

LORENZO

LORENZO INTERNATIONAL LIMITED

(Co. Reg. No.: 200508277C)

Q2 Financial Statements and Dividend Announcement For the year ended 30 June 2014

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

- 1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group		
	Half-Year ended 30 Jun 2014	Half-Year ended 30 Jun 2013	Increase/ (Decrease)
	S\$'000	S\$'000	%
Revenue	35,684	38,661	(7.7)
Cost of sales	(20,053)	(22,158)	(9.5)
Gross Profit	15,631	16,503	(5.3)
Other operating income	1,356	1,610	(15.8)
Administrative expenses	(12,770)	(12,855)	(0.7)
Distribution and marketing costs	(3,759)	(4,391)	(14.4)
Other operating expenses	(1,271)	(1,462)	(13.1)
Finance costs	(458)	(482)	(5.0)
Loss before tax	(1,271)	(1,077)	18.0
Taxation	(195)	(508)	(61.6)
Loss after tax	(1,466)	(1,585)	(7.5)

Loss attributable to:
Equity holders of the Company (1,466) (1,585)

Loss for the period is arrived after charging / (crediting) the following items:

	Half-Year ended 30/06/2014	Half-Year ended 30/06/2013	Increase/ (Decrease)
	S\$'000	S\$'000	%
Interest income	(32)	(90)	(64.4)
Interest expense	458	482	(5.0)
Depreciation of property, plant & equipment	1,637	1,691	(3.2)
Amortisation of land use rights	15	15	-
Foreign exchange loss/ (gain)	153	(366)	nm

Impairment loss on trade receivables	-	16	nm
Inventories written off	79	105	(24.8)
Write-down in value of inventories	-	350	nm
Impairment of property, plant and equipment	112	49	128.6

nm – not meaningful

1(b) A statement of comprehensive income (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Half-Year ended	
	30/06/2014	30/06/2013
	S\$'000	S\$'000
Loss for the period	(1,466)	(1,585)
Exchange differences on translation of foreign operations	(345)	(282)
Total comprehensive loss for the period	(1,811)	(1,867)
Attributable to:		
Equity holders of the Company	(1,811)	(1,867)
Minority interest	-	-
	(1,811)	(1,867)

1(c)(i) A balance sheet (for the Issuer and Group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	As at 30 Jun 2014	As at 31 Dec 2013	As at 30 Jun 2014	As at 31 Dec 2013
	S\$'000	S\$'000	S\$'000	S\$'000
ASSETS:				
Non-Current Assets				
Land use rights	1,178	1,243	-	-
Property, plant and equipment	25,148	26,238	1	2
Other receivables	400	555	-	-
Available-for-sales financial assets	-	20	-	-
Investment in subsidiaries	-	-	30,254	30,254
	26,726	28,056	30,255	30,256
Current Assets:				
Land use rights	33	32	-	-
Inventories, at cost	22,175	24,829	-	-
Amount due from subsidiaries	-	-	355	-
Trade and other receivables	8,011	8,634	272	225
Fixed deposits with banks	1,331	1,323	-	-
Cash and cash equivalents	2,591	3,637	242	24
	34,141	38,455	869	249
Total assets	60,867	66,511	31,124	30,505

EQUITY AND LIABILITIES:				
Capital and Reserve				
Share capital	32,982	30,258	32,982	30,258
Reserves	(5,611)	(3,800)	(2,034)	(1,765)
	27,371	26,458	30,948	28,493
Non-current liabilities				
Borrowings	708	887	-	-
Deferred tax	173	173	-	-
Deferred income	47	58	-	-
	928	1,118	-	-
Current Liabilities				
Trade and other payables	16,460	19,330	176	76
Deferred income	58	47	-	-
Amount due to a subsidiary	-	-	-	1,936
Current tax payable	29	421	-	-
Borrowings	16,021	19,137	-	-
	32,568	38,935	176	2,012
Total equity and liabilities	60,867	66,511	31,124	30,505

1(c)(ii) Aggregate amount of the Group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

<u>As at 30 June 2014 (S\$'000)</u>		<u>As at 31 December 2013 (S\$'000)</u>	
Secured	Unsecured	Secured	Unsecured
16,021	-	19,137	-

Amount repayable after one year

<u>As at 30 June 2014 (S\$'000)</u>		<u>As at 31 December 2013 (S\$'000)</u>	
Secured	Unsecured	Secured	Unsecured
708	-	887	-

Details of any collateral

All bank facilities are secured and guaranteed by the Company, except those of Malaysia subsidiaries which are secured and guaranteed by one or more of the following:

- (a) a guarantee by the Company;
- (b) a guarantee by a subsidiary;
- (c) a first legal mortgage of the Group's leasehold properties
- (d) a debenture over a subsidiary's present and future fixed and floating assets.

1(d) A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group	
	Half-Year ended 30/06/2014	Half-Year ended 30/06/2013
	S\$'000	S\$'000
<u>Cash Flows from operating activities</u>		
Loss before taxation	(1,271)	(1,077)
Adjustments for:-		
Amortisation of land use rights	15	15
Depreciation of property, plant and equipment	1,637	1,691
Gain on disposal of plant and equipment	(126)	(9)
Interest expense	447	481
Interest income	(32)	(90)
Operating profit before working capital changes	670	1,011
Decrease/ (Increase) in inventories	2,521	(237)
Decrease in trade and other receivables	758	1,217
Decrease in trade and other payables	(2,708)	(3,222)
Net cash generated from operations	1,241	(1,231)
Interest expense	(447)	(481)
Income tax paid	(589)	(479)
Net cash generated from/ (used in) operating activities	205	(2,191)
<u>Cash Flows used in investing activities</u>		
Purchase of property, plant and equipment	(863)	(469)
Acquisition of land used rights	-	-
Proceed from available-for-sale financial assets	20	
Interest received	32	90
Net cash used in investing activities	(811)	(379)
<u>Cash Flows used in financing activities</u>		
Proceeds from Issue of Shares	2,810	-
Repayment of Shares related expenditure	(86)	-
Repayment/ net proceeds from bank loans	(1,119)	(592)
Net proceeds/repayment of bill payable	(1,111)	(296)
Net proceeds/ repayment to finance lease creditors	(69)	(87)
Increase in long term deposit	-	-
Dividend paid	-	-
Net cash generated from/ (used in) financing activities	425	(975)
Net decrease in cash & cash equivalents	(181)	(3,545)
Cash & cash equivalents at beginning of the period	(1,202)	4,526
Net effect of exchange rate changes on balance of cash and cash equivalents at beginning of the year	(12)	73
Cash and cash equivalents at end of the period	(1,395)	1,054

Note 1:

Cash and cash equivalents at end of the period

Cash and bank balances
Fixed deposit

S\$	S\$
2,591	3,825
1,331	2,509

Bank overdraft

(5,317)	(5,280)
(1,395)	1,054

- 1(d)(i) A statement (for the issuer and the Group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Attributable to equity holders of the company

Group	Share capital S\$	Exchange fluctuation reserves S\$	Statutory Common Reserve S\$	Capital reserve S\$	Merger reserve S\$	Fair value reserve S\$	Retained earnings S\$	Total equity S\$
Balance as at 1 Jan 2014	30,258	(2,802)	68	838	(3,282)	6	1,372	26,458
Total comprehensive income for the period								
Loss for the period	-	-	-	-	-	-	(1,466)	(1,466)
Other comprehensive loss	-	(345)	-	-	-	-	-	(345)
Total comprehensive loss for the period	-	(345)	-	-	-	-	(1,466)	(1,811)
Transaction with owners, recognized directly in equity Contributions by and contribution to owners								
Issue of ordinary shares	2,724	-	-	-	-	-	-	2,724
Total transaction with owners	2,724	-	-	-	-	-	-	2,724
Balance at 30 Jun 2014	32,982	(3,147)	68	838	(3,282)	6	(94)	27,371
Balance as at 1 Jan 2013	30,258	(2,066)	68	838	(3,282)	17	5,739	31,572
Total comprehensive income for the period								
Loss for the period	-	-	-	-	-	-	(4,366)	(4,366)
Other comprehensive loss	-	(736)	-	-	-	(11)	-	(747)
Total comprehensive loss for the period	-	(736)	-	-	-	(11)	(4,366)	(5,113)
Balance at 31 December 2013	30,258	(2,802)	68	838	(3,282)	6	1,372	26,458

Company

Balance as at 1 Jan 2014
Issue of ordinary shares
Total comprehensive loss recognised for the period
Balance as at 30 Jun 2014

Balance as at 1 Jan 2013
Total comprehensive loss recognized for the period
Balance as at 31 Dec 2013

Share capital	Retained profits	Total Equity
S\$	S\$	S\$
30,258	(1,765)	28,493
2,724	-	2,724
-	(269)	(269)
32,982	(2,034)	30,948
30,258	(1,286)	28,972
-	(479)	(479)
30,258	(1,765)	28,493

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

On 14 March 2014 the Company issued 43,317,693 new ordinary shares at \$0.066 per share pursuant to a placement share exercise.

Issued and fully paid	Ordinary Shares
Balance as at 1 January 2014	216,588,465
Placement shares issue	43,317,693
Balance as at 30 June 2014	259,906,158

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

The Company	As at 30 June 2014	As at 30 June 2013
Total number of issued shares	259,906,158	216,588,465
Total number of treasury shares	-	-
Total number of issued shares excluding treasury shares	259,906,158	216,588,465

- 1(d)(iv) A statement showing all sales , transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

The Company has no treasury shares as at 30 June 2014 and 31 December 2013.

- 2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have neither been audited nor reviewed by the Company's auditors.

3. **Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

4. **Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

Except as disclosed in the Note 5 below, the same accounting policies and methods of computation as in the Group and Company's audited financial statements for the year ended 31 December 2013 have been applied.

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

The Group and Company adopted the new/ revised Financial Reporting Standards (FRS) that are effective for annual periods beginning on and after 1 January 2014. Changes to the Group's and Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS. The adoption of new/ revised FRS and INT FRS did not result in any substantial change to the Group's accounting policies or any material impact on the Group's financial statements.

6. **Loss per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

Loss per ordinary share:

- Based on weighted average number of ordinary shares in issue
- On fully diluted basis

Group	
Half-Year ended 30/06/2014	Half-Year ended 31/12/2013
(0.62) cents	(2.02) cents
(0.62) cents	(2.02) cents

The loss per share of the Group for the year ended 30 June 2014 was computed based on the weighted average number of shares in issue of 238,247,312 (31 December 2013: 216,588,465).

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on and (b) immediately preceding financial year.**

	Group		Company	
	30/06/2014	31/12/2013	30/06/2014	31/12/2013
Net asset value per share for the year based on the number of shares in issue.	10.53 cents	12.22 cents	11.91 cents	13.16 cents

The net assets value per ordinary share is based on the number of shares in issue of 259,906,158 as at 30 June 2014 (31 December 2013: 216,588,465).

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
 - (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

8.1 Review commentary on income statement for year ended 30 June 2014 (HY2014)

8.1.1 **Revenue**

Revenue decreased by S\$3.0 million or 7.7% from S\$38.7 million in HY2013 to S\$35.7 million in HY2014 with Builders Shop Pte Ltd (BSPL) contributing S\$4.3 million to the overall revenue, a decrease of S\$1.4 million from S\$5.7 million in HY2013. Our key retail business segment registered a marginal decrease of by 0.5% from S\$26.9 million in HY2013 to S\$26.8 million in HY2014. The decline was due to stagnant local furniture sales and the closure of 1 store in Malaysia and 2 stores in Singapore. Our export markets remained very weak and competitive - this resulted in a decline in export sales from S\$3.5 million in HY2013 to S\$2.1 million in HY2014. Sales from LRS stores increased by 2.5% from S\$2.48 million in HY2013 to S\$2.54 million in HY2014 over the same comparative period due to one additional LRS store opened.

Revenue by Business Segment:

Group	Half-Year ended 30/06/2014	Half-Year ended 30/06/2013	Increase / (Decrease)
	S\$'000	S\$'000	%
Retail Segment	26,755	26,896	(0.5)
Export Segment	2,056	3,538	(41.9)
LRS Licensing	2,544	2,481	2.5
Others (BSPL)	4,329	5,746	(24.7)
Total Revenue	35,684	38,661	(7.7)

Number of Stores:

Group	Half-Year ended 30 June 2014	Half-Year ended 30 June 2013	Increase / (Decrease)
Retail Stores:			
Malaysia	19	20	(1)
Taiwan	14	14	-
Singapore	4	6	(2)
China	7	6	1
Total retail store	44	46	(2)
LRS Stores:			
China	9	1	8
Malaysia	8	8	-
Other Country	4	4	-
Total LRS store	21	13	8
Total Number of Stores	65	59	6

Cost of Goods Sold and Gross Profit

Due to lower sales, cost of sales decreased by 9.5% from S\$22.2 million in HY2013 to S\$20.1 million in HY2014. As a result, our gross profit decreased by 5.3% from S\$16.5 million in HY2013 to S\$15.6 million in HY2014. However, as the cost of goods sold fell more than revenues, our gross profit margin increased from 42.7% in HY2013 to 43.8% in HY2014.

Other Operating Income

Other operating income arises mainly from transportation revenue, sundry income, and foreign exchange gains arising from timing differences. The Group does not undertake any hedging or derivative trading activities.

Other operating income decreased from S\$1.6 million in HY2013 to S\$1.4 million in HY2014, mainly due to foreign exchange gains recognized in HY2013.

Administrative Expenses

Administrative expenses comprise mainly salaries and related expenses, rental expenses, directors' remuneration, retail store maintenance, office equipment maintenance and general office expenses.

The administrative expenses decreased marginally by 0.7% from S\$12.9 million in HY2013 to S\$12.8 million in HY2014 mainly due to a decrease in salary related expenses.

Distribution and Marketing Costs

The distribution and marketing costs decreased by S\$0.6 million or by 14.4% from S\$4.4 million in HY2013 to S\$3.8 million in HY2014 mainly due to decrease in trade fair expenses of S\$0.1 million and promotional expenses of S\$0.2 million.

Other Operating Expenses

Other operating expenses decreased by S\$0.2 million or by 12.3% from S\$1.5 million in HY2013 to S\$1.3 million in HY2014 mainly due to the decrease in provision for slow moving stocks.

Finance Costs

Finance costs decreased by 7.3% from S\$0.48 million in HY2013 to S\$0.45 million in HY2014 mainly due to lower utilization of trade financing.

Taxation

The Group's income tax expenses decreased by 61.6% from S\$0.51 million in HY2013 to S\$0.2 million in HY2014 as a result of lower tax paid in foreign country.

Net profit after Tax

Thus despite the 7.7% decline in revenues, the Group reported a reduced net loss after tax of S\$1.5 million for HY2014 as compared to a net loss after tax of S\$1.6 million for HY2013.

Balance Sheet

Non-Current Assets

The Group's non-current assets decreased by S\$1.3 million from S\$28.1 million as at 31 December 2013 to S\$26.7 million as at 30 June 2014 due to depreciation of property, plant and equipment.

Inventories

Inventories decreased by 10.7% or S\$2.6 million from S\$24.8 million as at 31 December 2013 to S\$22.2 million as at 30 June 2014. Decreased in inventories was mainly due to higher stocking up during festive seasons as at 31 December 2013. (Chinese New Year in February 2014 resulting in higher inventories at 31 December 2013).

	Group		
	As at 30 Jun 2014	As at 31 Dec 2013	Increase / (Decrease)
	S\$'000	S\$'000	%
Finished Goods – Inventories	10,032	11,862	(15.4)
Finished Goods – Showroom Display	3,481	3,125	11.4
Raw Materials	4,568	4,658	(1.9)
Work-in-Progress	825	768	7.4
Stock-in-transit	725	790	(8.2)
Sub-total Inventories	19,631	21,203	(7.4)
Finished Goods – Building Materials	2,544	3,626	(29.8)
Total Inventories	22,175	24,829	(10.7)

Current Liabilities: Borrowings

Current portion of the bank borrowings decreased from S\$19.1 million as at 31 December 2013 to S\$16.5 million as at 30 June 2014 primarily due to decrease in overdraft, short-term loans and trust receipts issued for purchases.

Liquidity

The Group's current ratio improved marginally from 0.99 times to 1.05 times for the period under review. The net current assets of the Group also improved from a negative of S\$0.5 million as at 31 December 2013 to S\$1.6 million as at 30 June 2014.

As at 30 June 2014, the Group's net gearing ratio (defined as the borrowings to shareholder's equity) stood at 0.61 times as compared to 31 December 2013's 0.76 times.

Shareholders' Equity

Shareholders' equity of the Group increased by S\$0.9 million from S\$26.5 million as at 31 December 2013 to S\$27.4 million as at 30 June 2014 due mainly to issue of placement shares of S\$2.7 million for the period under review.

Cashflow Statement

Net cash generated from operating activities was S\$0.2 million in HY2014 in comparison to S\$2.2 million used in HY2013 mainly due to lower inventory held at 30 June 2014.

Net cash used in investing activities was S\$0.8 million in HY2014 as compared to S\$0.4 million in HY2013 mainly due to increase in acquisition of plant and equipment.

Net cash outflow generated from financing activities was S\$0.4 million in HY2014 as compared to S\$1.0 million used in HY2013 mainly due to proceed from issue of placement shares of S\$2.7 million in HY2014.

Hence, the cash and cash equivalents decreased by S\$0.2 million in HY2014.

9. **Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

The result announced today is in line with the announcement made.

10. **A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

The Board of Directors remains cautious about the Company's forth coming second half prospects.

In our core Malaysian and Singapore markets, demand for furniture is likely to remain weak. In these markets, furniture demand is partly driven by new residential sales, which in turn is driven by demand for residential property. The latest statistics in Malaysia, being the first quarter of 2014 (1Q 2014), showed that housing completions plunged 15.8% y-o-y. Anti-speculation measures imposed by the Malaysian Government also impacted prices. In 1Q 2014, inflation adjusted q-o-q property prices rose by 1.65%, the slowest growth since 4Q 2010. Looking forward, we note that in 1Q 2014 housing starts fell 13.6% and housing approvals sought and granted fell 13.5%. The latest statistics in Singapore, being the second quarter 2014 (2Q 2014), showed that Singapore anti-speculation policies have had an even more spectacular effect. Prices of private residential properties decreased by 1.0%, following the 1.3% decline in the previous quarter (1Q 2014). This is the third straight quarter of price declines and further, though more modest declines, are expected.

On the export side, weakness in Europe and the end of the Australian mining boom is likely to result in further declines in export sales. Even in our one bright spot, being the LRS stores in China, weakness in the Chinese economy suggests likely weakness in furniture sales.

On the other hand the Group faces challenges with respect to rising raw material prices and higher labor costs.

As a result the Group continues to explore new opportunities to improve its future income stream.

11. **Interested Person Transactions**

Name of interested person	Aggregate value of all interested party transactions during the year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual)	
	6 months ended 30 June 2014 \$'000	6 months ended 30 June 2013 \$'000
Chung Kim Yew (Rental of Property)	(124)	(108)

12. Dividend

(a) Current Financial Period Reported On

Any dividend recommended for the current financial period reported on?

None

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None

(c) Date payable

Not applicable.

13. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

14. Update on the use of placement share proceeds.

Pursuant to a placement exercise, the Company issued 43,317,693 new ordinary shares at S\$0.066 per share for cash on 14 March 2014. Of the net proceeds of approximately S\$2.7 million were raised from the aforementioned placement exercise, the balance of the unutilised funds as at the date of this announcement is as follows:

<u>Intended Use</u>	Amount Allocated (S\$'000)	Amount Utilised (S\$'000)
Net Proceeds	2,693	2,693
Utilisation:		
- Business Expansion	(1,623)	Nil
- Working Capital purposes:		
- Repayment of bank facilities	(1,070)	(1,070)
Total amount	(2,693)	(1,070)
Unutilised Net Proceeds	Nil	1,623

15. Negative confirmation by the Board pursuant to Rule 705 (5)

The Board of Directors hereby confirm to the best of their knowledge, nothing has come to their attention which may render the unaudited interim financial results for the six months period ended 30 June 2014 to be false or misleading in any material aspects.

BY ORDER OF THE BOARD

Goh Ah Lee
Executive Chairman/Group MD
13 August 2014