

**FINANCIAL
STATEMENT**

**INDEPENDENT AUDITOR'S REPORT TO THE
MEMBERS OF LORENZO INTERNATIONAL LIMITED**

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Lorenzo International Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 March 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

(1) Appropriateness of going concern assumption

As discussed in Note 2(a) to the financial statements, as at 31 March 2018, the Group had negative equity of \$1,548,905 and net current liabilities of \$14,624,789 while the Company had equity of \$9,390 and net current asset of \$4,895. For the financial year ended 31 March 2018, the Group incurred a loss after tax of \$10,811,627 and a total comprehensive loss of \$10,712,917 respectively, and the Group had sustained net operating cash outflows of \$594,462.

The matters set out above and in Note 2(a) to the financial statements indicate the existence of a material uncertainty which cast a significant doubt on the Group's and the Company's ability to continue as a going concern. Some of the Group's financing arrangements had expired and the amounts outstanding were payable on 30 September 2016 and 31 December 2016. At the reporting date, no letter of extension on the repayment dates for these outstanding loans and borrowings at year end amounting to \$5,738,387 was obtained from the banks. Management had assessed the assumption of the use of going concern by performing a profitability projection for the next 12 months based on the sales and related forecast and the ability to source for re-financing of borrowings. Furthermore, two directors cum shareholders of the Company had provided a financial undertaking to the Group and the Company to provide the necessary financial support to the Group and the Company to continue operations and meet their liabilities as and when they fall due within the next 12 months from the reporting date.

FINANCIAL STATEMENT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED (CONT'D)

Basis for Disclaimer of Opinion (Cont'd)

(1) Appropriateness of going concern assumption (Cont'd)

The cash flow projection for the next 12 months from the reporting date prepared by management resulted in a net cash outflows. If the Group and Company are unable to continue in operational existence for the foreseeable future, the Group and Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which may differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and Company may have to provide for further liabilities that may arise and to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements. Notwithstanding that a letter of financial undertaking had been provided by the directors cum shareholders of the Company, we were unable to obtain sufficient audit evidence to attest the financial capability of the directors cum shareholders in providing such financial support required to ensure that the Group and the Company are able to pay their debts as and when they fall due. Therefore, we are not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Group and the Company is appropriate.

The auditor's report of the Group dated 6 October 2017 for the financial period from 1 January 2016 to 31 March 2017 included a similar basis for disclaimer on this matter.

(2) Inventories

In the last financial period ended 31 March 2017, as reported in the auditor's report dated 6 October 2017, we were unable to establish the completeness and accuracy over the valuation and costing of the inventories of two of the subsidiaries due to (i) incomplete roll-back reconciliations prepared by management to reconcile the differences between the physical inventory counted on 5 June 2017 and 19 August 2017 for each of the subsidiaries respectively, and the inventories balances as at 31 March 2017; and (ii) no physical re-count was performed.

In the absence of an accurate opening balances of inventories as at 1 April 2017, we were unable to establish the accuracy of inventory cost recognised as cost of sales of \$385,021 out of \$9,379,322 (Notes 9 and 21) and the allowance for inventory obsolescence recognised in other operating expenses of \$1,003,438 out of \$3,010,535 (Notes 9 and 21) in the profit or loss account for the financial year ended 31 March 2018.

Notwithstanding that management had made allowance for inventory obsolescence during the financial year ended 31 March 2018, the allowance may not have arisen had the completeness and accuracy of inventories were ascertained in the financial period ended 31 March 2017. The cost of sales and allowance for inventory obsolescence charged to the profit or loss account for the financial year ended 31 March 2018 could potentially be misstated because we could not determine which financial period - 31 March 2017 or 31 March 2018 should the cost of sales and allowance for inventory obsolescence be recorded in.

**FINANCIAL
STATEMENT**

**INDEPENDENT AUDITOR'S REPORT TO THE
MEMBERS OF LORENZO INTERNATIONAL LIMITED
(CONT'D)**

Basis for Disclaimer of Opinion (Cont'd)

(3) Amount due from a customer

In the last financial period ended 31 March 2017, as reported in the auditor's report dated 6 October 2017, one of the subsidiaries of the Group had recognised sales of \$2,000,000 to an external customer in respect of a delivery of goods on 3 March 2017. The credit term stated on the sales invoice was based on cash term. No payment was received from the customer following the delivery of goods and issuance of invoice in the financial period ended 31 March 2017. Only a cash payment of \$200,000 was subsequently collected from the customer on 18 August 2017 and the balance of \$1,800,000 (excluding Goods and Services Tax) remained outstanding for more than 150 days as of the audit report dated 6 October 2017.

Based on our subsequent receipt review as of 12 September 2018, total collections from the customer amounted to \$808,430. As such, there was an over recognition of revenue and related trade receivables in respect of the financial period ended 31 March 2017 which is of material significance to the consolidated financial statements but no prior year adjustment had been made. Notwithstanding that management had made full impairment to the remaining outstanding trade receivables of \$1,191,570 (excluding Good and Services tax) from this customer during the financial year ended 31 March 2018, the impairment allowance on trade receivables during the year would not have arisen had the revenue and trade receivables were only recognised to the extent of the probable inflow of economic benefits associated with the transaction i.e. \$808,430.

(4) Valuation of amounts due from subsidiaries

The carrying values of amounts due from subsidiaries at the Company level amounted to \$3,852,310 (Note 10) as at 31 March 2018.

Management did not perform an assessment of impairment to determine the amount and timing of future cash flows based on historical loss experiences for assets with similar credit risk using the effective interest rate. In the absence of any alternative evidence available to us, we were unable to determine if any adjustments would be required to the carrying value of the amounts due from subsidiaries recorded at the Company level as at 31 March 2018.

The auditor's report dated 6 October 2017 for the financial period ended 31 March 2017 included a similar qualification on this matter.

FINANCIAL STATEMENT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED (CONT'D)

Basis for Disclaimer of Opinion (Cont'd)

(5) Recoverable amount of non-financial assets and reversal of/and impairment losses

The Group had carried out an impairment assessment over its property, plant and equipment (Note 4), investment property (Note 5), land use rights (Note 6) and costs of investment in subsidiaries (Note 7) and identified 5 main Cash-Generating-Units (CGUs), defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The CGUs identified were the furniture business in Singapore (Retail CGU (Singapore)), the furniture business in Malaysia (Retail CGU (Malaysia)), the furniture business in Taiwan (Retail CGU (Taiwan)), rental income from the leasing from properties in China (Leasing CGU) and the building material business (Building Materials CGU).

The recoverable amount should be based on the higher of the fair value less cost to sell and value-in-use basis of computation. The value-in-use should be computed using the estimated future cash flows discounted to the present values using pre-tax discount rates.

However, no recoverable amount was determined for the following:

- Costs of investment in subsidiaries (Note 7) at the Company level for Building Materials CGU, Retail CGU (Singapore) and Leasing CGU; and
- Plant and equipment (other than leasehold properties) (Note 4) for Retail CGU (Singapore), Retail CGU (Malaysia) and Leasing CGU.

Consequently, we were unable to satisfy ourselves by alternative means concerning:

- any reversal of brought forward impairment loss as at 31 March 2018 of \$9,616,732 (Note 7), if required, or the impairment loss of \$25,371,628 (Note 7) made during the financial year in the costs of investment in subsidiaries of those CGUs; and
- any reversal of brought forward impairment loss as at 31 March 2018 of \$1,746,337 (Note 4), if required, or the impairment loss of \$306,384 (Note 4) made during the financial year in the plant and equipment (other than leasehold properties) of those CGUs.

and accordingly, we were unable to ascertain the valuation of the carrying book amount of investments of \$Nil (Note 7) and the net book value of plant and equipment (other than leasehold properties of \$706,146 (Note 4) of those CGUs respectively as at 31 March 2018.

The auditor's report of the Group dated 6 October 2017 for the financial period ended 31 March 2017 included a similar qualification on this matter.

**FINANCIAL
STATEMENT**

**INDEPENDENT AUDITOR'S REPORT TO THE
MEMBERS OF LORENZO INTERNATIONAL LIMITED
(CONT'D)**

Basis for Disclaimer of Opinion (Cont'd)

(6) Amount due to contract customers

The Group has net amount due to contract customers of \$109,993 (Note 23) as at 31 March 2018 and has not recorded any contract revenue and contract cost of sales recognised during the financial year.

The Group was unable to provide an updated project schedule and the necessary audit evidence for our audit due to staff turnover.

As such, we were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves on the following:-

- The existence, accuracy and valuation of the amount due to contract customers as of 31 March 2018 which consist of contract cost incurred, attributable profit and progress billings.
- The completeness, occurrence and accuracy of the contract revenue and contract cost of sales, if any, to be recorded for the financial year ended 31 March 2018.

In the absence of any audit evidence and alternative audit procedures, we were unable to identify any necessary adjustments required.

(7) Acquisition of Brezza Living Sdn Bhd

On 23 November 2017, a subsidiary, Ginova Marketing Sdn Bhd ("GMSB") entered into a sales and purchase agreement to acquire 100% equity interest in Brezza Living Sdn Bhd ("Brezza") from a third party for a purchase consideration of RM1,200,000 payable in three instalments (Note 7).

In the absence of the forecasted consolidated net profit after tax of GMSB and its subsidiaries (including the newly acquired Brezza) to determine the deferred consideration of RM1,200,000, we were unable to establish with a reasonable amount of accuracy the deferred consideration for the acquisition of the 100% equity interest in Brezza. As a result of this, we were unable to establish the cost of investment of Brezza in the books of GMSB and the deferred consideration payable recorded at the Group level.

Management appointed Jones Lang LaSalle as their management expert to carry out the "purchase price allocation" ("PPA") exercise. However, management is unable to finalise and complete the PPA exercise and issue a report before the finalisation of the financial information of the Group for the financial year ended 31 March 2018. In the absence of a detailed PPA being carried out, we were unable to establish the identification and measurement of the fair values of identifiable assets, liabilities and any contingent liabilities and intangible assets, goodwill and post-acquisition results as at the date of acquisition.

As a result, we were unable to ascertain the existence, accuracy and valuation of the amount of any goodwill and any contingent liabilities and intangible assets arising from the acquisition.

FINANCIAL STATEMENT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LORENZO INTERNATIONAL LIMITED (CONT'D)

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Ho Teik Tiong.

Foo Kon Tan LLP
*Public Accountants and
Chartered Accountants*

Singapore, 30 November 2018