the Proposed Disposal, understand the key terms of the Supplemental Agreement, and obtain the Board’s approval prior to signing the Supplemental Agreement. We did not identify evidence suggesting that a re-assessment of consideration occurred nor did Mr Lim Pang Hern provide an explanation of why re-assessment was not performed. In addition, he stated that he signed the Supplemental Agreement without understanding the key terms in detail or obtaining the Board’s approval.



Other observations

- 2.13.30 We were provided with a number of critical documents only after their existence was independently established by our investigation, in particular:
- The Framework Agreement;
 - The Supplemental Agreement; and
 - The legal proceedings by SKWI in late 2019 and the 2020 Judgment.
- 2.13.31 The conspicuous absence of accounting and other records of the Company, and their incomplete disclosure during our investigation significantly delayed our work and, had certain documentation not come to light independently, would have had a materially adverse effect on our ability to conclude our investigation.

2.14 Limitation and use of our report

- 2.14.1 Our report is prepared solely for the use of Lorenzo and the SGX RegCo under the terms of the Engagement Letter, and should not be used, quoted, referred to or relied upon, in whole or in part, without our prior written permission, by any third party or for any other purposes. We do not assume responsibility for loss and expressly disclaim any liability to any party whatsoever, however arising, from the use of this report other than for the purposes as set out in the Engagement Letter.
- 2.14.2 Our scope of work does not constitute an audit, a review, or an assurance engagement in accordance with Singapore Standards on Auditing, Singapore Standards on Review Engagements or Singapore Standards on Assurance Engagements. Consequently, no opinion or assurance has been expressed under such standards, and we have not provided an opinion under those standards on the nature of any issues identified in the course of our work.
- 2.14.3 The observations in our report are based on the information made available to us in the course of our work. Except where expressly stated, the information has not been independently verified, and reliance has been placed on the integrity, accuracy and completeness of the information therein.
- 2.14.4 The observations set out in our report are based on our understanding of the relevant laws, regulations and guidelines applicable at the time of the engagement and should not be construed as legal advice.