

LORENZO INTERNATIONAL LIMITED

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

RESPONSE TO SGX-ST'S QUERIES

The Board of Directors of Lorenzo International Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce the following in response to the further queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) to the Company on the Company’s response to SGX Queries announcement released on 7 December 2018 in relation to the Company’s results announcement for the half year ended 30 September 2018 (“**HY2019**”) (the “**Half Year Results**”):

SGX-ST's Query 1

In the Company’s response on 7 December 2018 to Query 1 of SGX queries on its HY2019 results, the Company disclosed that S\$2.7million of the loan received from Jiangsu Kunshan Commercial Bank obtained in April 2018 was utilized for working capital and operating expenses. Please provide a breakdown of the use of the proceeds for working capital and operating expenses and explain why there is an increase in working capital and operating expenses despite a decrease in Revenue in HY2019 by 17.8%.

Company's response

The breakdown for the utilisation for working capital and operating expenses are as follows:-

	S\$
Salary related expenses for Singapore operations	1.0 million
Rental charges for Singapore operations	0.7 million
Renovation and reinstatement charges of showrooms	0.4 million
Computer services –Cloud hosting of ERP	0.1 million
Advertisement charges	0.1 million
Professional fees and listing expenses	0.1 million
	<hr/> 2.4 million <hr/>

The balance of S\$0.3 million is unutilized as reflected in the increase in cash and bank balances. The movement of working capital had been explained on page 7 of the Half Year Results under current assets and current liabilities.

SGX-ST's Query 2

In relation to the Company’s response to SGX-ST’s Query 2, as requested earlier, please provide the elaboration on the reasons for increase in revenue from Building segment and decrease in revenue from Furniture segment. Please disclose the party in which the sale was made to and the type of building materials that experienced the increase in sales.

Company's response

The increase in revenue from the Building segment was due to recurring sales of tiles to a third party customer which is an established multinational company.

The decrease in revenue from the Furniture segment was due to lower sales generated from its Singapore, Malaysia and Taiwan units. The lower sales were due to poor retail market in these countries.

SGX-ST's Query 3

In the Company's response to SGX-ST's Query 3, the Company disclosed that S\$1.892 million of the trade debtors are aged above 180 days. As requested earlier, please provide a breakdown in bands of 3 months with the upper limit specified. Please also provide the basis on why the Company considers the trade debtors to be recoverable.

Company's response

The entire debt of S\$1.892 million aged above 180 days is owing from one debtor. This debt relates to legal fees incurred in relation to certain legal proceedings and other costs due from the ex-owner of one of the Company's subsidiary company brought forward from prior years. The Company considers this debt to be recoverable as the said debtor had provided the Company an indemnity to cover the debt.

SGX-ST's Query 4

In the Company's response to SGX-ST's Query 4, the Company disclosed that the increase of S\$1.3 million in prepayments was mainly attributable to advance rental paid to landlords. (i) Please explain why the advance rental of S\$1.3 million is so significant. Please provide (ii) full details of the rental property, (iii) address where it is located, (iii) the size of the property rented, (iv) the rental psf, (v) the rental period and the terms of payment for the rental, (vi) the landlord from whom the property was rented; and (vii) whether this landlord has any past or current relationships (including business relationships) with the Company, its directors, key management, substantial shareholders or their respective associates.

Company's response

The Company notes that it is market practice in Taiwan to pay a whole year's rental in advance. The advance rental was for a total of 25 properties (one office, one warehouse and 23 showrooms) spread across the island of Taiwan. They were paid to eleven different third party landlords. The sizes of the properties range from approximately 31 square metres to 600 square metres. The monthly rental per square metre ranges from approximately S\$0.80 to S\$92.60.

The Company confirms that the landlords do not have any past or current relationship with the Company, its directors, key management, substantial shareholders or their respective associates.

SGX-ST's Query 5

In SGX-ST's Query 6, SGX had asked the Company to disclose the specific details of the actions taken by the Board of Directors to recover the \$2.8 million refundable deposit paid to Straitsworld/Michael Chan Ewe Teik since January 2018. This was not disclosed. Please disclose accordingly.

Company's response

As disclosed by the Company previously, the Company was initially, in March 2017, involved in preliminary negotiations with the Medical Vendor with view to participate in the equity of the Medical Vendor. Thereafter, the Company continued to be engaged in such preliminary negotiations with the Medical Vendor as to the commercial terms of the intended transaction. However, on or about February 2018, after taking into consideration the Group's relatively weak financial position, the Company decided that it would not be in the position to acquire the equity in the Medical Vendor. As such, from February 2018, the Company began discussions with the Medical Vendor pursuant to which the Company proposed to the Medical Vendor that the Company would instead introduce and procure a potential buyer to acquire the equity of the Medical Vendor. In doing so, the Company had hoped to be able to recover part of the \$2.8 million refundable deposit. The Company was able to identify an interested potential buyer (the "**Potential Buyer**") which was introduced to the Medical Vendor. The Company notes that whilst it had initially introduced and facilitated early discussions between the Medical Vendor and the Potential Buyer, substantive commercial negotiations thereafter were conducted between the Medical Vendor and the Potential Buyer only and were subject to confidentiality between the

Medical Vendor and the Potential Buyer. Notwithstanding this, the Company had requested for regular updates from the parties as to the status of their negotiations. Pending any certainty on the transaction between the Medical Vendor and the Potential Buyer, the Company had also concurrently kept in constant contact with Straitsworld/Michael Chan to discuss options in regards to the collection and recovery of the deposit.

As disclosed by the Company on 14 August 2018, it was the Company's understanding that the negotiations between the Potential Buyer and the Medical Vendor had reached a standstill. In view of this, the Company has since continued its search for other suitable potential buyers for the medical facility. The Company has also been engaged in discussions with Straitsworld/Michael Chan to explore any other options in order to resolve the matter amicably. For instance, the Company understands from Straitsworld/Michael Chan that, pursuant to the settlement between Straitsworld and the Medical Vendor, in the event that a sale of the medical facility does not materialise, Straitsworld has the option of commencing legal proceedings again to recover the \$2.8 million refundable deposit which had been paid by Straitsworld to the Medical Vendor. As mentioned previously, the Company may take up legal proceedings against Straitsworld as a last resort if an amicable solution cannot be reached. In weighing its options, the Company continues to closely monitor the legal and financial status of Straitsworld and Michael Chan, including the status of legal proceedings taken by other parties against Michael Chan, through publicly available information as well as via the Company's communication with Michael Chan. In connection with the foregoing, the Company notes that it has for the past four months been in nearly weekly contact with Michael Chan through face-to-face meetings or telephone conversations.

SGX-ST's Query 6

The Company has represented since 2016 that the Board has been seeking collection and recovery of the \$2.8 million refundable deposit due from Straitsworld. In its announcement of 7 December 2018, the Board has disclosed that it has been in contact with Straitsworld to seek an amicable solution. Please disclose the solutions that the Company and Straitsworld are seeking. If not, please elaborate on the specific steps, the estimated timelines, dates and milestones that the Company will be taking to recover this deposit.

Company's response

Please see the Company's response to Query 5 above.

By Order of the Board

Lim Pang Hern
Executive Director / Deputy Chairman
18 December 2018